Principles for Responsible Investment | Principles for Investors in Inclusive Finance

REPORT ON PROGRESS IN INCLUSIVE FINANCE 2015

THE LATEST ACCOUNT ON RESPONSIBLE INVESTMENT IN INCLUSIVE FINANCE

UNEP FINANCE INITIATIVE | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

THE PRI'S SIX PRINCIPLES

1 We will incorporate ESG issues into investment analysis and decision-making processes.

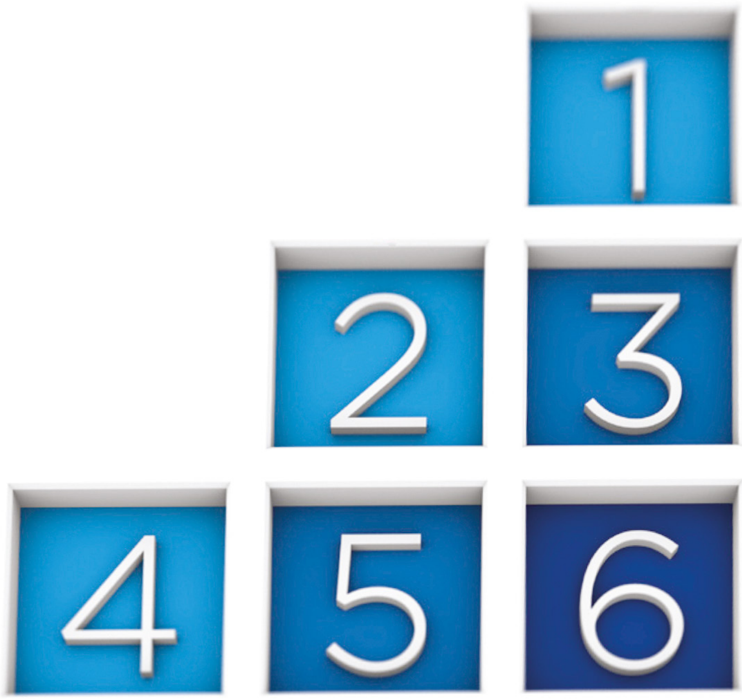
2 We will be active owners and incorporate ESG issues into our ownership policies and practices.

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4 We will promote acceptance and implementation of the Principles within the investment industry.

5 We will work together to enhance our effectiveness in implementing the Principles.

6 We will each report on our activities and progress towards implementing the Principles.



CONTENTS

PIIF SIGNATORIES WHO REPORTED FY 14

- Achmea
- ACTIAM
- APG Asset Management
- ASN Bank
- Bamboo Finance S.A.
- Banque Bonhôte & Cie SA
- BlueOrchard Finance
- C-QUADRAT Asset Management GmbH
- Cadiz Holdings
- Christian Super
- Church of Sweden
- Cordaid
- Creation Investments Capital Management, LLC
- Deutsche Bundesstiftung Umwelt
- Developing World Markets
- Double Dividend Management B.V.
- Dreilinden gGmbH
- Finance in Motion GmbH
- GAWA Capital Partners
- GLS Gemeinschaftsbank eG
- Goodwell Investments
- Grameen Crédit Agricole Microfinance Foundation
- HIVOS
- Incofin
- ING Groenbank N.V.
- Investisseurs & Partenaires
- La Caisse d`économie solidaire Desjardins
- La Financière Responsable
- Lombard Odier Asset Management (Switzerland) SA
- Luxembourg Microfinance and Development Fund
- MicroVest Capital Managment LLC
- MN
- Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO)
- NGS Super Fund
- Oikocredit International
- Oxfam Novib
- Pax World
- Pensioenfonds Metaal en Techniek
- Pensioenfonds PNO Media
- Pensioenfonds Vervoer
- Pensionfund Metalektro (PME)
- PGGM Investments
- PRO BTP Finance
- Progression Capital Africa Limited
- responsAbility Investments
- Sarona Asset Management
- Skandinaviska Enskilda Banken (SEB) AB
- SPF Beheer
- SPOV
- Stichting Pensioenfonds ABP
- Stichting Pensioenfonds Zorg en Welzijn
- Stichting Spoorwegpensioenfonds
- Strømme Microfinance AS
- Symbiotics SA
- TIAA - CREF
- Triodos Investment Management B.V.
- Triple Jump
- Wespath Investment Management (General Board of Pension and Health Benefits of the United Methodist Church)

FOREWORD

Inclusive finance focuses on expanding access to affordable and responsible financial products and services by poor and vulnerable populations. Clients include individuals and organisations that are often unable to gain access to financial products and services such as micro and small enterprises.

A wide range of financial products and services are incorporated within the remit of inclusive finance including savings, credit, insurance, remittances, and payments.

As with all investments, these can also carry potential financial and reputational risks. To mitigate such risks, a group of institutional investors launched the Principles for Investors in Inclusive Finance (PIIF) in 2011. It is housed within the United Nations-supported Principles for Responsible Investment (PRI) initiative

PIIF helps investors meet their aims by breaking down responsible investment within the industry into concrete goals, as well as by providing a means to measure their progress, through a unique reporting framework which allows investors to benchmark their practices against that of their peers. The reporting framework provides a transparency and accountability tool, and the reporting process and its associated outputs – the Transparency Reports, the Assessment Reports and this Report on Progress – will help foster dialogue and learning both within organisations and between direct and indirect investors.

The data presented in this report shows an overall improvement in almost all seven principles of the PIIIF when compared to the 2014 PIIF report data, with an increasing number of signatories adopting and applying tools to report social performance. The examples of organisations highlighted in the report demonstrate a genuine interest in tracking relevant social indicators to support investors' financial decisions.

In our 2014 report, we noted that indirect investors (pension funds and other investors who use external managers to invest on their behalf) should include consideration of PIIF in their selection. In 2015 we saw that implementation of the PIIF among indirect investors still remains relatively low, with around 60% of indirect investors in inclusive finance taking the PIIF into account in due diligence and monitoring, but only around 40% doing so in contracts and mandates.

Fiona Reynolds, Managing Director, *PRI*

While most (75%) actively disclose information, not many (27%) do so according to industry standards.

It is our hope that institutional investors will continue to see that they are key players in stimulating economic development worldwide and can help tackle global challenges such as climate change and gender diversity.

We invite all investors interested in how they can ensure that they are investing responsibly in inclusive finance to use this framework to drive responsible investment practices forward.

Fiona Reynolds

ABOUT THE PRINCIPLES FOR RESPONSIBLE INVESTORS IN INCLUSIVE FINANCE (PIIF)

A FRAMEWORK AND GLOBAL INITIATIVE

The Principles for Investors in Inclusive Finance (PIIF) is a framework and global initiative to improve the inclusive finance industry and support investors who've chosen to make the industry more responsible, and consequently, more sustainable. It is housed within the United Nations-supported Principles for Responsible Investment (PRI) initiative.

Through PIIF's reports, events, online discussions and project-specific working groups, signatories are able to access a rich knowledge base and network, furthering their efforts to invest responsibly.

Worldwide, 51 investors have signed the PIIF, including APG, the Teacher's Insurance and Annuity Association (TIAA), PGGM and FMO, with a combined AUM of approximately US$ 9.5bn invested in inclusive finance.

These investments represent 30% of the inclusive finance global market size (US$ 31 billion[1]). The initiative also includes some of the largest inclusive finance fund managers including Finance in Motion, responsAbility, Symbiotics, Oikocredit and Developing World Markets.

