

# Including the excluded



Why we invest in inclusive finance

# Inclusive Finance

is the provision of financial services to low-income people in developing countries. A financial sector, where everyone has access to these services, provides a sustainable basis for balanced socio-economic development.

## Foreword

Access to finance offers a lifeline to millions of people enabling them to better manage their daily life, cope with unexpected difficulties, fulfill aspirations and plan for the future. Yet, there are still two billion people worldwide who are excluded from basic financial products and services.

Based on our deep-rooted commitment to make money work for positive change, we aim to address this challenge as we strongly believe that access to finance gives people the freedom of choice to pursue the life they wish to live. Inclusive finance offers financial services, including savings, credit, and insurance to traditionally underserved people. Such services enable them to better support themselves and their families, thus improving their quality of life.

Through our investment activities, we also aim to contribute to building a robust and transparent financial sector with a sustainable approach to providing financial services to all. In this way, inclusive finance lifts local economies by stimulating entrepreneurship and job creation.

In this paper, you will read why and how Triodos Investment Management invests in inclusive finance. We have been active in this dynamic sector since 1994 and have seen it grow in size and importance.

The need for inclusive finance is evident. And so are the opportunities for us to continue working towards a more inclusive world.



**Dirk Elsen**

Director Emerging Markets at  
Triodos Investment Management

**Stop and think about it for a minute.**

**Isn't it comforting to know that your savings are safely parked at the bank? That you can apply for a loan or mortgage, knowing that you will pay reasonable interest?**

**Isn't it less stressful to know that you are insured for fire, illness, theft, and so on?**

**For many this is normal, and few pause to think of what it would be like otherwise.**

**For about one third of the world's population, however, it is not.**

Today, around two billion people, mostly in African, Asian and Latin American countries, lack access to the basic financial products and services that many take for granted. The primary reason being that most banks are not interested in banking them, as their savings are considered too small and credit is not even 'worth lending' because of its small size. Or because they live in remote areas – seen as too expensive by banks to have or start operations. These 'unbankable' men and women often work multiple jobs in the informal economy, as street vendor, in-home seamstress, construction worker, garbage collector or farmer. They earn the equivalent of two dollars one day, five dollars the next and then nothing for many days in a row. This income uncertainty and irregularity makes any financial planning very difficult and their daily lives therefore are very stressful. Households often take refuge by seeking informal moneylenders and pawnshop owners, who charge high interest rates, plunging them further into financial hardship. Yet these households also have a need for stability, the desire to support themselves and their families, and a wish to send their children to school. They lack an essential tool to satisfy their basic needs: efficient and affordable financial products and services.

### **A lifeline to millions**

Inclusive finance fills this gap, offering services including savings, credit, payment facilities and insurance to low-income people. It offers a lifeline to millions of people, enabling them to better manage their daily life, cope with unexpected difficulties, pursue aspirations and plan for the future. While the services and products vary, microfinance institutions typically provide small loans to low-income people for short periods of time and increasingly offer savings, payment services and insurance products. Inclusive finance helps families and entrepreneurs generate income, manage their cash flow, build assets and strengthen their

# We strongly believe that access to finance gives people the freedom of choice to pursue the life they wish to live.

resilience to setbacks. Research shows that over 70% of beneficiaries of financial inclusion are women, making it an important instrument in the empowerment of women.

In the end, inclusive finance helps local economies to thrive by supporting enterprise and creating jobs. And its wider impact can go much further, leading to other than economic improvements, from clean water, food security and healthcare to education and the status of women in society.

## A pioneering and leading investor

Recognising that access to finance provides an important foundation for people to unlock their potential, build their resilience and improve their lives, Triodos Investment Management began investing in inclusive finance in 1994. At that time, microfinance was still unchartered territory. In the early 1990s, Women's World Banking – a global non-profit devoted to giving more low-income women access to finance – contacted Triodos Bank to collaborate and share its sustainable banking expertise with microfinance institutions across the globe. This was an important step in our entry into inclusive finance and laid the groundwork for our expertise going forward. Over the years, our experience has made us one of the pioneering investors in the sector and has solidified our belief that access to finance gives people a freedom of choice to pursue the life they want to live, not the one they are forced to live. This belief is strongly aligned with Triodos Bank's mission to make money work for lasting positive change and help create a society that protects and promotes the quality of people's lives, with human dignity at its core.

