ALIGNING SOCIAL AND FINANCIAL EXPECTATIONS

TERMS	QUESTIONS TO DETERMINE ALIGNMENT WITH THE INSTITUTION'S SOCIAL GOALS
Investment Timeframe and Exit Strategy	• Is the investor's intended timeframe appropriate? If too short, it may require the FSP to grow faster than is prudent, set prices too high, or compromise on its social goals to maximize short-term profitability. • Is there a secondary market for investment in your country? If so, how strong is it? Is it all venture capital, or is there a financial market that gives you other options for further investment once the original investors leave? • To whom can the investors sell their shares? Careful and deliberate due diligence to ascertain the buyer's intentions and commitment to the FSP's mission will help the seller make a decision, as will judgments about the kind of capital and expertise the FSP most needs. • At what price should the investor sell? Cashing out nearly always entails giving up say over the investee's future social performance. Some investors use a two-step process in which they first screen buyers for suitability and then make their final selection based on the most attractive price. A focus on • maximizing profit, even with a secondary consideration of social performance, could unintentionally force an FSP toward a new strategy that reduces benefits to or even harms clients.
Social Outcomes	• Does the investor share the same social goals as the FSP? What action will the investor take if the FSP does not achieve the agreed-on social or financial targets? • Do the investor's terms (e.g., lending rate, desired profits, etc.) reflect the "social returns on investment" (client, community, and environmental outcomes of the investment)? • How has the investor demonstrated commitment to social performance? (e.g., history of working with other double bottom- line institutions, signing the Principles for Investors in Inclusive Finance, membership in the Financial Inclusion Equity Council, etc.)
Profit Expectations	• Do the investors' profit expectations align with what the FSP believes is reasonable, given the FSP's commitment to responsible growth (standard 6a) and responsible pricing (standard 6b)? For example, what does an investor's target IRR assume with respect to ROE, and are targeted growth rates underlying the latter consistent with the FSP's social goals?

	• Do profit expectations take into account the social returns that the FSP expects to deliver? • Are debt and equity investors' financial return expectations aligned with the FSP's own target ranges, given their cost of capital, the particular risks of investment, and the social returns generated by the FSP? • What will the investor's profit expectations require of the FSP in terms of growth, human resources, and risk management? Can the FSP manage these requirements? • What portion of profits should go toward: reinvestment in the FSP to finance growth, reducing costs to clients, dividends for members or shareholders, bonuses for staff or management, activities designed to enhance the social outcome of the FSP, other? • What portion of the FSP's growth should be based on retained earnings? In other words, how much of future growth should be capitalized by clients and how much by investors?