1 For more information see: http://www.inclusivefinanceplatform.nl/documents/Documents/Publications/a%20billion%20to%20gain%202012.pdf

THE ROLE OF THE INVESTOR IN ECONOMIC DEVELOPMENT

Institutional investors are key players in stimulating economic development worldwide. Different investment strategies and practices have the ability to tackle global challenges such as climate change, gender equality, clean energy, affordable housing, support services and goods to those in the base of the pyramid. More than 900 PRI signatories (65% of all PRI signatories) invest in environmental and social themes worldwide, with about 10% of them investing in inclusive finance.

Inclusive finance is a determined approach to support social and business entrepreneurs, empower families and provide financial services to those who are traditionally excluded. As a practice it supports local economies and provides social inclusion to poor and vulnerable populations, and micro and small enterprises.

Microfinance still reaches less than 20% of its potential market among the world's three billion poorest population[2], indicating a great potential for growth.

However, investments in this domain can carry financial and reputational risks that often go unnoticed by many investors. This is a further reason why PIIF, its framework and network, is crucial for investors seeking to be responsible in inclusive finance, helping them protect themselves and their client base.

THE SEVEN PRINCIPLES FOR INVESTORS IN INCLUSIVE FINANCE (PIIF) ADOPTED BY SIGNATORIES

As investors or fund managers investing in inclusive finance, we have a duty to act in the long-term interests of our clients - private and institutional investors. While upholding our fiduciary responsibility, we will commit to adhering to and promoting the following Principles:

1. **Range of services.** We will actively support retail providers to innovate and expand the range of financial services available to low income people in order to help them reduce their vulnerability, build assets, manage cash-flow, and increase incomes.
2. **Client protection.** We believe that client protection is crucial for low income clients. Therefore we will integrate client protection in our investment policies and practices.
3. **Fair treatment.** We will treat our investees fairly with appropriate financing that meets demand, clear and balanced contracts, and fair processes for resolving disputes.
4. **Responsible investment.** We will include environmental, social and corporate governance (ESG) issues in our investment policies and reporting.
5. **Transparency.** We will actively promote transparency in all aspects.
6. **Balanced returns.** We will strive for a balanced long-term social and financial risk-adjusted return that recognizes the interests of clients, retail providers, and our investors.
7. **Standards.** We will collaborate to set harmonised investor standards that support the further development of inclusive finance.

2 IFC Microfinance in Action, 2014

EXECUTIVE SUMMARY: KEY FINDINGS AND INSIGHTS

This Report on Progress analyses the most recent data available (data collected in 2014) from both indirect investors who invest through fund managers and other intermediaries, and direct investors, who invest directly into retail institutions which provide financial products and services to the end client. It is one of the associated outputs of PIIF's reporting process, fostering dialogue and learning both within organisations and between direct and indirect investors.

Care should be given around drawing conclusions and extrapolating from this data as the sample, while representing a large share of the inclusive finance market, is statistically low.

INDIRECT INVESTORS

- Of the 40% who take the PIIF into consideration when agreeing and designing contracts, improvements have been made across most principles, except for principles 4 (ESG integration) and 7 (collaboration on standards).
- In the 2014 PIIF report, we recommended that indirect investors (pension funds and other investors who use external managers to invest on their behalf) should include consideration of PIIF in their selection. In 2015 the implementation of the PIIF among indirect investors remains relatively low, with around 60% of indirect investors in inclusive finance taking the PIIF into account in due diligence and monitoring, but only around 40% doing so in contracts and mandates.
- While most (75%) actively disclose information, not many (27%) do so according to industry standards.

DIRECT INVESTORS

- The Client Protection Principle are, once more, universally accepted among investors (90%) demonstrating that investors are actively integrating this principle into their investment processes and business practices.
- While the data indicates some progress with regards to the percentage of signatories that have adopted and formalised policies and procedures to encourage investee skills (39% in '15), trained investor's staff to monitor loans and non-performing loans (30% in '15), as well as in setting up voluntary work groups to help the investee (33% in '15); these figures do remain low.
- Clear improvements have been made among investors adopting social and environment performance indicators (70%), especially for the due diligence process. However, just a third provide monetary incentives linked to social performance measure.
- Three quarters of the respondents provide clients and/or the public with information aligned with industry standards. The data also indicates a high-commitment among investors to promote transparency for their shareholders, stakeholders and clients.
- There is collaboration between investors but less so between investors and investee retail institutions, a trend which continues on from 2014's data. The vast majority of these investors don't encourage their investees to become members of one or more organisations.

CONCLUSION

The data received from signatories in 2015 shows an overall improvement in almost all seven principles of the PIIF when compared to the 2014 data. An increasing number of signatories have adopted and applied tools to report social performance. The data also indicates that investors are committed to collecting not only financial, but also social indicators from their investees. The examples of organisations highlighted in this report demonstrate a genuine interest in tracking relevant social indicators to support investors' financial decisions.

Problem areas, however, follow the same pattern as the previous years. Two areas stand out in particular (fair treatment of investees and standardisation of social performance indicators) in the 2015 data. Improvements in these two areas are also applicable to other environmental and social-themed investments.

Investors are encouraged to show even further commitment towards the PIIF goals and act as catalysts for other organisations to improve their social performance in this industry.

How could the principles be implemented more effectively within your organisation? Would a collaboration with fellow signatories or with PRI take you further? What areas could do with deeper implementation of principle-led industry practices?

FURTHER IMPROVEMENTS IN THE FAIR TREATMENT OF INVESTEES

Concrete steps which would take this issue further include:

- Allocating appropriate resources to train staff on effective monitoring and covenant waiver negotiations;
- Supporting investees to develop skills on financial planning (i.e. projections, scenario planning, etc.);
- Improving the current communication channels with investees to mitigate early risks associated with covenant breach and other issues.

FURTHER STANDARDISATION OF SOCIAL PERFORMANCE INDICATORS

Impact investing practices are becoming more widespread, and more investors are becoming interested in opportunities in the social and environmental themes investment field.[3] This climate pushes investors and other organisations to better quantify and qualify social and environmental outcomes. Over the past years (from 2011 to 2014), several organisations have proposed and defined metrics and standards to measure social performance indicators (i.e. IRIS, SPTF), however a common set of indicators that could be used by asset owners, fund managers and retailer financial institutions is still needed.

Since different investors have different interests and goals for collecting and reporting social performance, it is important for investors to encourage collaborative organisations to identify and agree on common performance indicators that could be used across organisations and financial institutions, so a global overview can more easily be attained.