Rather than providing microfinance services in developing countries itself, Triodos Investment Management established its pioneering role by investing in local microfinance institutions and banks across the world. These institutions have the local knowledge and

expertise, understand their markets, are deeply rooted in communities, serve the real economy, and offer products and services that meet the needs of the people. For us, they are key actors in building an accessible, well-functioning, and transparent financial sector that both supports and fuels sustainable development. Moreover, these institutions have become important catalysts in their own right, having become large employers themselves with quality standards when it comes to social benefits and treatment of co-workers; thus, the institutions can set new standards in their countries. Or they can become such important players in the financial sector that they actually shape the financial industry in their country.

Triodos Investment Management currently manages several inclusive finance funds<sup>1</sup>, with combined assets under management of more than EUR 750 million. Through these funds, our influence is truly global, with investments in more than 100 financial institutions in 45 countries. Together these institutions serve millions of borrowers and savings clients<sup>2</sup>.

## Evolving and expanding sector

As an early and pioneering investor we have seen the inclusive finance sector rapidly evolve and expand, especially in the past decade. The sector has shown that those with low income are bankable and can be offered financial services in a sustainable manner. Riding on the

<sup>1</sup> Triodos Microfinance Fund, Triodos Fair Share Fund, Triodos Sustainable Finance Foundation and Hivos-Triodos Fund. Through Triodos Investment & Advisory Services, we are a co-investment manager of Women's World Banking Capital Partners that takes minority equity positions in microfinance institutions with a strong focus on women.

<sup>2</sup> Together these institutions serve 8 million savings clients and 11 million borrowers, of which around 75% are women (year-end 2014).

coattails of the industry's success, some commercial banks in developing countries have followed microfinance institutions' lead and partnered with them to reach out to lower income customers. In other markets, microfinance institutions have transformed into banks with a full license, allowing them to further expand their services, for example to small- and medium-sized enterprises, a job-creation sector, or to low-income groups by providing mortgages.

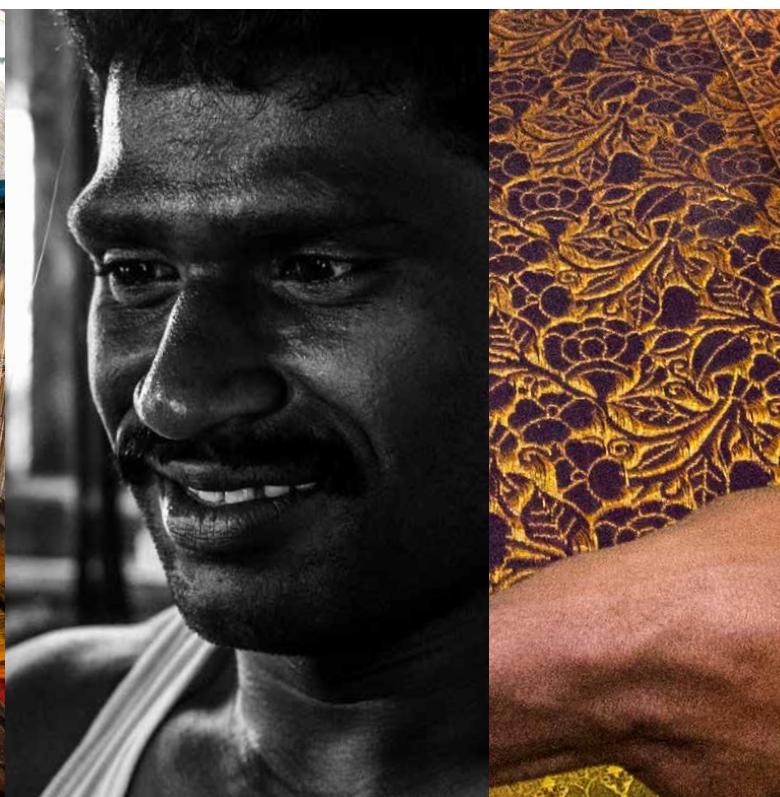
A rising number of global, national, and local leaders have come to acknowledge that access to financial services is an important prerequisite for economic and social development in developing countries. Financial inclusion is therefore an important topic on the agendas of many governments and international forums, and also reflected in the United Nations' Sustainable Development Goals. Not as a goal in itself but as a powerful tool to reach many of the most important development objectives.

