PRI Principles for Responsible Investment | Principles for Investors in Inclusive Finance

PIIF REPORT ON PROGRESS 2016

Assessing the impact of responsible investors in inclusive finance

UNEP FINANCE INITIATIVE | United Nations Global Compact

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

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FOREWORD

Robust, responsible financial services are the building blocks upon which our economies and societies are built. Access to them expands opportunities and creates economies and societies that truly thrive.

But two billion adults – more than half the world's working population – are excluded from formal financial services. In developing countries 80% of the most economically disadvantaged are excluded from bank accounts.

Inclusive finance bridges this gap – by making the excluded, included. Investors in inclusive finance offer savings, credit, insurance, remittances, and payments to those who otherwise wouldn't have access to such lifelines. However, even these investments come with risks.

The Principles for Investors in Inclusive Finance (PIIF) was set up to mitigate these risks. Housed within the UN-supported Principles for Responsible Investment (PRI), the PIIF provides a framework for responsible investment in inclusive finance. And it's a rapidly-growing area – 65% of PRI signatories invest in environmental and social themes, of which 10% is in inclusive finance.

To uphold their fiduciary duty, PIIF signatories commit to adhering to seven principles which will ensure investments are carried out bearing in mind the long-term interest of the client. They use the PRI's Reporting Framework, a standardised transparency tool, to report each year what they are doing to ensure their investments are responsible.

The results are encouraging. Among indirect investors, implementation of the PIIF principles increased in all areas in 2016. In fact, 66% now include the principles when signing contracts with external managers.

Progress with direct investors is also significant. For example, 20% more direct investors provide finance in local currency than in 2015. This year was also an important milestone in another way: the largest ever number of direct investors reported to the PIIF since its inception in 2011. Of these, 75% have specific inclusive finance targets in their organisation, compared to 55% in 2015.

Despite this progress, there remains a long road to travel until we stimulate long-term sustainable development for everyone. This report serves as an encouraging start to that journey.

ABOUT THE PRINCIPLES FOR RESPONSIBLE INVESTORS IN INCLUSIVE FINANCE

Institutional investors play an important role in worldwide economic development. Different investors have different investment strategies and practices to tackle global challenges like climate change, gender equality, clean energy, affordable housing, support services and goods to those in less economically-advanced societies. More than 900 PRI signatories (65%) invest in environmental and social themes worldwide, of which 10% invest in inclusive finance.

Inclusive finance has proven to be a successful approach to support social and business entrepreneurs, empower families and provide financial services to those that do not have access to regular banking services. Overall, inclusive finance supports local economies and provides social inclusion to the most in need. However, investments in this domain may carry financial and reputational risks that often go unnoticed by many responsible investors.

The PIIF is a global initiative that aims to improve the inclusive finance industry and support investors interested in making it more responsible, and consequently, more sustainable. The PIIF provides a framework that helps investors improve their performance towards achieving PIIF's seven principles, and provides a knowledge-based platform encouraging investors to connect and collaborate with each other.

Since its launch in 2011, 51 investors with a combined AUM of US$9.5 billion invested in inclusive finance have signed-up to the PIIF. The signatories include large institutional investors such as APG, TIAA CREF and FMO and some of the largest inclusive finance fund managers including LeapFrog, Finance in Motion, responsAbility, Symbiotics, Oikocredit and Developing World Markets.

ABOUT THE PRINCIPLES FOR RESPONSIBLE INVESTMENT

The PIIF is housed within the UN-supported Principles for Responsible Investment (PRI).

THE PIIF

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 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 recognises 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.

HOW THE PRINCIPLES ARE APPLIED:

The PIIF has a unique reporting framework and accompanying assessment officers in public accountability, which enables investors to benchmark their practices against that of their peers. Through the PIIF and PRI, signatories can connect and collaborate with fellow institutional investors around the world, via:

- events and online discussions on topical issues;
- and project-specific working groups.

SUMMARY OF FINDINGS

In this progress report, we analyse data provided to us by 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. The aim of this analysis is to highlight where improvements have been made towards the implementation of the PIIF's seven principles, and where there may be room for improvement.

This report may therefore be of use to all investors interested in responsible investment in inclusive finance, and in using this framework to drive responsible investment practices in the industry. Overall, we observe that signatories have a genuine interest in being part of the PIIF. However, problem areas and weaknesses seem to follow the same pattern as in previous years.

Indirect investors

Implementation of the PIIF principles among indirect investors increased in all areas and indicators, mainly with regards to ESG integration. The PIIF data shows that two thirds of all the indirect investors include the PIIF principles when signing contracts and mandates with external managers.

Direct investors

Overall, the 2016 PIIF data on direct investors demonstrate minor improvements and an investor understanding of the importance of implementing the seven PIIF principles.

Principle 1: Overall, around 70% of all the direct investors[1] that reported to the PIIF framework mentioned that they support the provision of financial services beyond credit, including compulsory savings and/or compulsory insurance.

Principle 2: Minor developments were identified towards the implementation of the Client Protection Principles. For instance, 24 direct investors mentioned to publicly endorse the Client Protection Principles, while 13 direct investors members and/or non-members of PIIF did not mention nor endorse the principles above.

Principle 3: Based on the 2016 data, there was an increase of about 20% of direct investors providing financing in local currency from the previous year[2]. In addition, more than 70% reported to provide financing with an adequate tenor.

Principle 4: About 70% of direct investors indicated to have procedures to integrate the consideration of environmental issues in investment decisions, and about 60%[3] request that their investees comply with an environmental exclusion list.

[1] Based on the total of direct investors that replied to this report (37)

[2] Total of 26 direct investors provide local currency finance in 2016.

[3] Total of 25 investors.

Principle 5: The data indicates that more than 80% of all direct investors demonstrate high commitment to promote transparency for their shareholders, stakeholders and clients. And 70% of investors provide information aligned with industry standards to their clients and the public.

Principle 6: The PIIF data shows that 93% of investors reported to collect data regarding the social outcomes of their investees' work[4]; 94% of investors reported that the social performance of investees affects their investment decision making, which 81% their portfolio management.[5]

Principle 7: Similarly to the previous year, investors demonstrate a growing interest to set common standards that support the development of inclusive finance, and to engage in collaborative initiatives and organisations in this field. About 86% of all direct investors[6] are members of one or more collaborative initiative and/or organisation, and about half of these investors have reported to have a very active role in one or more initiatives/organisations.

It would be beneficial for signatories to review their approach towards their PIIF performances, and adopt different strategies for implementation. Two of the main areas for improvements are a) improving communication with investees to better monitor financial and social performance and b) invest in social performance standardisation/indicators along the investment chain.

[4] This is voluntary indicators based on 27 direct investors replies.

[5] Based on 32 direct investors.

[6] Based on 37 direct investors.

INTRODUCTION

The PIIF is an initiative that aims to improve the inclusive finance industry and support investors interested in making this industry more responsible, and consequently, more sustainable.

Each year the PRI and the PIIF assess investor performance in relation to the PIIF'S seven principles. This year, 58 investors reported to the PIIF framework (51 of them are signatories to the PIIF). This report showcases this self-assessment, highlighting some of the investors' main improvements since last year, as well as the lessons learnt from applying and pursuing the PIIF goals.

Ultimately the goal of this report is twofold;

- to inform all signatories about the progress and achievements made by investors towards the goals of the PIIF;
- to collate information in support of furthering our knowledge of inclusive finance practices.

METHODOLOGY

This report is a summary of the data provided by investors on a set of indicators that are based on the PIIF.

It is organised in two sections: i) indirect investors, and ii) direct investors. Each section is organised around the seven PIIF principles. All the information in these sections is based on the data provided by signatories on the PIIF framework in 2014 and 2015. Additional references have been included in this report to contextualise the data, and if so bibliographic information is provided.

ABOUT THE DATA

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. We indicate when this is the case.

Care should be given when drawing conclusions from this data as the sample, while representing a large share of the inclusive finance market, is statistically low. As most respondents were signatories to the PIIF, the implementation of the principles is likely to be higher among them than across the industry as a whole. The transparency report of each respondent can be viewed on our website. These reports contain the responses to the mandatory indicators, and to voluntary indicators where respondents have chosen to make these public. There are quotes from these transparency reports throughout the report. Some of these have been edited. A data supplement with the detailed data on each indicator can be obtained by contacting the PRI on info@unpri.org.