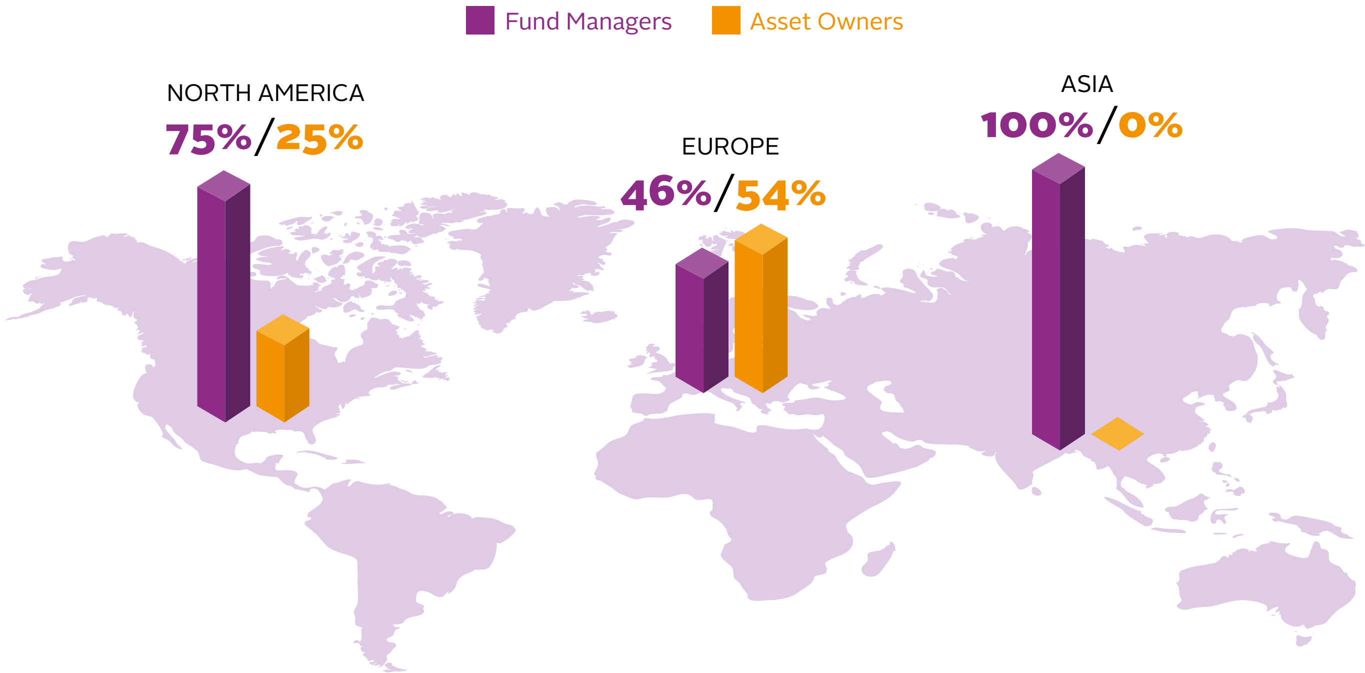
3 Eyes on the Horizon, the 2015 edition of the GIIN and J.P. Morgan

REPORT ON PROGRESS: INDIRECT INVESTORS

In 2015, 30 indirect investors reported to the PIIF framework (including five investors that are both indirect and direct[4]), representing a 30% increase since last year.

Figure 1 highlights the distribution of these indirect investors based on their type and geographic location:

Figure 1: Distribution of indirect investors based on type and geographic location

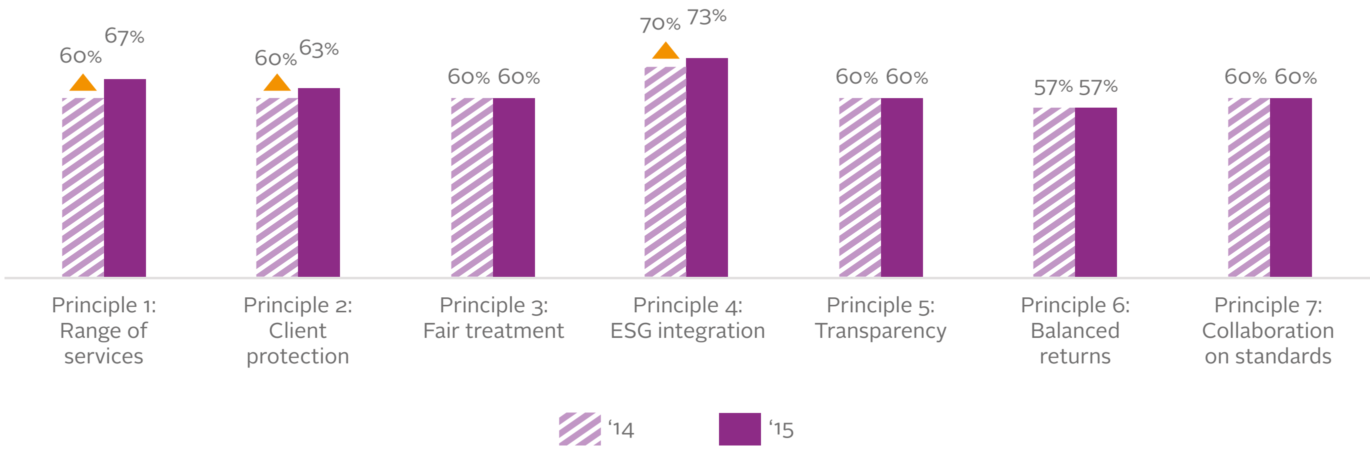


Around half of the indirect investors (15 signatories) indicated that all of their assets in inclusive finance are managed by PIIF signatories, while 23% of indirect investors indicated that more than 50% (and less than 95%) of their assets in inclusive finance are managed by PIIF signatories.

Indirect investors promote responsible investment in inclusive finance and incentivise fund managers to become PIIF signatories in different ways. The majority of indirect investors (73%) proactively disclose information about their organisation's approach to responsible investment in inclusive finance. Almost 57% of these investors monitor their current investment manager's implementation of the PIIF principles. Nevertheless, indirect investors highlighted that only eight out of 30 of those investment managers provide information in line with established industry standards. **Figure 2 highlights indirect investors who have due diligence in place based on the seven PIIF principles.**

4 For more information on Direct Investors, please see the following section.

Figure 2: Respondents who have due diligence in place that takes external managers' approach to PIIF into account ('14=23 and '15=30)



The graph (above) shows small improvements or consistency in the implementation of most of the principles, except for principle 1 (Range of Services) which increased from 60% to 67% compared to the previous year (2014).

Figure 3: Respondents who consider PIIF when agreeing contracts and designing mandates with external managers ('14=23 and '15=30)

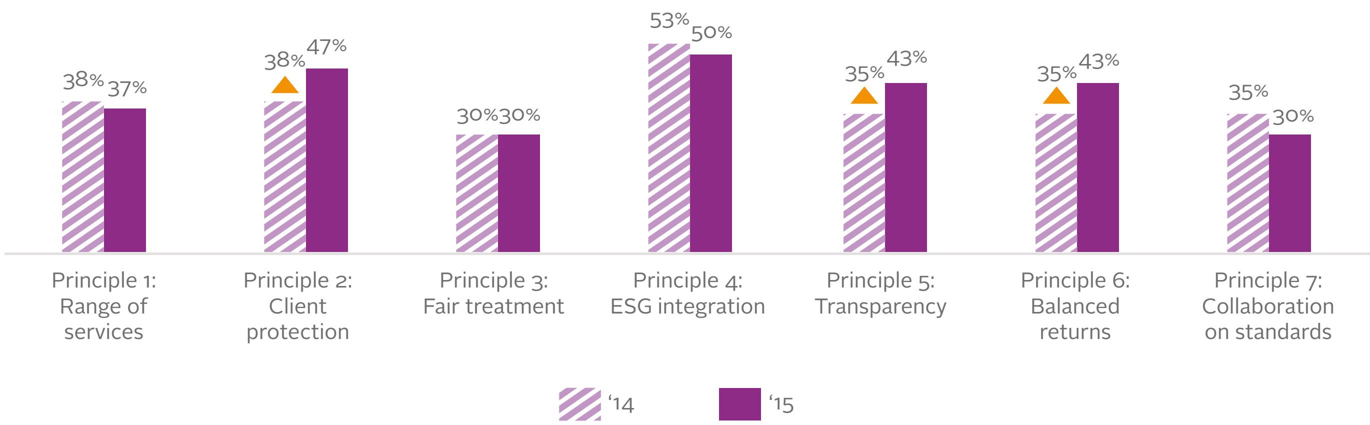


Figure 3 highlights improvements in considering PIIF when agreeing contracts and designing mandates with external managers. Major improvements are seen in the client protection principle, where 47% of the signatories reported to integrating client protection in investment policies and practices. We also notice improvements in principles five (transparency) and six (balanced returns). **Overall, the PIIF data[5] indicates that investors are keen to ensure that their investees adequately disclose the pricing, terms and conditions of financial products and services offered, as well as ensuring that the pricing, terms and conditions are understood by clients.**

Regardless of these improvements, the data points out a slight underperformance in the principles 4 (ESG integration) and 7 (collaboration on standards). For instance, about a third of the indirect investors surveyed collaborate to set harmonised standards that support the further development of inclusive finance. And yet even here there are signs of progress: the Dutch development bank FMO collaborates and shares tools with other development finance institutions to harmonise standards and processes for clients (Principle 7).

