In focus

Financial inclusion: why it matters for investors

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Marketing material for professional investors and advisers only

Schroders

BlueOrchard
Impact Investment Managers

About BlueOrchard Finance Ltd

BlueOrchard is a leading global impact investment manager and member of the Schroders Group. As a pioneering impact investor and leader in the field of financial inclusion, the firm is dedicated to generating lasting positive impact for communities and the environment, while aiming at providing attractive returns to investors. BlueOrchard was founded in 2001, by initiative of the UN, as the first commercial manager of microfinance debt investments worldwide. Today, the firm offers impact investment solutions across asset classes, connecting millions of entrepreneurs in emerging and frontier markets with investors with the aim to make impact investment solutions accessible to all and to advance the conscious use of capital. Being a professional investment manager and expert in innovative blended finance mandates, BlueOrchard has a sophisticated international investor base and is a trusted partner of leading global development finance institutions.
To date, BlueOrchard has invested over USD 10 billion across more than 105 countries. Over 260 million underserved people and MSMEs in emerging and frontier markets received access to financial and related services with the support of BlueOrchard as of December 2022. For additional information, please visit: www.blueorchard.com.

About Schroders plc

Founded in 1804, Schroders is one of Europe's largest independent investment management firms by assets under management. As at 30 June 2022, assets under management were £773.4 billion (€898.4 billion; $939.2 billion). The founding family remain a core shareholder, holding approximately 48% of the firm's voting shares. Schroders has continued to deliver strong financial results. It has a market capitalisation of circa £7.7 billion and employs over 5,800 people across 38 locations.

Schroders has benefited from the most diverse business model of any UK asset manager by geography, by asset class and by client type. Schroders offers innovative products and solutions across their five business areas of solutions; institutional; mutual funds; private assets & alternatives; and wealth management. Clients include insurance companies, pension schemes, sovereign wealth funds, endowments and foundations. They also manage assets for end clients as part of their relationships with distributors, financial advisers and online platforms. Schroders' wealth management offering reflects their strategic ambition to provide wealth management and financial planning services to clients across the wealth spectrum.

Schroders' strategic aims are to grow its asset management business, build closer relationships with end clients and expand their private assets and alternatives business. Schroders' purpose is to provide excellent investment performance to clients through active management. The business channels capital into sustainable and durable businesses to accelerate positive change in the world. Schroders' business philosophy is based on the belief that if we deliver for clients, we deliver for shareholders and other stakeholders.

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Introduction

Impact investing is a growing area of the investment world. Investor interest in using portfolios to generate positive social and/or environmental goals, as well as an attractive financial return, has never been stronger. The potential for impact investing is enormous, and the journey has a long way to run.

One theme which is significant for impact investors is that of financial inclusion. The term initially entered the global lexicon among policymakers and academics in the 1990s and has since become mainstream. Today financial inclusion is recognised as a key pillar in enabling economic and social development.

In fact, financial inclusion is explicitly discussed as a target for various of the United Nations' Sustainable Development Goals (SDGs). These range from eliminating poverty through to reducing inequality. At an individual level, providing access to a bank account and other connected financial services can change lives. A bank account is the first step in unlocking access to savings, loans, insurance and other financial services, all of which can protect against the impact of economic shocks.

We explain the importance of financial inclusion, how financial technology has enabled leapfrogging in many emerging markets over recent years, and illustrate this with case studies. We also dig into the different strategies available to investors interested in impact investing, and how each of these can aid financial inclusion.

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What is financial inclusion – and who are the financially excluded?

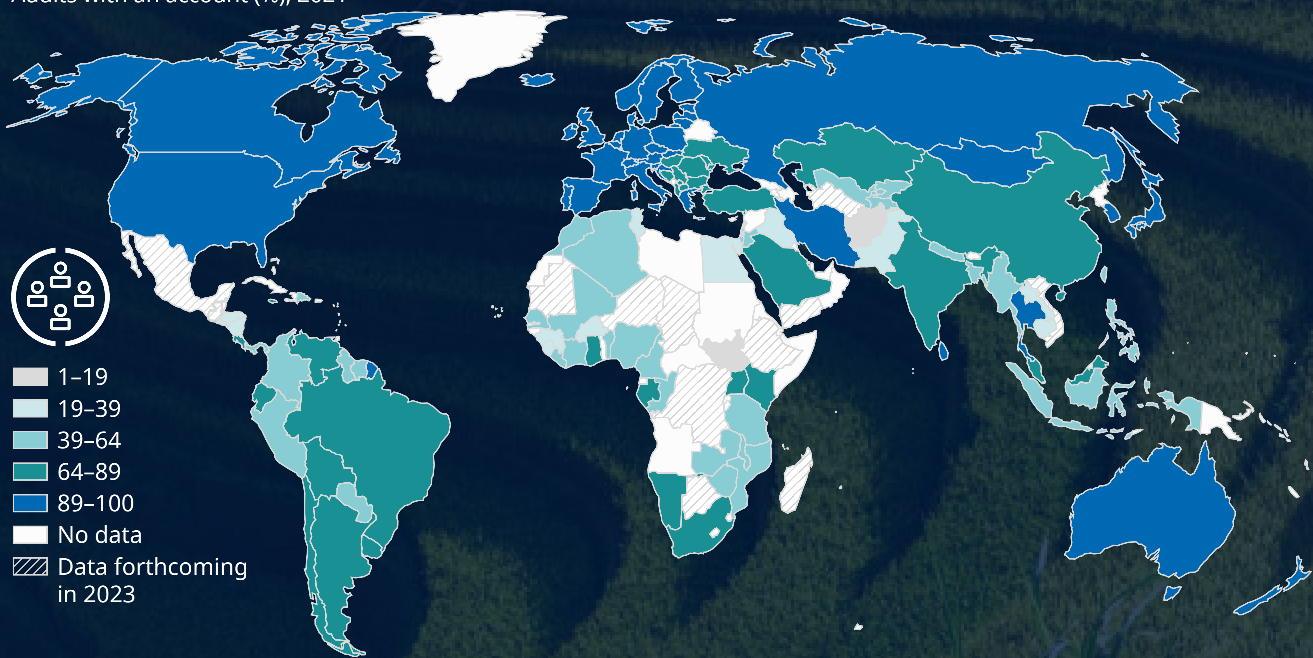
The essence of financial inclusion is in the provision of access to financial services for all.