REPORT FINDINGS

55 direct and indirect investors reported to the PIIF Framework in 2016 – 36 fund managers (compared to 33 in 2015) and 19 asset owners (compared to 17 in 2014). Among the investors, 37 are inclusive finance direct investors (including five investors that are both indirect and direct) and 18 exclusively indirect investors.

The PIIF report collected data across 15 countries. The vast majority of the institutional investors are from Europe (79%), and the majority of these investors are from the Netherlands (54%).

The total AUM of all direct and indirect investors that reported to the PIIF framework in 2016 surpassed US$ 2 trillion. The PIIF data shows that more than US$ 9.5 billion under management are invested in inclusive finance by these investors. This AUM invested represents 12% of the inclusive finance global market size[7].

The following sections of this report highlight the main findings of the PIIF framework data based on indirect and direct investors.

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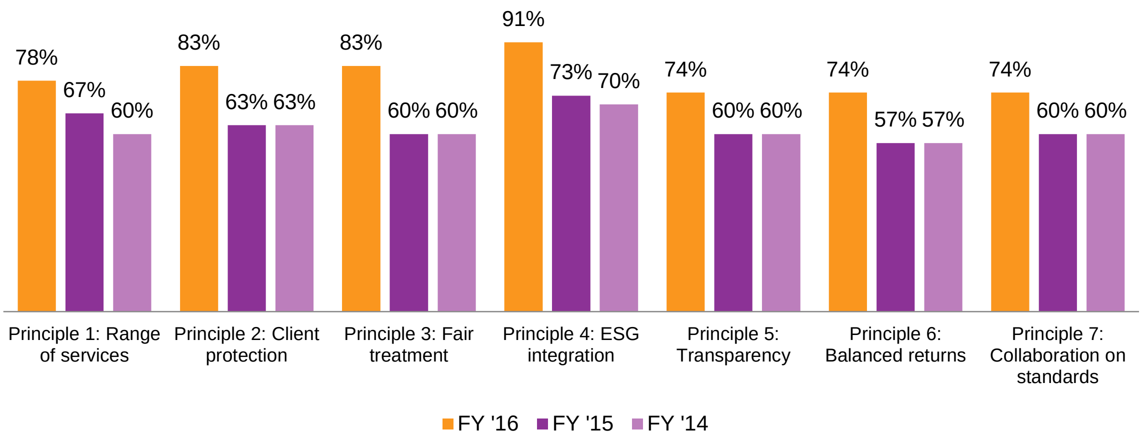
[7] For more information see:
http://www.inclusivefinanceplatform.nl/documents/Documents/Publications/a%20billion%20to%20gain%202012.pdf

REPORT FINDINGS: INDIRECT INVESTORS

In 2016, 18 indirect investors reported to the PIIF framework (plus five investors that are indirect and direct). Of these 23 indirect investors, 15 are members of the PIIF, and 56% of all the indirect investors are asset owners. About 45% of the indirect investors indicate that all their assets in inclusive finance are managed by the PIIF signatories. 19 investors are from Europe, 12 of which are from the Netherlands. Three are North American, and one is in Australia.

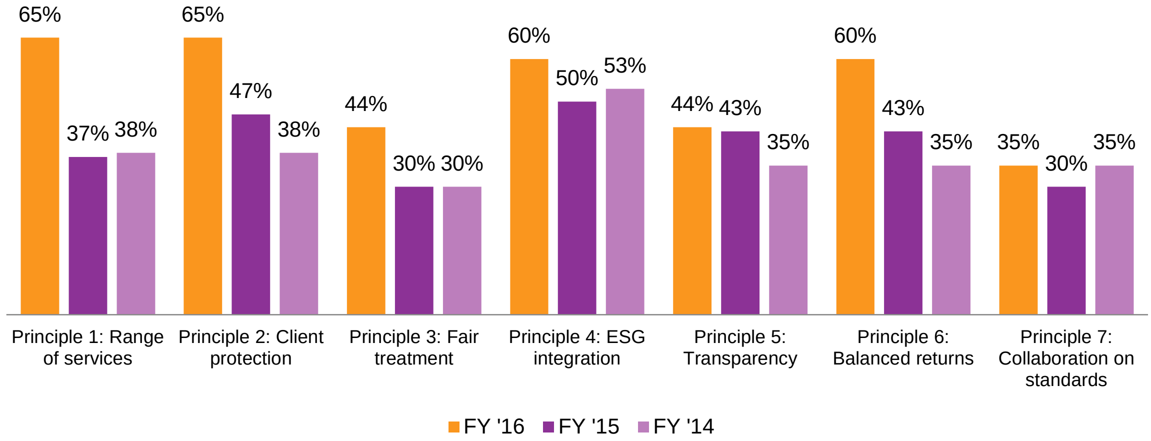
The data indicates significant improvements when compared to last year. For instance, almost all indirect signatories that have due diligence processes in place with external managers adopt the PIIF principles; in 2015 this percentage was 73%. In addition, we noticed improvements in all indicators which represents a major change in data improvement over the last three years of PIIF reports.
Figure 1 highlights indirect investors who have due diligence in place based on the seven PIIF principles.

Figure 1: Respondents who have due diligence in place that take external managers' approach to PIIF into account



In terms of utilising or including the PIIF principles when signing contracts and designing mandates with external managers, 2016 PIIF data also shows positive improvements in comparison with last year, as highlighted in figure 2 below.

Figure 2: Respondents who consider PIIF when agreeing contracts and designing mandates with external managers



Another positive impact is that more than 70% of all indirect investors monitor their current investment managers' implementation of the PIIF principles, while 16 of those investors track the performance of their investment managers annually.

REPORT FINDINGS: DIRECT INVESTORS

In 2016, 37 direct investors reported to the PIIF (compared with 33 in 2015). Of these investors, 29 are members of the PIIF (six asset owners and 23 fund managers). Of the other eight direct investor non-members of the PIIF, one is an asset owner and seven are fund managers.

This report shows that in 2016 the biggest number of direct investors ever reported to the PIIF since its creation in 2011. In terms of investor geographic distribution, the majority of investors are from Europe (27, compared with 24 in 2015), followed by North America (six, with seven in 2015) and then Africa (four compared with two in 2015).

75% of the direct investors have specific inclusive finance social targets in their organisations (55% in 2015) and around 56% of all direct investors have more than 80% of their assets (debt and asset combined) invested directly in inclusive finance.

Of that 75%, 15 have invested less than 20% of their total assets in equity, and 18 allocate 80% of their total debt assets to inclusive finance. The main areas signatories reported investing in inclusive finance were:

- 33 signatories invested in microfinance;
- 26 in SME finance;
- six investors invested both in agriculture and education.

In terms of microfinance investments, 28 direct investors track the geographical spread of their assets (compared to 25 in 2015). Of these investors, 57% are fund manager members of the PIIF.

Figure 3 highlights the geographical spread of microfinance investments[8] in 2015 and 2016 based on the number of investors' portfolios invested directly in microfinance and the average loan size[9] (in US$).

[8] Important to highlight that signatories could have investments in one or more different regions.

[9] Based on the average of these investments.