5 Based on all signatories that responded to the indicator.

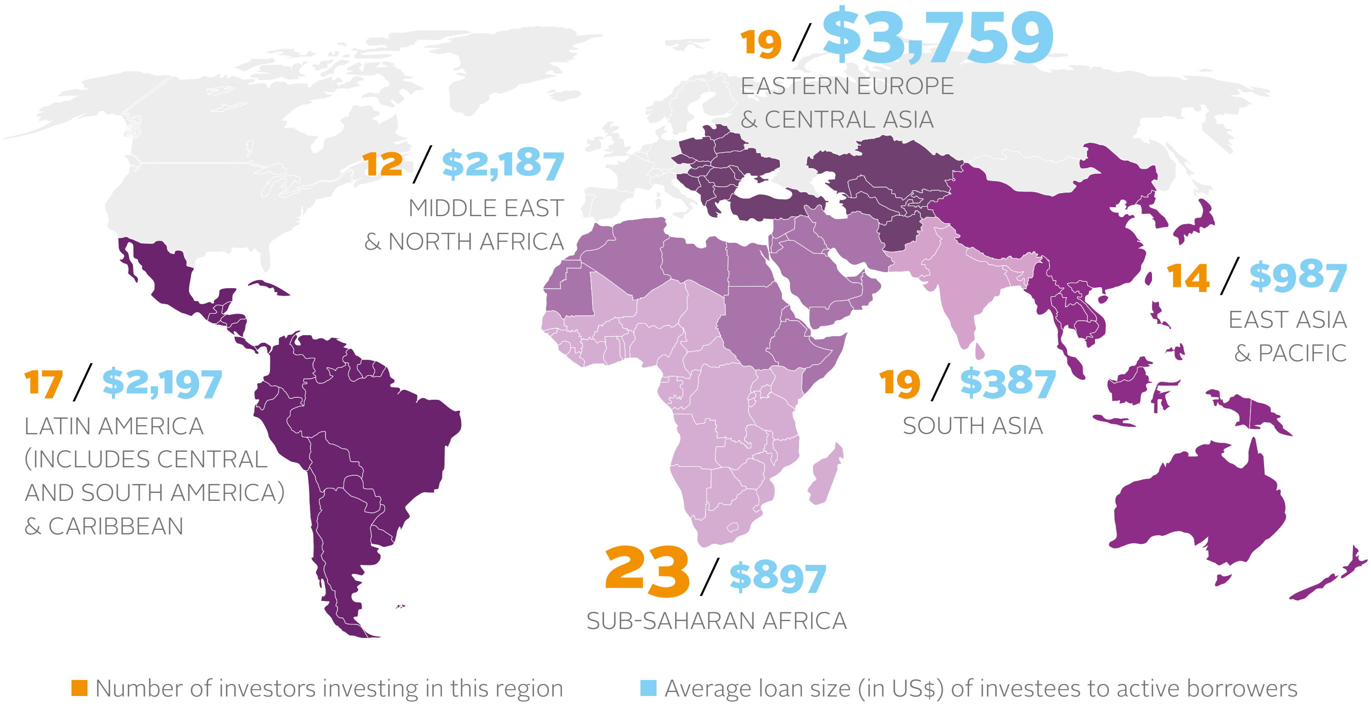
REPORT ON PROGRESS: DIRECT INVESTORS

Based on PIIF's 2015 reporting data[6][7], 64% of the direct investors have specific inclusive finance social targets[8] in their organisations and 18 of all direct investors have more than 80% of their assets (debt combined) invested directly in inclusive finance.

Of all the direct investors surveyed, 75% track the geographical spread of their assets invested directly in microfinance[9]. Out of these investors[10], about 58% of their investments are in the Eastern Europe and Central Asia and South Asia[11], followed by Latin America (includes Central and South America) and Caribbean (52%)[12] and East Asia & Pacific (42%)[13].

Figure 4 highlights the geographical spread of microfinance investments based on the amount of the investor's portfolio invested directly in microfinance[14][15] and their average loan size (in US$).

Figure 4: Geographical spread of microfinance investments



Differences in the average loan size may relate to an investor's strategies or even to different types of investments in inclusive finance.

For instance, some investors may provide a broader range of services (i.e. SME finance) in one region compared to another.

6 Based on all signatories that responded to the PIIF framework (n=33).
7 The data collect is from FY'14.
8 Based on all signatories that reported to the PIIF framework (n=33).
9 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicator (n=25)
10 It is important to note that signatories could have investments in one or more different regions.
11 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicator (n=19)
12 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicator (n=17)
13 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicator (n=14)
14 Based on the average of these investments.
15 Data on North America and Western Europe were not included due to the low number of responses received.

REPORT ON PROGRESS: PRINCIPLE BY PRINCIPLE

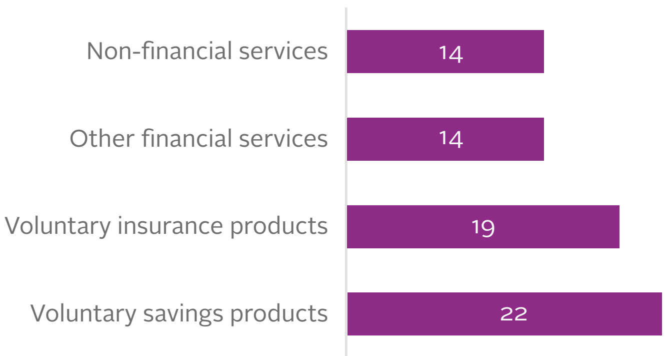
PRINCIPLE 1: EXPANDING THE RANGE OF FINANCIAL SERVICES AND CLIENT GROUPS

Similarly to PIIF's 2014 Report on Progress, microenterprise loans typically make up around 80% of direct investors' inclusive finance portfolios. In turn, for 68% of direct investors, loans for immediate household needs make up less than 20% of their portfolios.[16]

Around 70% of all the direct investors that reported to the PIIF framework mentioned that they support the provision of financial services beyond credit, including compulsory savings and/or compulsory insurance. Figure 5 illustrates[17] the most common services and products supported by direct investors.

Direct investors support a variety of further financial services such as mobile money, financial education, remittances, green microfinance, among others. For the 14 investors that support these other investments, 43% invest in mobile money (i.e. payments, money transfer, etc.), and 21% invest in agriculture finance and remittances respectively.

Figure 5: Services and products that direct investors support ('15=33)



With regards to non-financial services, 43% of investors told us they supported financial education services, followed by 30% who invest in health services, and 14% who invest in services that support the empowerment of women and gender equality. **Low levels of non-financial investments aimed at women has a great impact on broader social and economic issues – it is widely recognised that women have an important impact on sustainable economic growth. For instance although women comprise of 50% of the population in Sub Saharan Africa, they produce more than 80% of the food for the continent.[18]**

About 55% of the direct investors that reported on the PIIF framework also support services tailored to specific client groups, including:

- People in the base-of-the-pyramid (usually served by non-commercial assistance)
- Low income clients
- Target clients living in urban and rural areas
- Women

Table 1 highlights the number of signatories that support services offered based on some of those categories above.

