



# FINANCIAL INCLUSION EQUITY COUNCIL

## Financial Inclusion Equity Council Balanced Returns Framework

The Financial Inclusion Equity Council (formerly the Council of Microfinance Equity Funds) tasked a working group with creating a practical framework to help members better communicate how they align different stakeholders' interests, and more specifically, how they address the challenge of balancing financial returns with social and/or environmental impact, in order to promote transparency and accountability.

This framework, which is a work in progress, is designed to be a set of questions to help guide investors in establishing their own internal approach to balancing returns. It is particularly suited to questions during due diligence, but can also be used post-investment as a monitoring tool. The framework is divided between questions relevant to the management of investments, and questions for Council Members to consider around the management of their fund.

The intent of this framework is not to answer these questions collectively as a Council, but help clarify priorities, thereby increasing transparency and making return expectations more explicit.

The framework aims to support Council Members in achieving a reasonable and fair balance between social and/or environmental impact and financial return requirements of shareholders.

When possible, and as appropriate, the questions in this framework have been aligned with the guidance put forth by both the Social Performance Task Force (SPTF) and the Principles for Investors in Inclusive Finance (PIIF).



Guiding questions for investors and fund managers related to balancing social and/or environmental impact and financial returns:

	For Investees	For Funds
<b>Mission/Vision</b>	<p>Why is the financial institution (FI) active in this field?</p> <p>How are mission and objectives communicated to stakeholders (management, shareholders, and the board)?</p> <p>Do all stakeholders agree on the mission?</p> <p>Do stakeholders agree on how the institution's activities advance the mission?</p>	<p>Why is your fund active in this field?</p> <p>How are mission and investment objectives communicated to stakeholders (e.g. investors, investees)?†</p> <p>Do all stakeholders agree on the mission?</p> <p>Do stakeholders agree on how the fund's activities advance the mission?</p>
<b>Goals</b>	<p>Are the institution's goals and priorities clear and transparent?</p> <p>Are social, environmental, and financial goals, priorities, and trade-offs understood and shared by all parties (shareholders, board members, senior management)?</p>	<p>Are the fund's goals and priorities clear and transparent?</p> <p>Do fund managers believe their <i>primary</i> responsibility to their investors is generating financial returns and liquidity or promoting the social mission?</p>
<b>Institution's Shareholders / Fund's Investors</b>	<p>Who is the institution's main driver/promoter?</p> <p>Is there a diverse group of shareholders (local vs. international, public vs. private)?</p>	<p>What type of investors does your fund target?</p> <p>How do you balance the needs of the investees with those of investors?</p>
<b>Growth Expectations</b>	<p>Does the board, and management, confirm that the institution's target growth rates are sustainable and appropriate for market conditions, allowing for high service quality?*</p>	<p>Are the fund's target growth rates sustainable and appropriate for market conditions, allowing for high service quality?</p>
<b>Return Expectations</b>	<p>What are the institution's financial return targets?</p> <p>Are these targets in line with the stated mission and goals?</p> <p>Does the board set desired ranges for risk-adjusted return on assets (ROA), risk-adjusted return on equity (ROE) and other relevant profitability ratios?</p>	<p>Do you have specific policies or procedures on Return on Equity (ROE) targets or caps in relation to your equity investments?†</p> <p>Are these targets in line with the stated mission and goals?</p>



	For Investee	For Funds
	<p>How does the institution use its profits?</p> <p>Has the institution articulated and discussed target return levels with (current and/or potential) lenders and investors?</p>	
<b>Efficiency and Interest Rates</b>	<p>Are levels of operating expense/interest rates justified given the operating environment and the target clients and products?</p> <p>How do these levels compare to the institution's peers?</p>	<p>Are levels of operating expense (total expense ratio) justified given the operating environment and the targeted investments?</p> <p>How do these levels compare to other funds?</p>
<b>Incentives</b>	<p>Is the evaluation and remuneration of management/staff linked to social/environmental as well as financial goals?</p>	<p>Is the evaluation and remuneration of management/staff linked to social/environmental as well as financial goals?†</p>
<b>Structure</b>	<p>How do you structure your investment (minority or majority stake, board seat)?</p>	<p>What is the fund structure (open-vs. close-ended, debt, equity, mixed)?</p>
<b>Client Well-Being</b>	<p>Is there a mechanism in place to determine whether clients are better off as a result of the products and services being offered?</p>	
<b>Exit Strategy</b>		<p>What is the preferred holding period of shares by the investors in your fund?†</p> <p>What is the preferred holding period for your investments?†</p> <p>How do you identify suitable buyers who understand and support the mission of the organization?</p> <p>Do you have specific policies or procedures in relation to responsible approaches to exit?†</p>

\*Similar indicator is included in the [Universal Standards for Social Performance Management](#).

†Similar indicator is included in the [Principles for Investors in Inclusive Finance Reporting Framework](#).