Figure 3: Number of investors investing in microfinance based on regions

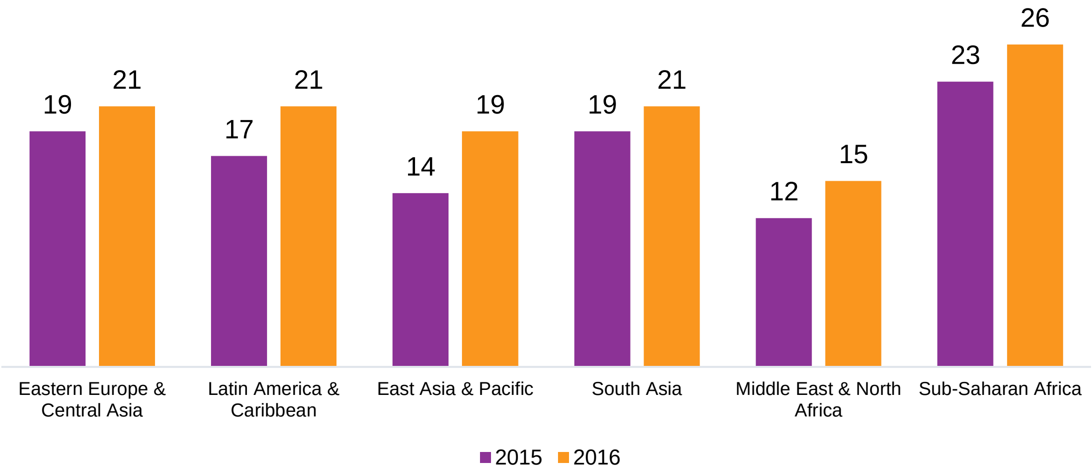
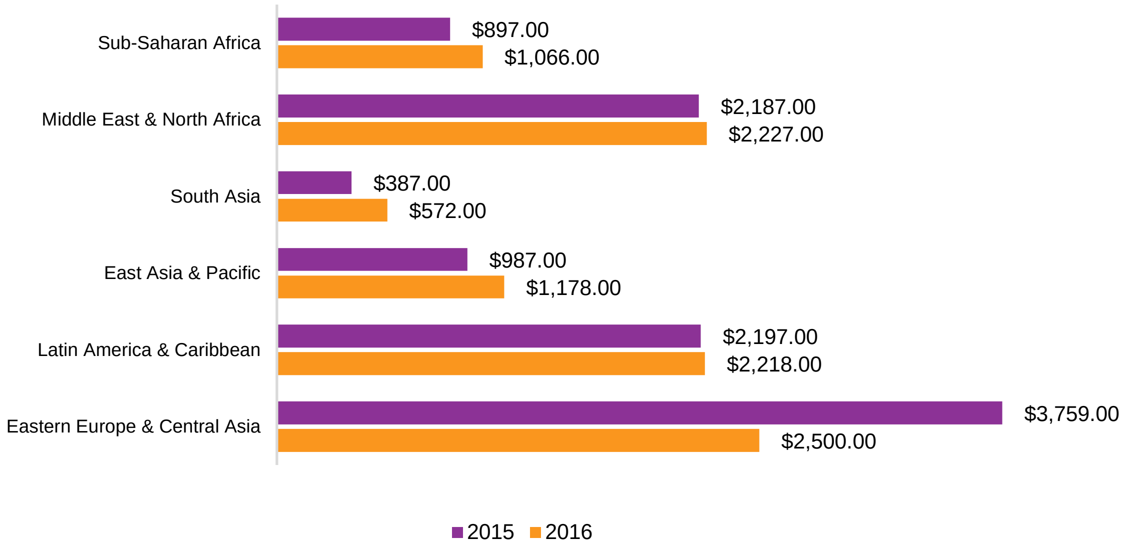


Figure 4: Averege loan size in USD



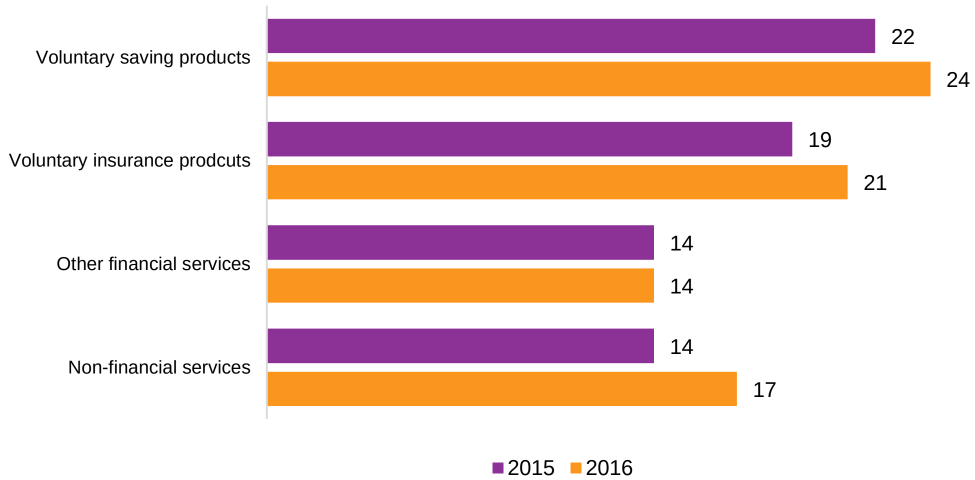
The figures above show the progress investors are making to tracking microfinance investments across regions and loans. Also, as highlighted in the 2015 PIIF Report, the data identifies that differences in the average loan size may be related to investors' strategies and/or to different types of investments in inclusive finance, since some investors may provide a broader range of services (i.e. SME finance) in one region compared to another.

PRINCIPLE 1: RANGE OF SERVICES AND CLIENT GROUPS

Similarly to previous PIIF progress reports, investors have shown some improvement to implementing principle 1 of the PIIF. For instance, there was a 7% increase from 2015 to 2016[10] in investors committed to tracking the percentage of their microfinance investees' portfolio. In addition, the number of investors tracking the percentage of microfinance investees' portfolio that is in loans for immediate household needs increased from 19 in 2015 to 22 in 2016.

Overall, around 70% of all direct investors[11] support the provision of financial services beyond credit, including compulsory savings and/or compulsory insurance. However, there was a small decrease in investor commitment to gathering data on these financial services. Figures 5 and 6 illustrate the most common services and products that direct investors support and the number of direct investors committed to collecting data regarding the percentage of financial service providers in their portfolio of targeted services and products.

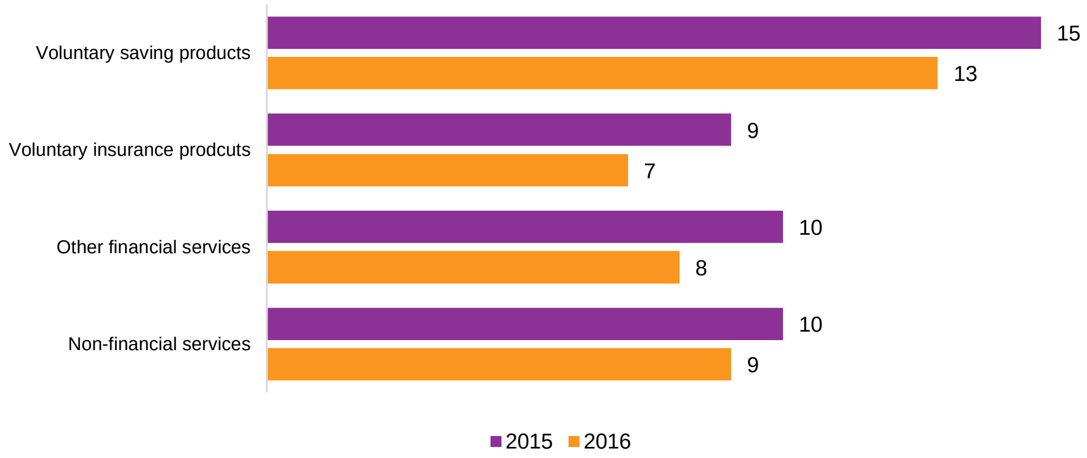
Figure 5: Services and products that direct investors support beyond credit



[10] Based on 28 direct investors.

[11] Based on the total of direct investors that replied to this report (37)

Figure 6: Number of direct investors that gather data regarding target services and products



The data shows that direct investors support a variety of other financial services such as mobile money, financial education, remittances and green microfinance, among others. The percentage of investors that support mobile money (for example, payments and money transfers) remains the same as the previous year (43%), as well as in agriculture finance and remittances (21%).

The data provides interesting examples of how investors perceive and invest in one or more financial and services products. The sections below provide some short insights into the approaches adopted by investors towards voluntary saving, insurance and other financial and non-financial services.