Financial services offered	'14	'15
Very poor[19]	4	7
Poor	14	16
Low income[20]	12	17

16 Based on signatories that reported to this voluntary indicator (n= 28).

17 Based on all signatories that reported to the PIIF framework (n=33) and replied to these indicators.

18 IFC: Banking on Women. For more information consult this PDF: http://www.ifc.org/wps/wcm/connect/9be5a00041346745b077b8dfd0de71af/BOW+FACT+SHEET+NOV+1+2013.pdf?MOD=AJPERES

19 Based on the UN Millennium Development Goals, a very-poor individual who lives on less than $1.25 a day. For more information, see: http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf

20 Low income individuals are those living on less than US$4 a day. For more information, see: http://siteresources.worldbank.org/EXTPREMNET/Resources/EP125.pdf

PIIF data shows that direct investors are indeed interested in investing in client groups who are not able to access conventional financial services, in order to generate a positive impact. **In many cases, these investors encourage Microfinance Institutions (MFI)'s to use poverty targeting tools such as the Progress out of Poverty Index (PPI) to better screen potential clients or assess client income level during the loan process.** Cordaid and Triple Jump are some examples of institutions that utilise tools to better assess investments to the poor and very poor. These practices and investments targeting the poor and very poor populations are essential to addressing social challenges in developing and emerging countries, yet microfinance still reaches less than 20 percent of its potential market among the world's three billion or more poor[21].

There are no changes in the number of investors that support services to clients in rural areas (20) from the previous year. We have, though, noticed changes in the number of investors that support services to clients in urban areas (17 in '15, 19 in '14), as well as in services targeting women (20 in '15, 12 in '14).

Although the data above demonstrates that direct investors are interested in investing and supporting a range of financial services and serving groups of different income levels, less than a half of the investors gather data on investees' income levels, location, and gender. For instance, only three investors reported the tracking of data at the investee income level, but even they do not aggregate this information for services for the very poor, the poor (6), and low income clients (7). This issue was identified in the previous PIIF Report on Progress, and the 2015 data shows no improvement on the gathering or aggregation of data.

The lack of data at the investee level – what services they have access to, their offers and what client groups they belong to – is a gap which prevents investors from understanding the real beneficiaries of inclusive finance services, as well as the impact of their investments.

Despite the low number of investors gathering data on an investee level, less than 45% of all direct investors[22] support some level of technical assistance to retail providers, particularly for organisational capacity building and new product development. The majority of these investors, however, use technical assistance as a tool to improve the services of their investees and clients. This is the case of Incofin. The organisation considers technical assistance to be paramount in improving the quality of services provided by MFIs to their clients. Other investors utilise specific funds as a take-off facility: FMO has a technical assistance fund that is mainly used for projects on environmental and social performance, risk management, professional development, product development, as well as start-up activities.

Usually, technical assistance strategies and initiatives are complementary provisions that investors use to supplement their strategies and investments to a specific client group. They can also be used to launch innovative lending models, as well as reduce investment risks.

21 IFC: Microfinance in Action, 2014

22 Based on all direct investors that reported to PIIF Framework (n=33).

PRINCIPLE 2: CLIENT PROTECTION INTEGRATED INTO INVESTMENT POLICIES AND PRACTICES

Monitoring progress on the implementation of client protection principles by retail providers, through mandatory reporting and regular data collection and evaluation, is a core part of the second PIIF principle.

In 2014 the vast majority (90%) of direct investors included the Client Protection Principles (CPP) or other client protection measures in their investment policies. This overwhelming majority is once again present in the 2015 data, with important strides being made in all but one – public endorsement – measure for client protection.

Figure 6: Client Protection Measures (n=30 in '14, n=33 in '15)[23]

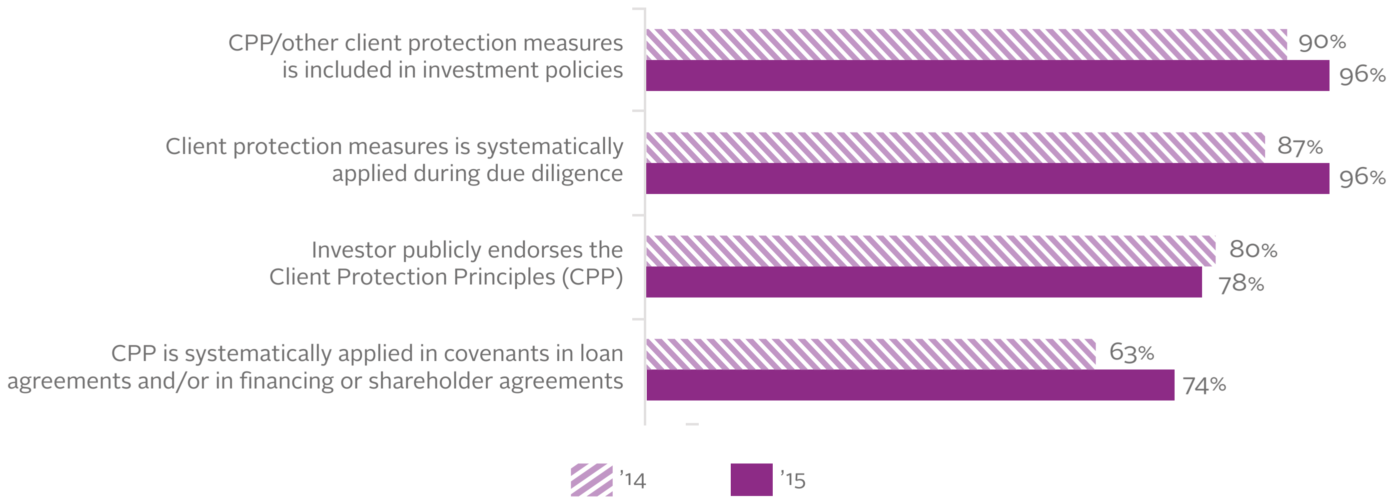


Figure 6.1: Client Protection Measures (voluntary indicators)

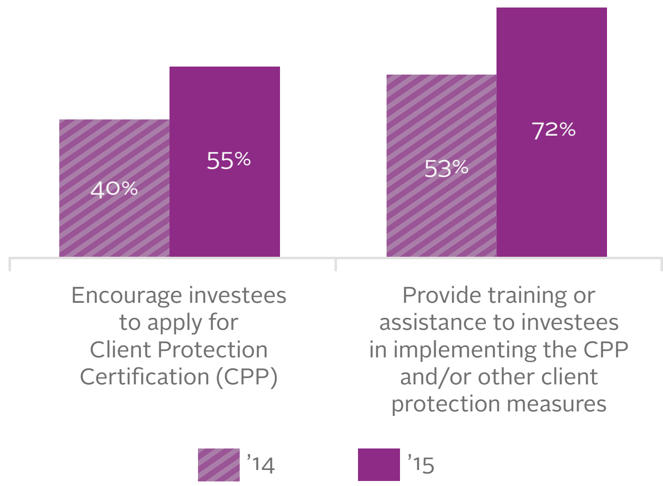


Figure 6 compares 2014 data to the most recent data on client protection[24].

The graph indicates improvements in almost all the client protection measures, particularly on encouraging investees to apply for Client Protection Certification (CPP). The data suggests that investors are formally adopting these measures, demonstrating that investors are actively integrating this principle into their investment processes and business practices.

For instance, Bamboo Finance S.A. is a direct investor that not only publicly endorses the CPP, but also promotes it among its investees. Currently, over 90% of Bamboo's investees have publicly endorsed these standards.

23 Based on all signatories that reported to the PIIF Framework (n=33) and replied to these indicators.

24 Figure 6.1 is based on voluntary indicators. 25 direct investors reply to the indicator (encourage investees to apply for Client Protection Certification), and 22 director investors to the other indicator (provide training or assistance in implementing the CPP).

