

Principles for Investors in Inclusive Finance (PIIF)

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Aim and background

The aim of the PIIF is to encourage greater adoption of responsible investment in inclusive finance by indirect and direct investors.¹ The [seven Principles](#) provide a framework to enable signatories to share best practice and collaborate in order to achieve this objective. The PIIF are accompanied by a self-reporting framework, to be launched in June 2012, designed to encourage accountability, transparency and progress in implementing the Principles.

Inclusive finance is the provision of financial services to those currently excluded by the financial system, to ensure that all working age adults have effective access to financial services. Effective access involves convenient and responsible service delivery at a cost that is both affordable to the customer and sustainable for the provider. Inclusive finance includes (but is not limited to) microfinance, which is the provision of diverse financial services to poor and low-income clients. Inclusive finance also includes organisations that are not able to gain access to financial products and services such as micro- and small-enterprises. It therefore covers a wide range of financial products and services, including savings, credit, insurance, remittances and payments.

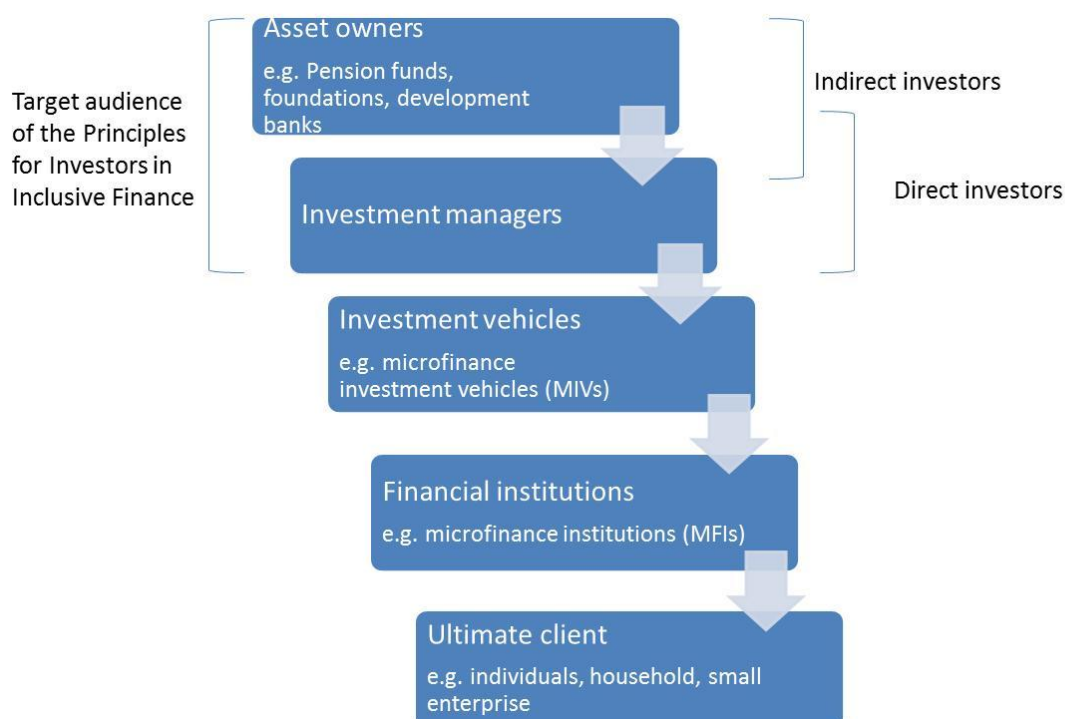
¹ Direct investors are institutional investors whose assets are primarily internally managed, i.e. that security level investment decisions (for example, buy-sell-hold) are made within the organisations (including consolidated and wholly-owned subsidiaries). This includes investment managers that primarily perform investment research internally and provide lists of (in)eligible securities to sub-advisors. Indirect investors are those whose assets are primarily externally managed, i.e. investment decisions are made by third-party organisations. This includes fund-of-funds that choose the underlying funds internally, but the buy-sell-hold decisions for the underlying assets are made by third parties.

In response to the growing interest and investments in inclusive finance, the PIIF were developed to meet the demand for guidance on investing responsibly in this area. They are an initiative of investors and Her Royal Highness Princess Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development. The group developed PIIF together with the United Nations-backed Principles for Responsible Investment (PRI), the World Bank's Consultative Group to Assist the Poor (CGAP), and other key industry players. The Dutch Ministry of Foreign Affairs generously provided a grant of seed funding to enable the PRI to establish the PIIF, with additional support coming from Incofin, FMO, Grassroots Capital Partners, SNS Impact Investing and Triodos Investment Management.

Who can sign?