## Not the silver bullet to ending poverty

Nonetheless, the inclusive finance sector also found itself under pressure in the past decade. Reports on positive developments and strong growth figures were followed by critical reports about over-indebtedness among microfinance clients and high interest rates, leading to growing doubt about the effectiveness of microfinance. Doubts were also fueled by the outcomes of randomized controlled trials<sup>3</sup> (RCTs), which failed to show conclusive causation between poverty alleviation and microfinance. Despite the lack of evidence that microcredit has a transformative impact on poverty, the studies do also show, however, that access to financial services gives low-income households more freedom of choice on how they make (and spend) money. In that sense, microfinance can also play an important role in the social-economic development of a country. Now that the dust has settled somewhat, it is clear that, rather than being the silver bullet to end poverty,

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<sup>3</sup> Randomised controlled trials consist of random testing, whereby some people were offered a service while others were (temporarily) denied the same service, thus solving the issue of causality



## VISTAAR FINANCIAL SERVICES

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Vistaar Financial Services provides loans to small businesses in India, especially those in rural areas. This business segment is crucial for the Indian economy, but it only has limited access to financial services. The weaving sector is an important industry. Mottusami began his company nine years ago with one mechanical weaving loom for making saris. A loan from Vistaar Financial Services has enabled him to buy new weaving machines. His company now employs 10 people.



# Rather than being the silver bullet to end poverty, financial inclusion is an important contributor in a complex amalgam of economic, social and cultural measures.

financial inclusion is an important contributor in a complex amalgam of economic, social and cultural measures. As we see over and over again during our on-site visits, access to financial products and services, such as savings, credit, payment facilities and insurance does give people more options to take charge of their lives, thus triggering economic and social development.

## Building financial institutions

Providing access to financial products and services is a clear and compelling challenge, in which we play a specific role. First and foremost, we focus on building robust, professional, and profitable financial institutions that have a sustainable approach to providing financial services to those traditionally excluded. These institutions fulfill a strong and instrumental role in society and their values-driven approach is crucial in developing an accessible, responsible and well-functioning financial sector.

The more than 100 financial institutions in our investment portfolio vary from small NGOs working in underdeveloped markets without basic infrastructure, to fully fledged banks that offer a wide range of products. We support building these institutions by:

### Taking an equity stake

We hold equity stakes in 25 financial institutions and vehicles worldwide. We position ourselves as a long-term minority equity investor and play an active role on the board of our investee companies. This allows us to share our sustainable banking knowledge and expertise and to participate in the institutions' governance and strategic development. We encourage the mutual exchange of knowledge, e.g. by organising workshops for CEOs and board members of our investee companies to discuss key topics in the sector.

### Providing debt

We provide debt in local currencies, euros and US dollars, matching the needs of the financial institutions. In this role we usually start building up a relationship that could evolve into equity participation. Where possible we provide debt in local currency; we actively manage currency risks in coordination with the financial institutions to make sure that end clients can obtain loans in the currency used in their local economy.

### Giving access to knowledge and relevant networks

Through our strong and longstanding position in the sector and our reputed and highly experienced investment team, we have built up an extensive network of partners and institutions. Among them is the Global Alliance for Banking on Values<sup>4</sup>, a network of banks promoting the use of finance to deliver sustainable development for underserved people, communities and the environment. Triodos Bank is a co-founder of this alliance.

## Sustainability as our core value

Our approach to investing is relationship-based – mutual trust, shared values and like-mindedness are the key elements on which we build long-term meaningful relationships.

In our investment approach – from due diligence and decision-making to investment monitoring – we take the social and environmental performance of the (potential)

<sup>4</sup> In September 2015, the Global Alliance for Banking on Values comprises 27 financial institutions operating in countries across Asia, Africa, Australia, Latin America, North America and Europe; serving 20 million customers; holding up to USD 100 billion of combined assets under management; and powered by a network of 30,000 co-workers.  
See [www.gabv.org](http://www.gabv.org).

institutions in our portfolio into account. Our in-house developed Sustainability Assessment Tool helps us to analyse how an institution has embedded its mission and social goals into the organisation, as well as the extent to which it targets sustainable, responsible financing. The tool considers the time component by looking at how an institution plans to continue to link its activities with the mission over the subsequent years. It also provides information about diversity in the products on offer, whether they focus on target groups that are difficult to reach and which activities they initiate in order to make care for the environment a priority. In brief: this tool enables us to the impact in terms of both freedom of choice and strengthening financial institutions.