PRINCIPLE 3: FAIR TREATMENT OF INVESTEES

Based on the PIIF framework, investors can take four basic actions to promote and to ensure that their investees in inclusive finance take concrete measures to guarantee fair treatment of customers.

ACTION 1: PROVIDING FINANCING IN AN APPROPRIATE CURRENCY

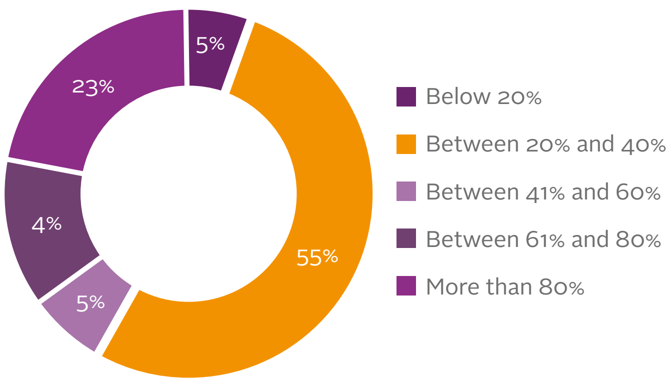
Investors can reduce their foreign exchange risk exposure by investing in local currency and by working to develop deeper local currency markets in emerging and developing countries[25].

Additionally, financing in local currency could be crucial for individuals and smaller businesses that cannot rely on local financial institutions.

About 67% of direct investors[26] have reported investing in local currency in the last two years (in relation to investor's direct portfolio debtthe figure was 68% in '13 -'14). Of these investors, 55% have mentioned that 20% to 40% of their direct portfolio debt is allocated in local currency. In the case of some signatories, such as Cadiz Holdings, all of their investments are in local currency.

Figure 7 highlights the percentage of investor's direct portfolio in debt invested in the investee's local currency. This tabulates the data of the 70% of signatories who have reported to invest in local currency.

Figure 7: Percentage of direct portfolio in debt that is invested in the investee's local currency (n=22, based on signatories that replied to this indicator)

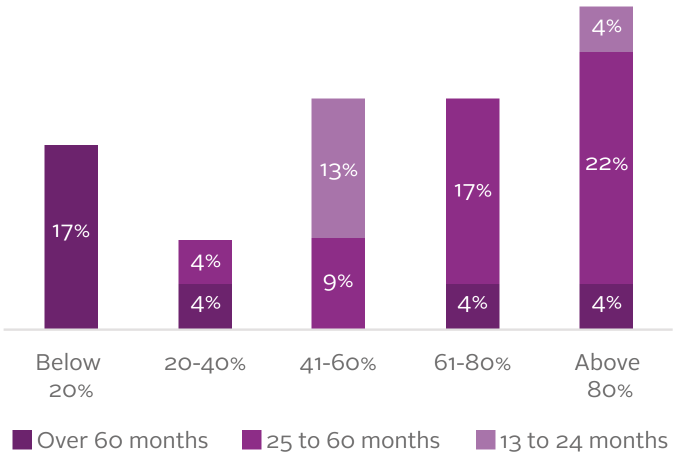


ACTION 2: PROVIDE FINANCING WITH AN ADEQUATE TENOR

Longer maturity in inclusive finance investing could be beneficial for MFIs and local economic growth, as well as for smaller businesses in emerging and developing countries. Also, longer maturities may support MFIs that often have difficulty obtaining credit from local banks[27].

Figure 8 highlights the percentage of direct portfolio in debt invested in different classes of maturity.

Figure 8: Percentage of direct portfolio in debt invested based maturity duration (n= 23, based on signatories that replied to this indicator)



The graph shows that the majority (70%) of the signatories provide adequate tenor in their portfolio debt investments, with 30% favouring a more than five-year tenor. Additionally, more than 80% of direct investors have debt instruments ranging between two years to more than five years. This is positive, especially when compared to the latest Symbiotics Microfinance Survey from 2015, which shows that most investors provide an average of 22 months of maturity to direct investments in inclusive finance.[28]

However, the information provided in figure 8 also indicates investor's portfolio maturity and the range of the debt instruments. For many signatories, the maximum exposure per investment varies from fund to fund and by the type of investment. For instance, ACTIAN has microfinance tenor of 2 - 3 years, and 3 - 5 years for SMEs. Adequate tenor can of course mean different timeframes for different types of investments.

25 For more information, see: https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Microfinance-Foreign-Exchange-Facilities-Performance-and-Prospects-Apr-2010.pdf

26 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicator (n=22)

27 For more information, see: http://www.microfinancegateway.org/sites/default/files/mfg-en-paper-from-dollar-to-dinar-the-rise-of-local-currency-lending-and-hedging-in_microfinance-2007_0.pdf

28 Based on Symbiotics Survey (2015). For more information, see: http://www.syminvest.com/papers

ACTION 3: ACTIVELY SUPPORT THE BUILDING OF A DIVERSIFIED FUNDING BASE

By supporting and enabling investees to have a diversified funding base, investors can support investees' long-term portfolio growth.

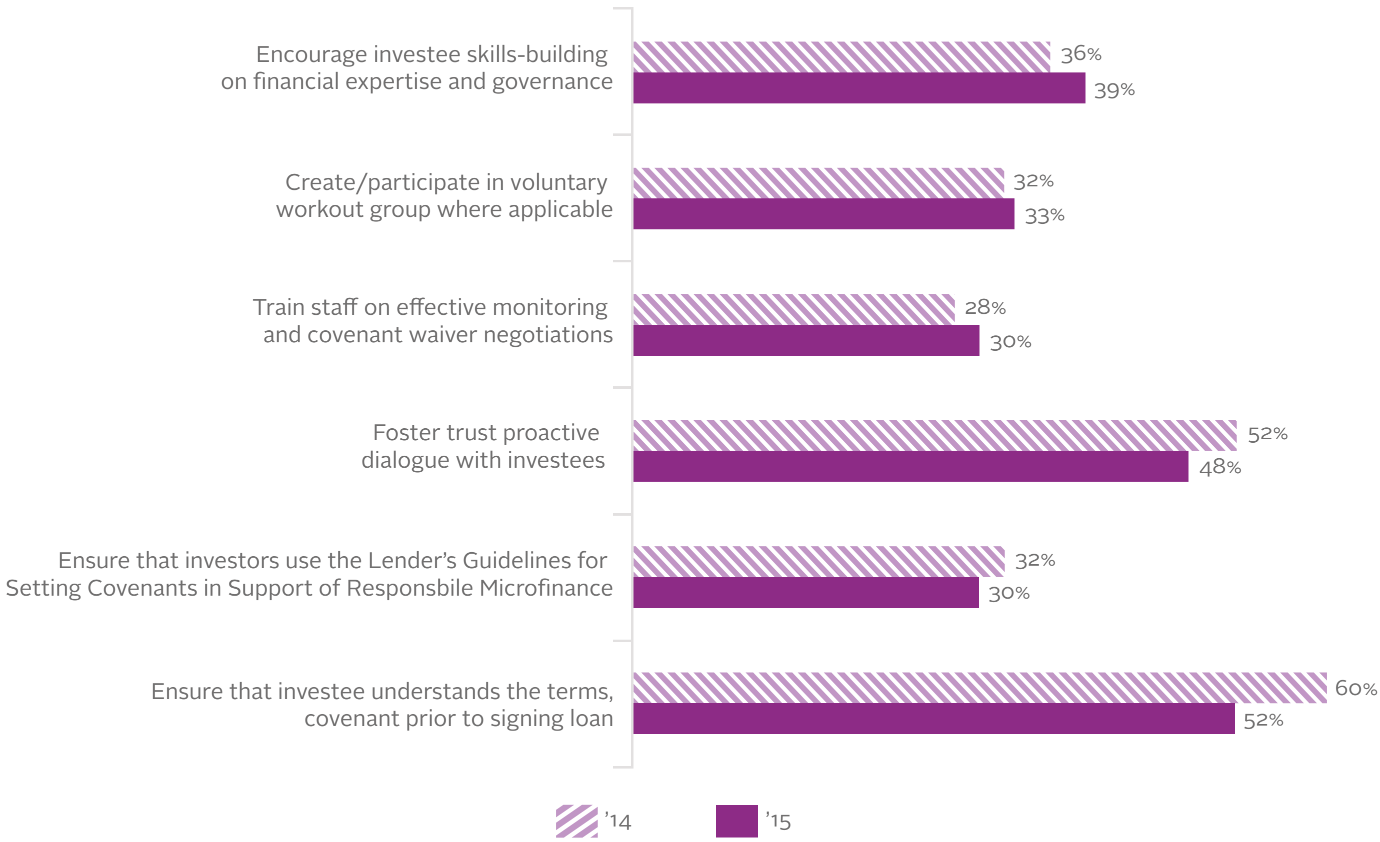
Investors can take different approaches to support the building of a diversified funding base. For example, 58% of the direct investors set a limit regarding the maximum fixed income investment exposure of the investees in which investors invest, with 33% in the case of equity.