EXAMPLES OF HOW DIRECT INVESTORS INVEST IN VOLUNTARY SERVICES AND OTHER FINANCIAL AND NON-FINANCIAL PRODUCTS

The Austrian asset manager C-Quadrat Asset Management[12] invests in voluntary savings and insurance products, as well as literacy programmes. C-Quadrat Asset Management "is convinced of the importance of savings product offerings for people to develop a responsible and sustainable handling of money. Henceforth MFIs offering these products are preferably supported. Just minor savings can make a big difference for a person in case of sickness to be able to buy medication, which prevents the health and economic situation to deteriorate (e.g. not being able to work can result in a vicious circle)"[13]. As a result, C-Quadrat Asset Management gathers data regarding these microfinance providers, which represent up to 40% of all C-Quadrat's microfinance providers.

[12] For more information, see: https://www.c-quadrat.com/en/

[13] For more information, see: https://reporting.unpri.org/Download.aspx?id=BF5874BF-FC16-4AEB-999B-0E21B6FF03DD

For example, ResponsAbility Investments AG[14], is an active Swiss asset manager known for its commitment to invest in inclusive business models and businesses in emerging and developing economies. They have identified more than 100 transformative steps by investees in their portfolio. Increasing their product portfolio is part of this development. For them, "in order to receive a deposit taking license, MFIs must become regulated and in order to become regulated, they must cover their costs, i.e. they must be commercially viable. Offering saving products is not only beneficial to the client of MFIs but also an important refinancing source for MFIs allowing them to grow and develop in a sustainable way"[15].

The North American asset manager and investment bank, Developing World Markets (DWM)[16], which targets social investments on a global scale has a policy to encourage "portfolio financial institutions to broaden their product offerings to better fit the needs of their clients". This includes agriculture insurance, loan insurance, voluntary saving and insurance products. To achieve this goal, "DWM measures the use of products beyond financial services both during the due diligence process and on an annual basis thereafter through questions in its social measurement tool"[17].

TAILORED FINANCIAL AND NON-FINANCIAL PRODUCTS FOR LOW-INCOME CLIENTS AND VULNERABLE GROUPS

The PIIF encourages providers to introduce innovative products tailored to the needs of low-income clients and other marginalised and vulnerable groups. 2016 data, shown in table 1, highlights that the number of direct investors who support these services has increased from previous years.

Financial services offered	FY16	FY15	FY14
Very poor[18]	13	7	4
Poor	23	16	14
Low income[19]	24	17	12

Several investors adopt specific approaches and strategies to identify, assess and invest in these products. For instance, ACTIAM[20], a Dutch responsible fund and asset manager with €55.9 billion as of 30 June 2016[21] "assess whether the organisation has a policy and

[14] For more information, see: http://www.responsability.com/

[15] For more information, see: https://reporting.unpri.org/Download.aspx?id=0A2707B8-0110-46DF-8B9A-64370792EDB4

[16] For more information, see: http://www.dwmarkets.com/

[17] For more information, see: https://reporting.unpri.org/Download.aspx?id=B5F05137-AD20-4C0B-8C76-67DA0C060A0F

18 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

19 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

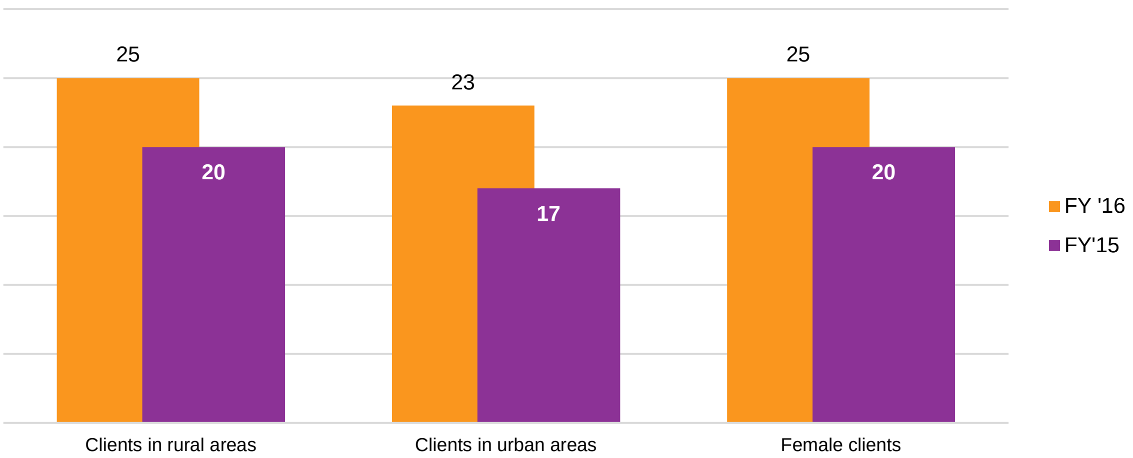
[20] For more information, see: http://www.actiam.nl/en/

[21] Based on company's website information. https://www.actiam.nl/en/about-us/

uses a poverty assessment tool to screen potential clients or assess client income level during the loan process". ACTIAM "microfinance funds invest in MFIs that provide loans to the very poor, the poor and low-income clients"[22].

Also, the data identified a growth in the number of investors interested in collecting data regarding other specific groups such as clients in rural and urban areas and women, as highlighted in the figure below:

Figure 7: Number of investors that collect data on specific clients and groups



A good example of a direct investor that collects data on specific clients and groups is Cordaid. The MFIs that Cordaid supported in 2015 reached 2.2 million clients. 53,000 of them got a loan from the MFIs through Cordaid's funding. 67% of the clients were rural while 66% were female[23].

It is relevant, however, to highlight that the data demonstrates that direct investors are interested in investing and supporting a range of financial services and serving different groups based on income levels, but less than half of investors gather data on investee income levels, location, and gender of client groups. This issue was also identified in previous PIIF Progress reports in 2014 and 2015, with no improvements this year.

As mentioned in last year's report, "the lack of data at the investee level based on their services, offers, and client groups represents a challenge for understanding the real beneficiaries of inclusive finance services, as well as the impact of investors' investments in this field"[24].

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[22] For more information, see: https://reporting.unpri.org/Download.aspx?id=6EF3D20F-737D-459E-A08A-8B76212883B5

[23] For more information, see: https://reporting.unpri.org/Download.aspx?id=D091C71B-5512-4389-9DB6-378A399902B9

[24] PIIF Report on Progress 2015.

In addition, we did not see improvements on the previous year (FY 2014) in terms of the percentage of direct investors that support some level of technical assistance to retail providers (45% in both years [25]), mainly for organisations interested in improving organisational capacity building and new product development.

Key leaders in the technical assistance (TA) field remain very active and the PIIF may provide insights into how other investors could develop successful TAs, such as Triodos Investment Management B.V. [26], one of the world's leading sustainable banks. They provide specific TA to their investees: “1) to improve the internal audit capacities of the organizations. The head of Internal Audit of Triodos Bank has conducted this assignment. 2) Through a partner organization to support the development of agri-products”[27].

[25] Based on 17 direct investors in ’15.

[26] For more information, see: https://www.triodos.com/

[27] For more information, see: https://reporting.unpri.org/Download.aspx?id=2A5BCEA1-BE60-4757-821D-67F36C960DA5

PRINCIPLE 2: CLIENT PROTECTION

Client protection principles are one of the cornerstones of responsible and inclusive finance. Among all PIIF signatories, 24 mentioned they publicly endorse the Client Protection Principles (CPP) – compared to 26 in 2015. 13 direct investor members and/or non-members of the PIIF did not mention or endorse them. This contrasts with previous years. As figure 8 highlights, this has improved overall.

Figure 8: Client Protection Measures

The graph indicates that while there are few changes from year to year, there is a steady increase of investors using these measures. For instance, Investisseurs & Partenaires[28], a family of impact funds fully dedicated to Sub-Saharan Africa, have decided to systematically apply and endorse the CPP. For these funds "endorsement of Client Protection Principles is now systematically included the legal documentation with investees but it has not been systematically in the past"[29].

