

# Principles for Investors in Inclusive Finance

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## Introduction

*Inclusive finance, which includes but is not limited to microfinance, focuses on expanding access to affordable and responsible financial products and services to those traditionally excluded. This includes poor and vulnerable populations, as well as micro and small-enterprises. This encompasses a wide range of financial services including savings, credit, insurance, remittances, and payments to be provided by a variety of sound and sustainable institutions. Inclusive finance carries with it the responsibility for all actors in the value chain - investors, retail financial service providers and other relevant stakeholders - to understand, acknowledge and act in accordance with the interests of the ultimate client. These clients are typically low-income and constrained by asymmetries in financial knowledge, power and influence. As such, access to finance must be provided in such a way that the interests of the clients are protected. The Principles for Investors in Inclusive Finance, aligned with the United Nations-backed Principles for Responsible Investment (PRI), are signed by direct investors or fund managers and indirect investors investing via designated funds. By signing, direct investors or fund managers as well as indirect investors signal their intent to uphold the principles in their own investments, and to support the actions taken by other actors in the value chain to implement the principles. These actors include retail financial service providers, rating and benchmarking agencies, donors, and government regulators and policymakers.*

*It is acknowledged though that while indirect investors operate at a distance, direct investors can more directly influence adherence to the Principles. The examples of possible actions under each Principle are therefore especially meant for direct investors or fund managers who, in the value chain of inclusive finance, have the relationship with the financial institutions providing finance to the ultimate clients.*

## Principles for Investors in Inclusive Finance

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.**

Possible actions:

- Develop and extend the range of financial services available to low-income populations. Extensions could include savings, loans, insurance, payment services, remittance facilities and pension plans;
- Encourage providers to develop innovative products tailored to the needs of low-income clients;
- Encourage retail providers to expand their service offerings to more remote areas and more vulnerable populations.

- 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.**

Possible actions:

- Publicly endorse the Client Protection Principles;
- Incorporate the Client Protection Principles into investment policies, due diligence processes and financing or shareholder agreements where possible;
- Invest in retail providers that have endorsed the Client Protection Principles;
- Encourage retail providers to make the Client Protection Principles part of their operations;
- Check progress on implementation of the Client Protection Principles through mandatory reporting and regular monitoring and evaluation;
- Report on progress made in advancing the Client Protection Principles to investors and other stakeholders.

- 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.**

Possible actions:

- Provide financing in an appropriate currency;
- Provide financing with an adequate tenor;

- Negotiate terms and conditions that are transparent, fair and reasonable, including fair break-up clauses;
- Actively support the building of a diversified funding base;
- Focus on ultimate clients' interests when dealing with defaults, forced exit or restructuring situations.

**4. Responsible Investment. We will include environmental, social and corporate governance (ESG) issues in our investment policies and reporting.**

Possible actions:

- Sign the PRI Initiative's six Principles and commit to their adoption and implementation;
- Adhere to CGAP MIV Disclosure Guidelines and report annually;
- Use the Social Performance Task Force standards and tools to measure and report on social performance;
- Assist in developing appropriate references for environmental and corporate governance issues;
- Promote implementation of anti-corruption practices.

**5. Transparency. We will actively promote transparency in all aspects.**

Possible actions:

- Ensure that investees adequately disclose the pricing, terms and conditions of financial products and services offered, and that the pricing, terms and conditions are understood by clients;
- Fully disclose policies, criteria and related conditions of products and services to investees and other relevant stakeholders;
- Fully disclose investment objectives, both financial and social, to investors;
- Endorse MFTransparency, a global initiative for fair and transparent pricing in the microfinance industry.

**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.**

Possible actions:

- Exercise voting rights when available;
- When investing in equity, engage with investees to achieve a reasonable and fair alignment between the social impact and the financial return requirements of shareholders; i.e. focusing on the long-term.

**7. Standards. We will collaborate to set harmonised investor standards that support the further development of inclusive finance.**

Possible actions:

- Participate in networks to share tools, information and resources;
- Develop and support appropriate collaborative initiatives;
- Contribute to advancing benchmarking, as an incentive for improvement;
- Contribute to and encourage use of the Impact Reporting and Investment Standards (IRIS) for measuring and reporting social and environmental performance;
- Collectively address relevant emerging issues, particularly on regulation and policy.