Moreover, direct investors can have specific policies or procedures on Return on Equity (ROE) targets or caps in relation to investors' equity investments. The PIIF data indicates that less than a fourth (21%) of the direct investors implement ROE targets or caps. Although the low percentage in setting policies is a concern, it is important to mention that generally direct investors take a minority position for this type of equity investment.

ACTION 4: NEGOTIATE TERMS AND CONDITIONS THAT ARE TRANSPARENT, FAIR AND REASONABLE, INCLUDING BREAK-UP CLAUSES

The PIIF framework has six basic practices that investors can implement to promote and apply this action. Figure 8 highlight those practices.

Figure 9: Investor practices for fair treatment of investee retail institutions (n= 25 in '14, n=33 in '15)



The data indicates some positive changes over the past year (2014-15) with regards to the percentage of signatories that have adopted and formalised policies and procedures to encourage investee skills (39% in '15), train investor's staff to monitor loans and non-performing loans (30% in '15), as well as in setting up voluntary work groups to help the investee (33% in '15). **However, overall we don't see major improvements in this area, and it continues to be an area of great potential as signatories work to expand access to responsible financial products and services to those traditionally excluded.**

TOP TIPS

From investors who've negotiated terms and conditions that are transparent, fair and reasonable

INCORPORATE PIIF'S IN THE DUE DILIGENCE PROCESS.

Investors can carefully prepare and incorporate PIIF's fair treatment principle in their due diligence processes. For instance, term sheets are sent and agreed by the investee before the due diligence process is undertaken.

INVEST TIME AND RESOURCES TO ENSURE THE TERMS OF THE CONTRACT ARE UNDERSTOOD BY ALL PARTIES

Investors who dedicate more time and resources to guarantee that investees understand all conditions and terms of the contract are more likely to be successful. For instance, successful investors have several conversations with management and any other related parties to explain the financing agreement point by point. In addition, some investors customise their contracts, including translating them in other languages, to ensure that their investees fully understand the terms of the contract.

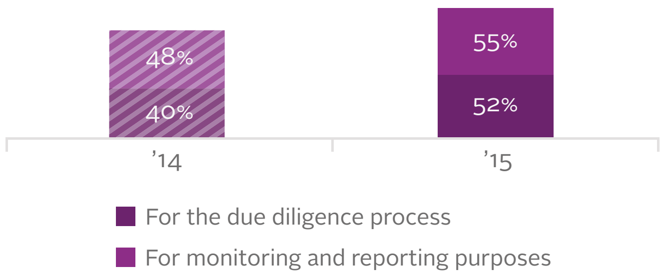
KEEP YOUR INVESTEES INFORMED TO FOSTER A TRUSTING RELATIONSHIP

In order to monitor potential risks and to forge long-term relationship with investees, investors are to develop communication plans that include monthly calls/meetings with investees and discussions about their financials. This also helps investors to better manage their expectations and address investee issues.

PRINCIPLE 4: INTEGRATING ESG FACTORS INTO INVESTMENT POLICIES AND REPORTING

All of PIIF's direct investors require the retail institutions in which they invest to have an independent financial rating, but only 39% of those investors require their investees to have an independent social rating. Additionally, about half of the investors adopt or use tools for social performance reporting. Figure 10 highlights the main changes from 2014 to '15 in this area.

Figure 10: Percentage of investors that adopt tools for social perfomance reporting (n=25 in '14 , n=33 in '15)



PIIF investors have clearly improved in adopting social performance in both areas, and most markedly during the due diligence process. Of the investors that report using these tools, 70% use in-house tools, based on externally developed tools, in the due diligence process, and 67% use the tools in the monitoring and reporting process. The remaining investors use tools developed solely in-house. These tools are used to help investors to better engage with their investees and, ultimately, to improve investors' investments in inclusive finance. For instance, during the due diligence process investors use these tools to assess whether their investees have anti-corruption policies (77%) and internal whistle-blowing policies (46%).

Overall, all investors take into account social performance and environmental performance (70%) when reporting on their financial decisions. For instance, Cadiz Holdings' credit process has an integrated approach that combines financial risk and return attributes with social prerogatives. Additionally, ACTIAN integrates different social indicators from MIX Market, IRIS and the SPTF into a non-financial scorecard which is used during due diligence and monitoring on an annual basis. The information captured in this scorecard is used to report non-financial performance of their funds to their investors.

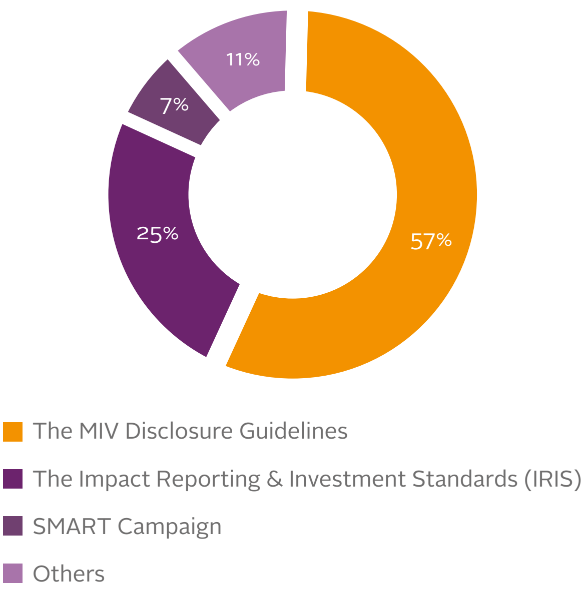
PRINCIPLE 5: PROMOTING TRANSPARENCY IN ALL ASPECTS

The data indicates a high level of commitment among investors to promote transparency for their shareholders, stakeholders and clients. 20 investors publicise and/or share their mission and investment objectives to stakeholders and 75%[29] of the investors provide information aligned with industry standards both to their clients and the public.

29 Based on all signatories that reported to the PIIF framework (n=33) and replied to this indicators (n=25)

Figure 11 demonstrates the most common industry standards used by the investors to communicate their social performance to clients and the public.

Figure 11: Most common industry standards used by investors (n=28 in '15)



PRINCIPLE 6: STRIVE FOR A BALANCED LONG-TERM SOCIAL AND FINANCIAL RISK-ADJUSTED RETURN

93% of the investors reported that the social performance of investees affects their portfolio management. For these investors, 87% collect data regarding the social outcomes of their investees' work, and 65% incentivise investees to track social performance too.