The PIIF are aimed at institutional investors who invest in inclusive finance, either directly (for example, through microfinance institutions), or indirectly (for example, through microfinance investment vehicles). Direct investors can influence adherence to the Principles as they hold the relationship with the financial institutions providing finance to the ultimate clients. Indirect investors also play a key role in the value chain, considering their influence on direct investors. Figure 1 provides an example of the funding flows in microfinance.

Figure 1: Example of funding flows within microfinance



Direct investors are expected to implement the PIIF by undertaking the actions set out under each principle. Indirect investors are expected to endorse the PIIF and encourage the entities which they invest in to implement the Principles.

Organisations wishing to sign the PIIF will need to become a PRI signatory as well. Please see www.unpri.org/sign for more information. There are three main categories of signatory:

- **Asset owner:** Organisations that represent end-asset owners who hold long-term retirement savings, insurance and other assets. Examples include pension funds, government reserve funds, foundations, endowments, insurance and reinsurance companies and depository organisations.
- **Investment manager:** Investment management companies that serve an institutional or retail market and manage assets as a third-party provider.
- **Professional service partner:** Organisations that offer products or services to asset owners and/or investment managers. Although they are not stewards or managers of assets in their own right, they do have considerable influence over how their clients address responsible investment in inclusive finance.

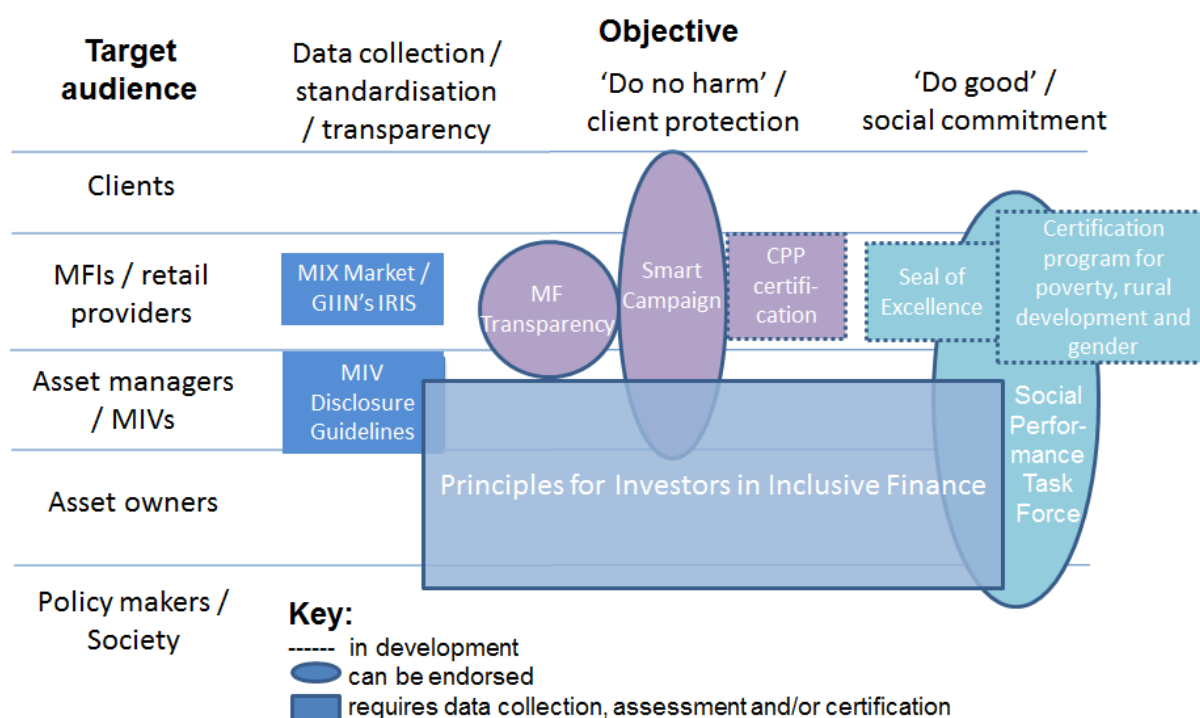
While the categories are not designed to be overly prescriptive, the general rule is that an investor would be considered an asset owner rather than an investment manager if it manages more of its own funds than of third-party clients. For large and complex organisations, the signatory category would depend on which of its business divisions is the largest. However, in cases where different businesses are run independently, it is possible to sign up across the relevant categories. In cases when the parent company is already a PRI signatory, it is situational whether the organisation signs the PIIF at the parent company level or the inclusive finance subsidiary signs the PIIF in its own right.

How do the PIIF relate to other inclusive finance initiatives?