The tool also allows us to assess the diverse range of institutions we invest in - from 'traditional' microfinance institutions to larger banks targeting small and medium-sized enterprises – on governance. Good corporate governance is crucial for the development of stable, reliable, and responsible financial institutions. By taking a closer look at governance, we can better determine the transparency, board efficiency, and policy setting of the companies we are evaluating. It is important to ask the right questions that fit the diversity of our portfolio and with the Sustainability Assessment Tool, we address a number of important topics that have been hotly debated in recent years such as fair pricing, balanced returns, and executive compensation.

This targeted approach focuses on industry-relevant issues: from interest rates, client returns and efficiency to executive remuneration and employee compensation. Ultimately, by addressing these questions, we enable our clients and ourselves to continually improve and strengthen the typical approach to business. The sustainability assessments play an important role in both the investment decisions and our engagement with the financial institutions we invest in.

## Reporting our impact

Our greatest impact and responsibility as an investor is to make the right choice. We have the option to choose where to put our money by searching for and cooperating with financial institutions that contribute to financial inclusion.

By stressing a long-term investment strategy, integrating our Sustainability Assessment Tool, and working with mission-aligned financial institutions, we demonstrate that inclusive finance does affect the quality of life and contributes to overall sustainable economic growth.

We show how we lend and invest the money entrusted to us by our investors and partners. All our investments are briefly described on our website with the following key indicators: number of loan clients and savers, average loan amount, percentage of female clients, and

## Shared responsibility

As an investor, we can influence the direction the inclusive finance industry takes. We share this responsibility with everyone involved in the value chain – investors, microfinance institutions, banks and other stakeholders – to understand, acknowledge and act in the interests of clients; clients, who are typically living on low-incomes and constrained by limited financial knowledge, power and influence.

Triodos Investment Management is one of the initiators of the Principles for Investors in Inclusive Finance (PIIF).

The Principles provide practical guidance to help keep the interest of microfinance's low income customers at its core. Furthermore, we are an active participant in the CGAP Social performance Task Force, the Netherlands Platform for Microfinance (NPM), and the Financial Inclusion Equity Council. Triodos Investment Management supports industry-wide initiatives that advocate fair pricing and transparency and that make clients aware of their financial obligations; we have endorsed the Client Protection Principles of the Smart Campaign and supported the Microfinance Transparency initiative.

# We pursue a broader impact investing agenda in emerging markets, particularly in sustainable agriculture and renewable energy.

percentage of rural clients. In our annual reports we report on these indicators at fund level and describe in more detail how we analyse and assess the five dimensions of our sustainability assessment tool – governance, management & staff, product range, responsible finance and environment - using examples from the portfolio.

## What does the future of inclusive finance hold?

Sustainable change does not come automatically and access to financial services is only the beginning, certainly not the end. Over the past decade, we have seen a lot of progress. Worldwide, there is a growing awareness of the value and importance of financial inclusion in alleviating poverty, strengthening economies, empowering women and improving food security. There is no time to rest on our laurels, however, there are still more than 2 billion people excluded from financial services. Therefore it's important to keep the momentum going.

At Triodos Investment Management, we continue to see opportunities for expanding our investments in a range of sustainable financial institutions across all continents. We see two global trends that will impact and shape the inclusive finance sector more and more: the impact of new technologies on the financial services industry and the growth in purchasing power of lower income populations in emerging markets.

We believe that as the sector has matured, microfinance institutions and banks can embrace opportunities to finance projects that have a positive impact on the environment, as well as other prospects in sectors like housing, water and sanitation, education and agriculture. This makes inclusive finance a cross-cutting theme, taking in a range of issues.

We are also looking forward to further developing and executing multiple strategies to engage the small and medium enterprise market segment for their job creation capacity, with a particular interest in renewable energy and sustainable agriculture. By investing in these sectors and thereby building on the in-depth knowledge and experience of Triodos Group, we want to promote access to renewable energy and contribute to sustainable development of the agricultural sector in developing countries.

With this multi-focused approach and our expertise, we are well equipped to continue making a strong contribution to financial inclusion.

# Invest in positive change

## About Triodos Investment Management

Triodos Investment Management is a specialist in developing and managing sustainable investment funds. At 30 June 2015 Triodos Investment Management managed 17 investment funds that each invest in different sustainability themes and/or have different risk-returns profiles. The funds focus on investments in renewable energy, sustainable real estate, culture, organic farming, microfinance in emerging economies and investments in listed companies that meet strict sustainability criteria (SRI funds). At 30 June 2015 the combined assets under management of the Triodos investment funds amounted to EUR 2.9 billion. Triodos Investment Management BV is a wholly-owned subsidiary of Triodos Bank NV.

## Contact

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