Despite of the interest of investors in tracking the social performance of their investees, just a third of the investors provide monetary incentives for their staff to encourage social performance improvement.

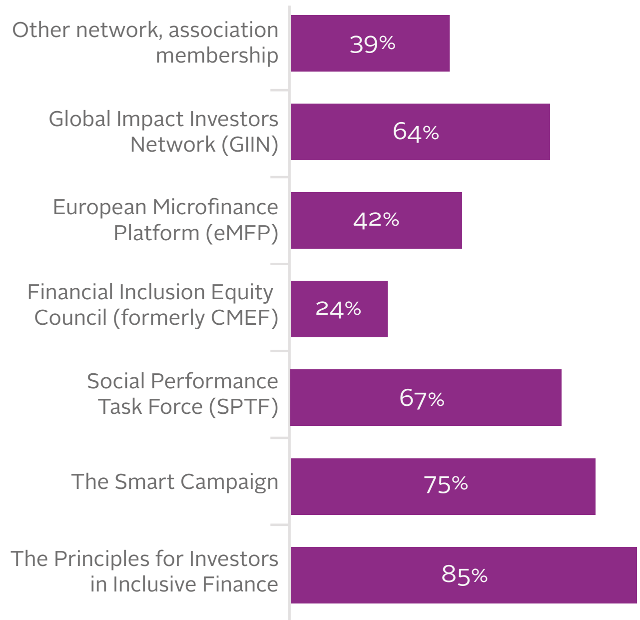
PRINCIPLE 7: COLLABORATE TO SET HARMONISED INVESTOR STANDARDS

Investors demonstrate a growing interest in setting common standards that further the development of inclusive finance. Investors partaking in other environmental and social themed investments, such as affordable housing, health and education services, have also voiced such an interest.

In a survey conducted in 2015[30] with results accounting for 42% of the PIIF signatories, we identified that half of PIIF's asset owners and fund managers would like to identify common indicators among different organisations on social performance.

Figure 12 highlights the most common organisations that investors engage with.

Figure 12: Collaborative initiatives investor organisations have supported or participated in (n=33 in '15)



After the PIIF, the Smart Campaign (75%) and the Social Performance Task Force (67%) are the most popular collaborative initiatives among investors in inclusive finance, but the vast majority of these investors don't encourage their investees to be a member of one or more organisations. For instance, only 17% of the investors encourage their investees to be a member of the Social Performance Task Force.

It is clear that a common set of indicators to measure social performance, one which can be used by asset owners, fund managers and retailer financial institutions, is still needed.

30 PIIF Survey Report 2015. For more information see: http://www.unpri.org/areas-of-work/implementation-support/piif/

METHODOLOGY

MORE ON THE DATA

Each year the PRI and the PIIF assess investors' performances towards PIIF'S seven principles. In 2014, 58 investors reported to the PIIF framework (51 of them are signatories of the PIIF), commenting and providing data on their progress towards the seven principles. This report showcases this self-assessment, highlighting some of the investors' main improvements since last year, as well the 'lessons learnt' from applying and pursuing the PIIF goals.

The PIIF report collected data across 15 countries. The vast majority of the institutional investors are from Europe (79%), and the majority of these European investors are from the Netherlands (54%), followed by Switzerland (9%) and Germany (7%).

The total assets under management (AUM) of all direct and indirect investors that reported to the PIIF framework in 2014 surpasses US$ 2 trillion. The PIIF data indicates that a minimum of US$ 9.5 billion under management are invested in inclusive finance by these investors. This AUM invested represents 12% of the global market size of the inclusive finance[31]. The data used in this report is from the fiscal year 2014, with data collected in March 2015. This data was then analysed over the course of 2015.

A REPORTING FRAMEWORK TO HELP ANALYSIS

The PIIF framework is organised in direct and indirect sectors. The 'direct' section contains 34 indicators in total, 15 of which are voluntary to report on. Additionally, some indicators appear only if a certain response is given to a previous indicator. Therefore, not all respondents were required to report on all indicators. The 'indirect' section contains seven indicators, two of which are voluntary to report on. Therefore, not all respondents were required to report on all indicators.

Care should be given around drawing conclusions and extrapolating from this data as the sample, while representing a large share of the inclusive finance market, is statistically low.

As the majority of respondents were signatories of the PIIF, the implementation of the principles is likely to be higher among this sample than across the industry as a whole.

You can view the Transparency Report of each respondent on our website. These reports contain the responses to the mandatory indicators, and to voluntary indicators where respondents have chosen to make these public. They are quoted throughout the report. A data supplement with the detailed data on each indicator can be obtained by contacting the PRI Secretariat on info@unpri.org.

31 For more information see: http://www.inclusivefinanceplatform.nl/documents/Documents/Publications/a%20billion%20to%20gain%202012.pdf

REFERENCES

CGAP, 2010:
https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Microfinance-Foreign-Exchange-Facilities-Performance-and-Prospects-Apr-2010.pdf

Eyes on the Horizon, 2015:
GIIN and J.P. Morgan.

IFC: Banking on Women, 2013:
http://www.ifc.org/wps/wcm/connect/9be5a00041346745b077b8df0d0e71af/BOW+FACT+SHEET+NOV+1+2013.pdf?MOD=AJPERES

IFC: Microfinance in Action, 2014:
http://ifc.org/microfinance-in-action

Inclusive Finance Platform, 2012:
http://www.inclusivefinanceplatform.nl/documents/Documents/Publications/a%20billion%20to%20gain%20 2012.pdf

PIIF Survey Report, 2015:
http://www.unpri.org/areas-of-work/implementation-support/piif/

Symbiotics Survey, 2015:
http://www.syminvest.com/papers

UN Millennium Development Goals, 2015:
http://www.un.org/millenniumgoals/2015_MDG_Report/pdf/MDG%202015%20rev%20(July%201).pdf

World Bank:
http://siteresources.worldbank.org/EXTPREMNET/Resources/EP125.pdf

The Principles for Responsible Investment (PRI) Initiative

The PRI Initiative is a UN-supported international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability for investors and support signatories to incorporate these issues into their investment decision making and ownership practices. In implementing the Principles, signatories contribute to the development of a more sustainable global financial system.

The Principles are voluntary and aspirational. They offer a menu of possible actions for incorporating ESG issues into investment practices across asset classes. Responsible investment is a process that must be tailored to fit each organisation's investment strategy, approach and resources. The Principles are designed to be compatible with the investment styles of large, diversified, institutional investors that operate within a traditional fiduciary framework.

The PRI Initiative has quickly become the leading global network for investors to publicly demonstrate their commitment to responsible investment, to collaborate and learn with their peers about the financial and investment implications of ESG issues, and to incorporate these factors into their investment decision making and ownership practices.

More information: www.unpri.org

PRI Principles for Responsible Investment

The PRI is an investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact.

United Nations Environment Programme Finance Initiative (UNEP FI)

UNEP FI is a unique partnership between the United Nations Environment Programme (UNEP) and the global financial sector. UNEP FI works closely with over 200 financial institutions that are signatories to the UNEP FI Statement on Sustainable Development, and a range of partner organisations, to develop and promote linkages between sustainability and financial performance. Through peer-to-peer networks, research and training, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

More information: www.unepfi.org

UNEP FINANCE INITIATIVE

UN Global Compact

Launched in 2000, the United Nations Global Compact is both a policy platform and practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption, and to catalyse actions in support of broader UN goals. With 7,000 corporate signatories in 135 countries, it is the world's largest voluntary corporate sustainability initiative.

More information: www.unglobalcompact.org

United Nations Global Compact