There are a number of existing initiatives that promote various elements of responsible investment practice in inclusive finance. However, the majority of these are focused at the retail provider (or MFI) level. The PIIF were launched specifically to focus on institutional investors, both asset owners and investment managers. They act as a gateway for best practice within the field, and focus on promoting policies and procedures which encourage and reward good practice at the retail level.

The seven principles therefore refer directly to a number of key initiatives. Figure 2 below outlines some of these, their objectives, key audiences and how they inter-relate.

Figure 2: Map of existing market initiatives



Why become a signatory?

Becoming a signatory to the PIIF reflects a commitment to adhere to and promote responsible investment practices. Benefits of becoming a signatory to PIIF and PRI include:

- Showcasing leadership at a global level by endorsing and participating in PRI and PIIF activities (including webinars, publications, seminars and external conferences);
- Keeping informed of the latest tools and practices relating to sustainable finance and responsible investing;
- Belonging to and participating in an international network of institutional investors;
- Access to a collaborative engagement platform, the [PRI Clearinghouse](#), which enables investors around the world to work with peers on ESG issues;
- Participation in shaping the global investment agenda by sharing in the PRI initiative's networks and regional groups; and
- Access to research and implementation tools offered by the PRI Secretariat.

For **asset owners**, the PIIF provide a framework to help identify good responsible investment practice among investment managers and funds, helping asset owners navigate the many different initiatives (see Figure 2).

For **investment managers**, being a signatory to the PRI and PIIF may provide a competitive edge over non-signatory peers. Access to implementation support resources and the collaborative platform can

help investment managers develop their expertise to better incorporate responsible investment practices into investment strategies and decisions. Asset owner investors and the public are increasingly demanding that managers both be aware of responsible investment practices and demonstrate activities to support their responsible investment goals.

The PIIF provide investors with a high-level framework for responsible investment in inclusive finance. The [full text of the Principles](#) includes possible actions for each of the seven principles. A [case study compendium](#) has also been produced, highlighting how signatories are implementing the Principles. Further guidance is offered by the reporting framework. A full-time project manager supports collaborative opportunities, research and guidance on responsible investment in inclusive finance.

Requirements of being a signatory

Signatories commit to two mandatory requirements on becoming a signatory to the PIIF and PRI:

1. Reporting and Assessment process

After an optional one-year grace period, all asset owner and investment manager signatories must participate in the [annual Reporting and Assessment process](#).

2. Membership fees

All signatories must pay an annual fee. Mandatory fees are calculated based on the total assets of your organisation, or 'assets under management'. For service providers they are scaled according to the number of employees.

http://www.unpri.org/sign/signatory_fees.php

Support provided to PIIF signatories

The PIIF are supported by the PRI Secretariat in the form of a full-time project manager, whose objectives are to:

- Support PIIF signatories in the implementation of the Principles;
- Promote the PIIF and responsible investments in inclusive finance;
- Administer the PIIF and communicate with PIIF signatories.

These objectives have translated into core activities as highlighted in Figure 2. Signatories are invited to provide input into activity planning; the activities of the Secretariat are overseen by a steering committee made up of signatory representatives.

Figure 2: Core activities of the PIIF Secretariat



Frequently asked questions

How do we sign up?

- For current PRI members wanting to sign the PIIF, we require a letter or email signed by the CEO or equivalent stating your organisation's desire to sign. Please send to the project manager at emilie.goodall@unpri.org
- If you are not a current PRI signatory, signing the PIIF also means committing to the PRI. For more information about PRI and how to sign please see www.unpri.org/sign

How does the assessment work?

Currently all PRI signatories, after a one year grace period, are required to participate in the [annual Reporting and Assessment process](#). This involves filling out a survey to report on your organisation's progress in implementing the Principles over the previous year. The PIIF reporting process is integrated within the PRI Reporting and Assessment process; if all of your investment activities are in inclusive finance, then these are the only sections you would have to complete.

What resources are required to implement the PIIF?

All investors are different – some are focused exclusively on inclusive finance, others have minority investments. Investors will choose to implement the Principles in different ways which affects individual resource requirements.

At a minimum, institutions should allocate sufficient staff time to understand the activities that are suggested in the Principles, investigate how other investors have used them and begin the implementation process. The PRI Secretariat supports investors as they explore what becoming a signatory means.

How is PIIF governed?

The PIIF are under the ultimate supervision of the [PRI Advisory Council](#).

A steering committee oversees the progress of the PIIF. Its role is to lead the development of the work stream and ensure that its work is reflecting the needs of the industry as well as the aim of the Principles.

Who has signed the PIIF?

The full list of signatories is available at www.unpri.org/piif