[28] For more information, see: http://www.ietp.com/en

[29] For more information, see: https://reporting.unpri.org/Download.aspx?id=FFC0BBE5-2622-44B1-A078-C8B465B15E6D

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Another example, FMO[30] "has embedded a CPP assessment in its investment process whereby high-risk clients are identified early on. Depending on this risk category, extra attention is dedicated during due diligence on CPP issues, consultants are hired to do a CPP assessment, and in some cases a CPP action plan is drafted. The process is systematic and is applied uniformly to all new investments in financial institutions, investment funds, and holdings*"[31].*

It's important to highlight that FMO continues to refine and expand its approach to client protection. For instance, "client protection issues extend beyond the financing of financial institutions, for example in off-grid energy solutions. In a few cases in the past, FMO has used margin reduction incentives for CPP implementation".

[30] For more information, see; https://www.fmo.nl/

[31] For more information, see: https://reporting.unpri.org/Download.aspx?id=2A73762B-9A21-454D-8F19-A3823D0AB3BC

PRINCIPLE 3: FAIR TREATMENT

The PIIF principles cover four key actions to support investors to ensure their investees in inclusive finance take concrete measures to guarantee fair treatment of customers.

ACTION 1: PROVIDE FINANCING IN AN APPROPRIATE CURRENCY

Multilateral development agencies, market leaders and inclusive finance practitioners have agreed that providing financing in an appropriate currency allows investors to reduce their foreign exchange risk exposure by investing in local currency and by working to develop deeper local currency markets in targeted emerging and developing countries[32]. Ultimately financing in local currencies could be crucial for those that cannot rely on local financial institutions.

Compared to the previous years, in 2016 there was a 20% increase in the number of direct investors providing financing in a local currency [33]. Of those investors, 62%[34] have mentioned that 20% to 40% of their direct debt portfolio is allocated in local currencies (in 2015 this was 55%). 27%[35] mentioned that 80% or more of their portfolio is allocated in local currencies (22% in 2015). Figure 9 highlights the percentage of investor's direct debt portfolio invested in the investees' local currency.

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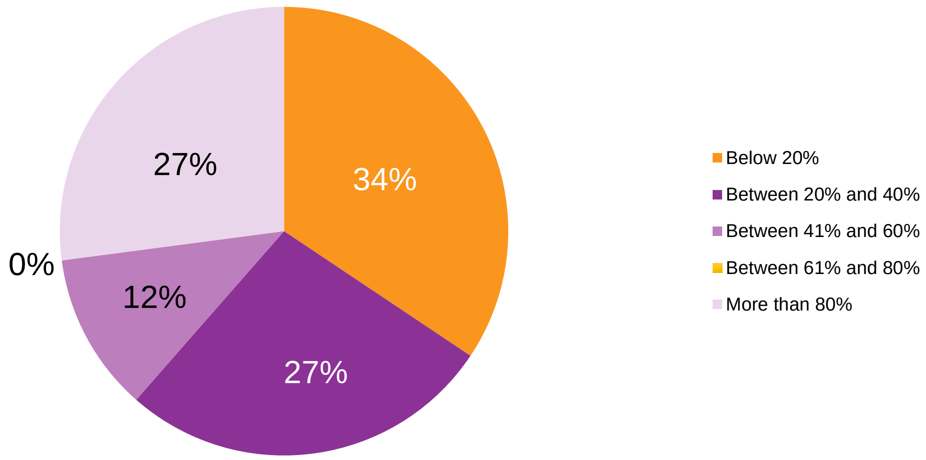
[32] For more information, see: https://www.cgap.org/sites/default/files/CGAP-Occasional-Paper-Microfinance-Foreign-Exchange-Facilities-Performance-and-Prospects-Apr-2010.pdf

[33] Total of 26 direct investors provide local currency finance in '16.

[34] 16 direct investors.

[35] 7 direct investors.

Figure 9: Percentage of direct portfolio in debt that is invested in the investee's local currency (n=26, based on signatories that replied 'yes' to this indicator)



The PIIF data identifies that two factors are major obstacles to investing in a local currency: (1) currency exchange costs and (2) risks associated with transactions. For instance, MicroVest Capital Managment LLC[36] is an American asset management firm that invests in underbanked markets and provides access to financial services for rising middle-class communities in emerging and developing countries. For them, more capital could be allocated in investees' local currency, but the "levels of local currency investment changes frequently dependent on the need from MFIs but also dependent on the risk associated with FX transactions"[37].

To mitigate these risks, some investors develop alternative strategies. This is the case of Grameen Crédit Agricole Microfinance Foundation (GCAMF)[38]. For GCAMF, "If direct local currency cannot be provided in reasonable terms, we target to provide access to local currency through back to back mechanisms or guarantees with local banks"[39]. For instance, in mid-2016 the GCAMF loaned the equivalent of US$ 555,000 over three years to Koperasi Mitra Dhuafa (Komida)[40], an Indonesian lender to women[41]. These examples may provide interesting insights into the challenges and opportunities when investing in local currencies.

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[36] For more information, see: http://microvestfund.com/

[37] For more information, see: https://reporting.unpri.org/Download.aspx?id=6AC4B784-C839-4523-B067-0EF7196BE700

[38] For more information, see: http://gca-foundation.org/

[39] For more information, see: https://reporting.unpri.org/Download.aspx?id=A854CA11-2F40-4F74-95B8-F72D81B57C6B

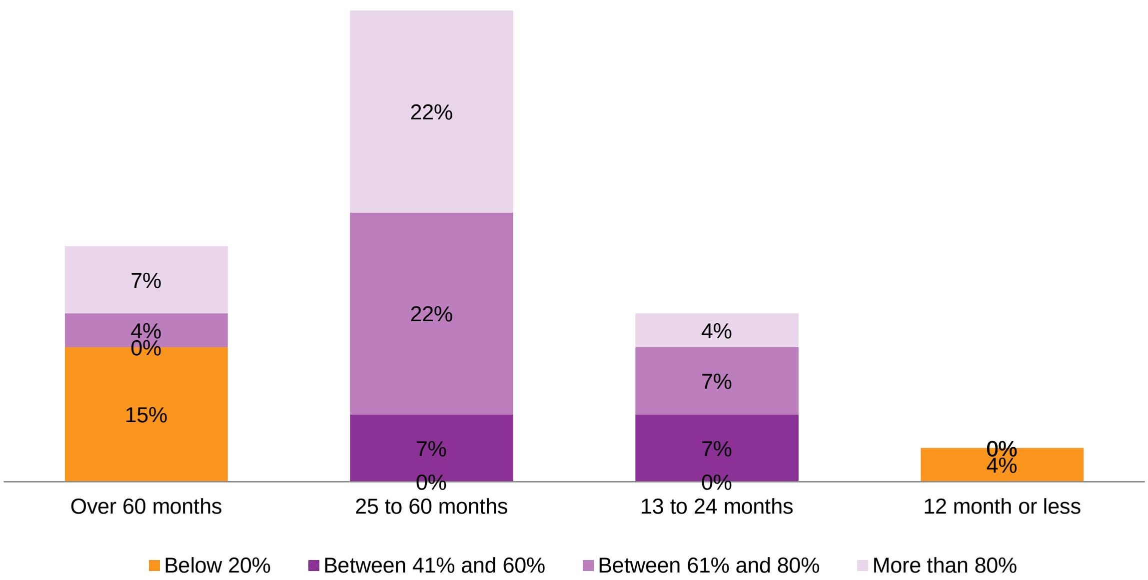
[40] For more information, see: http://mitradhuafa.com/

[41] For more information, see: http://www.microcapital.org/microcapital-brief-grameen-credit-agricole-microfinance-foundation-gcamf-loans-555k-to-indonesias-koperasi-mitra-dhuafa-komida/

ACTION 2: PROVIDE FINANCING WITH AN ADEQUATE TENOR

Longer maturity in inclusive finance could be beneficial to support MFIs and local economic growth, including for smaller businesses in emerging and developing countries. Also, longer maturities may support MFIs that have difficulty obtaining credit from local banks[42]. Based on the PIIF data, 27 direct investors replied to this indicator, which represents a 17% increase from the previous year. Figure 10 highlights the percentage of direct portfolio in debt invested in different classes of maturity.

Figure 10: Percentage of direct portfolio in debt invested based on maturity duration (n=27 in '16)



Direct investors, such as Développement international Desjardins, Triodos Investment Management B.V., responsAbility Investments AG, ICCO, Triple Jump, and La Caisse d`économie solidaire Desjardins are among those that provide maturity over 60 months in their direct portfolio in debt.

[42] 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

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

By supporting and enabling investees to ensure they have a diversified funding base, investors can support investees' long-term portfolio growth. Investors can adopt a variety of strategies and approaches to ensure this is implemented.

A positive sign that the principles are being implemented is that 20 out of 23 investors that replied to this indicator set limits of the maximum investment exposure (debt) of the investees in which they invest. These are very positive numbers compared to previous years. It highlights the strong commitment investors have to supporting a diversified funding base.

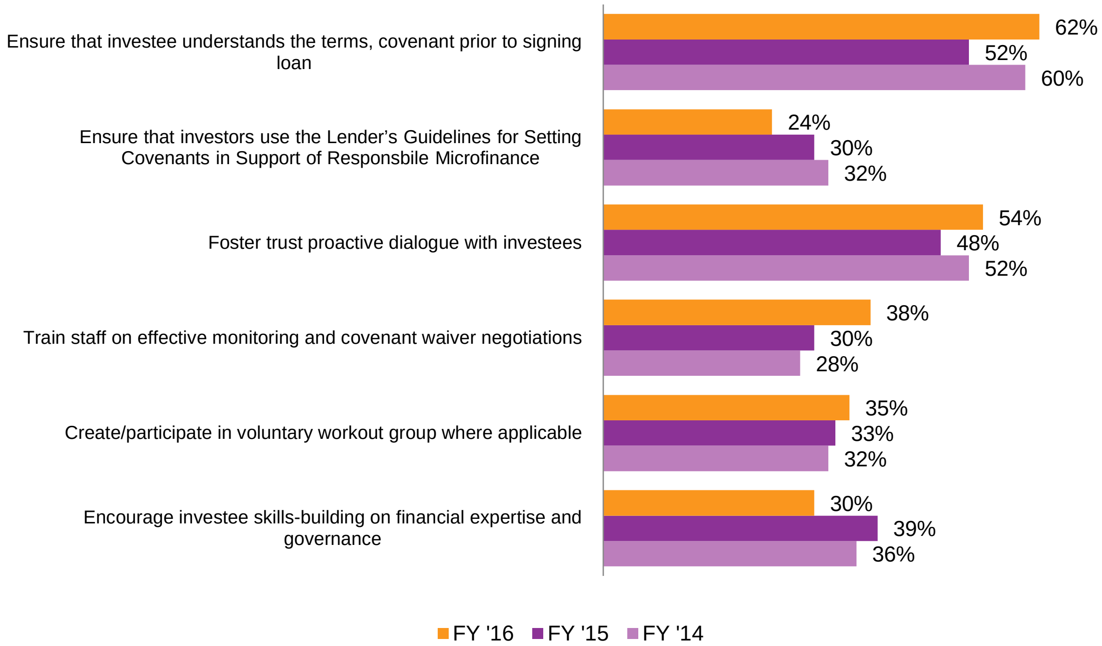
However, only seven direct investors mentioned they had specific policies and/or procedures on return on equity (ROE) targets or caps in relation to their equity investments. That is the case of Leapfrog Investments, Investisseurs & Partenaires, Triodos Investment Management B.V., TIAA – CREF, Goodwell Investments, and FMO. The low number of investors setting policies is a concern, but 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. These practices are organised in two steps: identify whether a direct investor applies these practices, and if they are formalised in written policies and procedures.

Figure 11: Direct investors that have formalised policies and procedures to promote and ensure that negotiable terms and conditions are transparent, fair and responsible.

Figure 11: Formalised investor practices for fair treatment of investee retail institutions



The PIIF data points out minor improvements towards the implementation and formalising of practices to support fair treatment with investee retail institutions. The main issue identified is the constant decrease of direct investors' (nine this year) commitment to ensure that they use the Lender's Guidelines for Setting Covenants in Support of Responsible Microfinance.

The PIIF data provides some insights to understanding the decrease of these numbers. For instance, about half of those investors that said they hadn't adopted one or more formalised or written practices and procedures argue that due to the uniqueness of every retail institution, they have to employ a case-by-case approach. A third mentioned to have meetings to immediately address the issues and concerns with their investees.

Interestingly, the data also shows that for more than half of the direct investors that formalise practices and procedures also employ flexible practices to engage and manage investees. For instance, a Nordic foundation, Strømme Microfinance AS, [43] uses formalised practices and policies to better improve their communication with its MFIs. These formalised practices help them to have "close follow-up, both in-person and through electronic communication"[44].

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[43] For more information, see: http://www.stromme.org/

[44] For more information, see: https://www.google.co.uk/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0ahUKEwiHwci004DTAhUFAcAKHQLrB3IQFggaMAA&url=https%3A%2F%2Freporting.unpri.org%2FDownload.aspx%3Fid%3D0A2D732C-1C9F-4189-BDC4-51B2E569E140&usg=AFQjCNFyReX8iCEao5lNtcazv3oD5aVXIQ&bvm=bv.151325232,d.ZGg

Luxembourg Microfinance and Development Fund (LMDF)[45], invests in emerging microfinance institutions in Asia, Africa and Latin America with a strong social mission, applies formalised policies and practices to strengthen their relations with MFIs and clients. For LMDF, these processes support “a dialogue between MFI and the opportunity to justify any breach and propose an action plan to address the situation”[46].

[45] For more information, see: http://www.lmdf.lu/en/

[46] For more information, see; https://reporting.unpri.org/Download.aspx?id=095701FC-CA2F-4FA0-8501-68D6A7140EDB

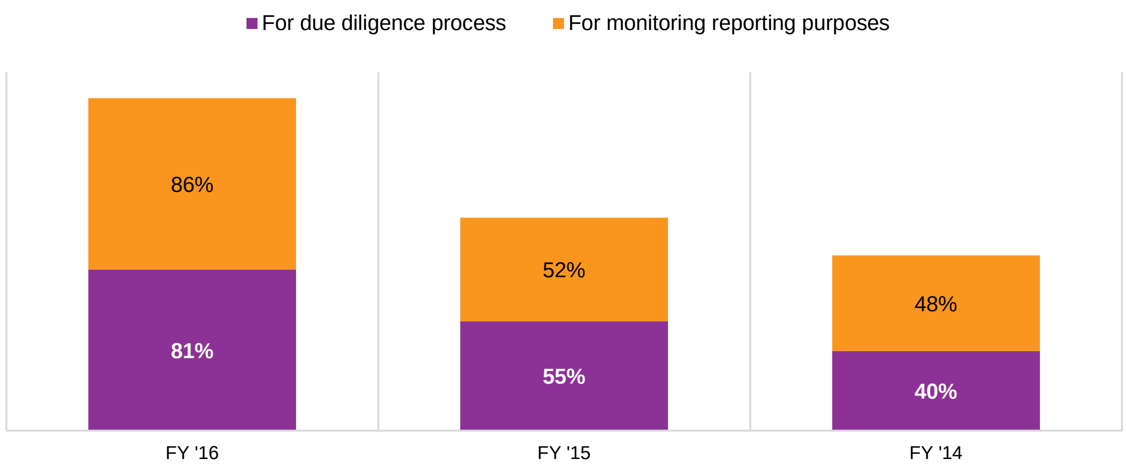
PRINCIPLE 4: INTEGRATE ESG FACTORS INTO POLICIES AND REPORTING

Overall, the data shows mixed results, ranging from good improvements in some areas of ESG issues, to no improvements in others. Like last year, about 70% of direct investors have procedures to integrate environmental issues in investment decisions, and about 60%[47] request their investees to comply with an environmental exclusion list.

For instance, Symbiotics SA[48], is a firm that offers specialised investment solutions to connect socially responsible investors to micro enterprises and SMEs in low-income countries. They consider environmental aspects in their standard social responsibility rating process; this is applied to all investees.

Overall, the data shows improvement in the number of PIIF signatories and non-signatories adopting either tools to support social due diligence process and/or to improve monitoring processes. Figure 12 highlights the main changes from 2014 to 2016 in this area:

FIgure 12: Percentage of investors that adopt tools for social performance reporting



Investors may adopt or combine different tools for social performance reporting. For instance, among direct investors that invest in due diligence process tools, 57% adopt

[47] Total of 25 investors.

[48] For more information, see: https://symbioticsgroup.com/

externally developed tools, 80% adopt in-house tools based on externally developed tools, and 66% use tools developed solely in-house[49].

Of the investors that use tools for monitoring and reporting purposes, 59% use externally-developed tools and 69% adopt in-house tools based on externally developed tools and tools developed solely in-house[50].

Growth in the number of direct investors investing in social performance reporting tools is a positive step towards the implementation of the PIIF principles and, ultimately, a more sustainable, responsible, resilient and inclusive finance industry.

Despite this, the data shows almost no improvements in some indicators related to integrating ESG factors into policies and reporting. For instance, 22 direct investors reported that they do not require the retail institutions in which they invest to have an independent financial rating (compared to 19 in 2015). 62%[51] of all direct investors mentioned they do not require the retail institutions to have an independent social rating (compared with 60% in 2015). Almost all direct investors indicated they do not require the retail institutions in which they invest to have an independent social audit.

These are very interesting numbers. It shows a discrepancy between the increasing number of direct investors creating and adopting social performance tools and the few that adopt an independent financial and social rating as a complementary tool to improve ESG integration into policies and reporting.

As highlighted in the PIIF report framework[52], an independent financial performance rating helps investors to better measure MIFs' creditworthiness and proficiency in microfinance. In addition, independent social ratings and audits provide additional understanding of both social risks (the risk of not achieving its social mission) and social performance (the likelihood of contributing social value). Further studies should be carried out to better assess the reasons direct investors do not adopt both independent financial and social ratings/audits.

We also see minor improvements in relation to how direct investors apply due diligence processes and their monitoring and reporting of corporate governance among investees. Figures 13 and 14 highlight the main results from 2015 to 2016.

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[49] It is important to highlight that PIIF reporting framework allows investors to reply to one or more indicators related to the tools used for social performance reporting.

[50] Same condition as the footnote above.

[51] Based on 37 direct investors that replied to the PIIF Report Framework.

[52] See PIIF Report Framework 2015/16 Overview and Guidance.

Figure 13: Number of direct investors reporting of corporate governance during pre-investment

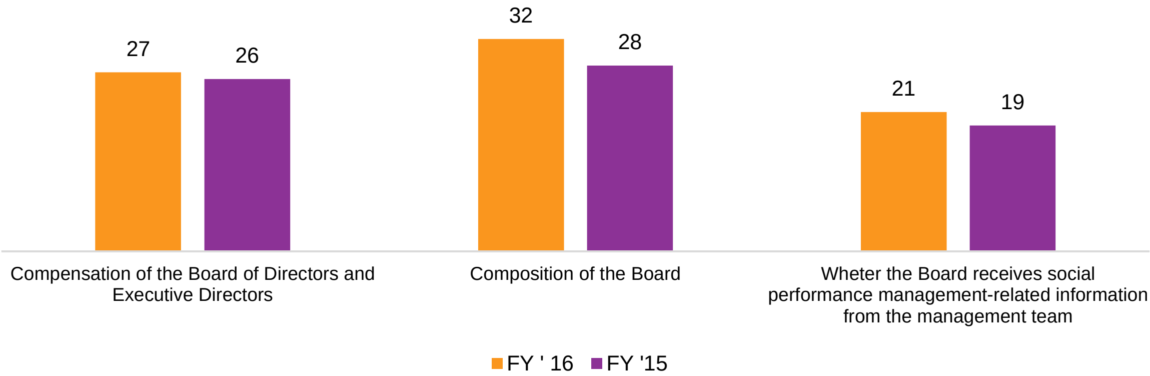
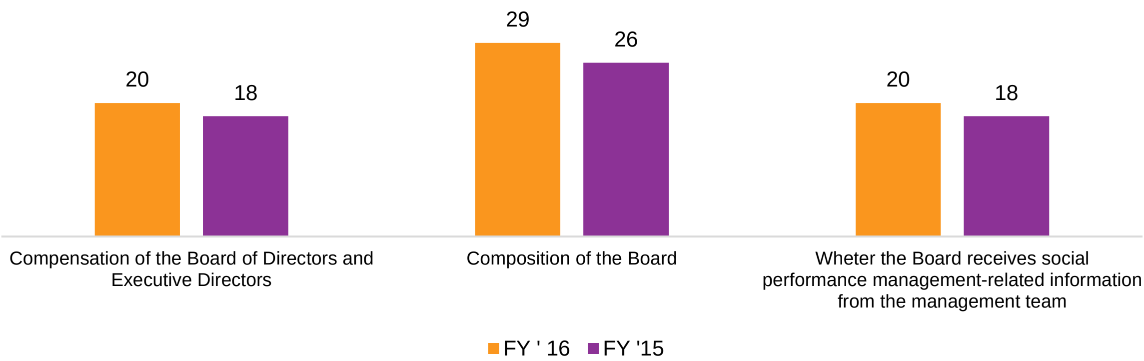


Figure 14: Number of direct investors reporting of corporate governance during post-investment



Of the investors that access one or more of the corporate governance indicators above[53], 58% provide training or assistance for their investees on corporate governance [54] (compared with 50% in 2015). For many direct investors, corporate governance training is part of a broader and more integrated approach to provide technical assistance to investees.

This is the case of Triple Jump[55], a Dutch fund that serves as a bridge between developed capital markets in the West and financial sectors in developing countries. They support appropriate financial services for entrepreneurs in less economically-developed areas. They provide technical assistance and grants to strengthen company governance; this includes a wide range of services such as board development, management training and overall institutional risk management[56].

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[53] Total of 33 direct investors.

[54] This is a voluntary indicator, thus not all PIIF and non-PIIF signatories are required to report.

[55] For more information, see: http://www.triplejump.eu/

[56] For more information, see: https://reporting.unpri.org/Download.aspx?id=C4A65DB4-922A-4B31-B2D6-FAF8861A8DD6

27 direct investors have put in place anti-corruption policies (compared to 25 in 2015). Half of them reserve the right not to publish them. Of those 27 investors, 20 have internal whistleblowing policies (compared to 16 in 2015). This is a small but very significant improvement.

Moreover, 25 direct investors review whether their investees have anti-corruption procedures as part of their due diligence processes; 18 of these policies include reference to whistleblowing. This suggests a positive link between policies and practices adopted by investors.

This is the case of Incofin Investment Managers (IM).[57] In their own words, "Inconfin IM's internal code of ethics and business conduct is the internal document that crystallises our anti-corruption attitude. We do not have separate anti-corruption policies. For all investment, Incofin IM checks if the investee has AML/KYC policies which include elements related to anti-corruption. Incofin does not have a specific whistle blowing policy but has a Grievance policy that also captures this in a broader sense"[58].

[57] For more information, see: https://www.incofin.com/

[58] For more information, see: https://reporting.unpri.org/Download.aspx?id=AD1CDBB4-2B8A-45CE-9D3E-233E40ABF3CC

PRINCIPLE 5: TRANSPARENCY

The data indicates a high commitment among investors to promote transparency for their shareholders, stakeholders and clients. Almost all investors (31 out of 37) publicise and/or share their mission and investment objectives to stakeholders, and 70% of investors provide information aligned with industry standards to their clients and the public (compared with 76% in 2015).

Figure 15 demonstrates the most common industry standards used by the investors to communicate their social performance to clients and the public.

Figure 15: Most common industry standards used by investors

In 2015 the most common industry standard adopted by PIIF signatories was the MIV Disclosure Guidelines, while in 2016 it was IRIS. The SMART Campaign was the third most common standard after the MIV and IRIS. These results demonstrate that many investors are still defining and testing industry standards as part of their commitment towards Principle 5.

Lastly, about 85% of all direct investors[59] encourage the retail institutions in which they invest to ensure they are transparent with their clients in terms of pricing. 76% encourage transparency regarding the terms and conditions of contracts.

[59] Based on 37 direct investors.

PRINCIPLE 6: BALANCED RETURNS

Striving for a balanced long-term financial and social risk-adjusted return that recognise the interests of clients, retail institutions and investors is one of the key principles of the PIIF.

93% of investors collect data regarding the social outcomes of their investees' work[60]; 94% of investors have reported that the social performance of investees affects their investment decision making, which 81% their portfolio management.[61]

For instance, Finance in Motion includes a broader approach to assessing investee risk and overall performance. They consider "whether returns, interest rates and growth rate are appropriate to the institution's particularity (effectiveness of management, governance, etc) and to the particularities of the sector (overheating, availability of credit bureaus, use of credit bureau data, etc). It also includes environmental and social aspects. The observations during the due process affect the results of the Responsible Investment Assessment"[62].

In addition, Cordaid adopts a strategic approach to monitor social performance in their portfolio in several ways. For example, they check "ESG score (average should be above 70), outreach in rural areas (average should be over 50%), the offering of agricultural products (target is 30%), gender composition and poverty level of the clients". As a result, Cordaid is "currently working on a new MIS that will strictly follow the social performance of all investees on an annual basis. For MFIs we will align this information with social and outreach data reported to the Mix Market"[63].

However, as identified last year, despite the interest of investors in tracking the social performance of their investees, only about a third of investors provide monetary incentives for their staff, linked to social performance measure.

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[60] This is voluntary indicators based on 27 direct investors replies.

[61] Based on 32 direct investors.

[62] For more information, see: https://reporting.unpri.org/Download.aspx?id=2FEECC35-98BB-4439-9B8F-26D689D0F1E1

[63] For more information, see: https://reporting.unpri.org/Download.aspx?id=D091C71B-5512-4389-9DB6-378A399902B9

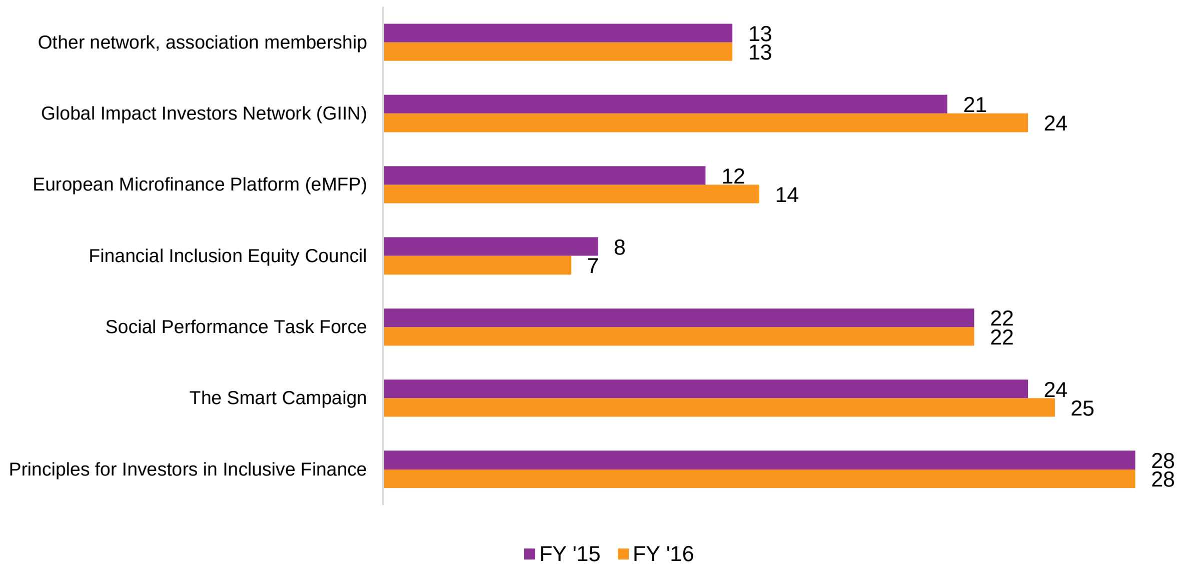
PRINCIPLE 7: STANDARDS

Like last year, investors have shown an increased interest in setting common standards that support the development of inclusive finance, as well as engaging in collaborative initiatives and organisations. About 86% of all direct investors[64] are members of one or more collaborative initiative and/or organisation, of which about half of them have a very active role.

This engagement is also shown among investors interested in other environmental and social themed investments, such as affordable housing, sustainable agriculture, health and education services.

Figure 16 highlights the most common organisations in which investors engage:

Figure 16: Collaborative initiatives and organisations



63% of direct investors that encourage their investees to become a member of an organisation favour the Smart Campaign initiative. About a quarter of all direct investors encourage their investees to participate in initiatives which contribute to the development of the industry benchmark. For instance, 16 direct investors encouraged their investees to participate in the MIX Market initiative, 13 in the Universal Standards for Social Performance Management.

[64] Based on 37 direct investors.

KEY INSIGHTS

In 2016 there was a larger number of direct and indirect investors interested in reporting to the PIIF Framework compared with 2011 when the PIIF was created. Despite this, our research shows that adoption of the PIIF principles has not been uniform. For instance, many direct investors have practices on fair treatment, but few formalise them.

We also noticed many investors were interested in providing services to specific and marginalised groups, but few of them collect data on this. This mirrors findings from the PIIF Report 2015. Because of this, there could be a case for further studies to identify how to speed up and/or support investors in implementing the PIIF principles.

Overall, the data show an improvement in almost all seven principles of the PIIF. There are, however, three main opportunities for improvements, two of which are the same as last year:

- streamline and create further improvements in the fair treatment of investees;
- increase investors' engagement with investees and peers to improve further standardisation on social performance indicators (same suggestion from previous year);
- further improvements to collect social data of investees and clients.

STREAMLINE AND CREATE FURTHER IMPROVEMENTS IN THE FAIR TREATMENT OF INVESTEES

This focus area was suggested last year. Opportunities include:

(i) formalising processes and practices to better streamline organisations' work. This includes nurturing staff with objectives that support their daily work and accountability;

(ii) allocating appropriate resources to train staff on effective monitoring and covenant waiver negotiations;

(iii) supporting investees to develop skills on financial planning (i.e. projections, scenario planning, etc);

(iv) improving communication channels with investees to mitigate early risks associated with covenant breach and others.

INCREASE INVESTORS' ENGAGEMENT WITH INVESTEES TO IMPROVE FURTHER STANDARDISATION ON SOCIAL PERFORMANCE INDICATORS

The following suggestions are the same as last year. The increase in impact investing practices and the opportunities associated with it means investors and other organisations are better quantifying and qualifying social and environmental outcomes. Over the last few years, several organisations have proposed standards to measure social performance indicators. 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 them to encourage collaborative organisations to identify and agree on common performance indicators that could be used across organisations and financial institutions.

FURTHER IMPROVEMENTS TO COLLECT SOCIAL DATA OF INVESTEES AND CLIENTS

As investor interest to impact investing and the United Nations Sustainable Development Goals[65] increases, direct investors have additional incentives to allocate resources to identify and/or 'map' their impact investments at a much more granular level. This includes identifying economically marginalised groups, women and/or women entrepreneurs, etc.

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[65] UN Sustainable Development Goals: http://www.un.org/sustainabledevelopment/sustainable-development-goals/

CONCLUSION

The PIIF framework provides a valuable resource to investors committed to applying and promoting the PIIF principles to make the inclusive finance market (US$80 billion[66]) more responsible and sustainable. Currently, PIIF signatories have more than US$9.5 billion in AUM and are well known in the inclusive finance industry.

Overall, this report shows improvement in several areas of the PIIF principles and practices. However, it is important to highlight that there are still areas in which investors could improve their commitment to the PIIF goals, and to ensure that other organisations improve their social performance in this industry. We therefore recommend for signatories to review their approach to implementing the principles, and consider how this could be done more effectively. More collaboration with the PRI and other signatories would be very helpful to do this.

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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

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

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