The World Bank describes financial inclusion as the scenario in which *"individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."* According to last edition of the World Bank's Global Findex, the biggest triennial survey on financial inclusion worldwide, almost a quarter of the world's population do not have a formal bank account. This is the most basic element of financial inclusion, and access varies significantly by country, gender, income, education and other factors.

Those individuals and businesses who lack access to financial services are the financially excluded. In the case of bank account access, these are referred to as the unbanked, and globally these total more than 1.4 billion people. Figure 1 shows the disparity of account ownership rates globally, in particular the gap between developed and emerging markets.

Figure 1: Global bank account ownership rates vary significantly

Adults with an account (%), 2021



Source: Global Findex Database 2021.

Why financial inclusion matters

Financial inclusion is a fundamental pillar in economic and social development. This is to the extent that the United Nations highlights financial inclusion as a target for eight of its 17 Sustainable Development Goals (SDGs). It is also an enabler for many other SDGs, including eliminating poverty, achieving gender equality, creating and sustaining employment, and the reduction of inequality.

How can financial inclusion help in achieving the SDGs?

Accessing and actively using financial services, such as loans, saving accounts, payment services, remittances and insurance, has many benefits. First, it eases transaction costs to households and businesses, aiding financial planning and investing in areas like housing, health and education. Second, it increases resilience against negative economic shocks and externalities (Moore, Niazi, Rouse, & Kramer, 2019). This is particularly true for the poorer and more vulnerable populations as they are often less prepared and have lower coping mechanisms. For instance, the provision of climate insurance to the poor and vulnerable by financial institutions provides protection against the negative consequences of climate catastrophes. And third, it can support the growth of micro, small and medium enterprises (MSMEs) and create additional jobs.

As the World Bank has highlighted, people and businesses that lack access to formal financial services must rely on other sources that are unregulated, much more expensive, less safe and less reliable. BlueOrchard, a member of the Schroders Group, has sought to evidence the benefits generated for recipients of access to financial services. Using the independent consultancy 60Decibels, BlueOrchard conducted surveys on a sample of end clients from some managed funds focused on financial inclusion. One of the objectives of the survey was to understand if microfinance improves financial inclusion and economic empowerment among the target populations. The results, published in BlueOrchard's impact report, were encouraging, with 72% declaring that they had an increased ability to plan their finances. Moreover, 60Decibels recently published results for a survey performed on almost 18 thousand clients from 72 microfinance institutions. Their results show that 84% of respondents that took loans for their businesses saw some income increases. In addition, respondents perceived that their ability to meet emergencies with either an individual or group loan had improved, by 67% and 77%, respectively.

Have we made progress on increasing financial inclusion?

Mostly yes, but there is still a long road ahead. The latest edition of the Global Findex was published in June 2022 and shows some encouraging progress. The worldwide average of bank account ownership in adults has increased from 51% in 2011 (first time the survey was performed) to 76% in 2021. The Covid-19 pandemic and the increased use of mobile banking were big factors influencing this progress.

However, this improvement has not been equal for all. There are still 1.4 billion adults completely unbanked, and the Global Findex survey shows that the majority of those are women, poor adults and the less educated. In addition, access to financial services (740 million) doesn't always translate into an active use of financial services. As many as 13% of adults that own an account in developing countries did not use it over the previous year. In addition, when looking at more granular statistics, we see much bigger gaps. For instance, the difference in formal borrowing between high-income and developing countries is still vast. While the percentage of adults in developing countries with formal loans increased from 16% in 2017 to 23% in 2021, it is much lower than the 56% in high-income economies.

Finally, MSMEs also face significant finance constraints. As highlighted by the International Finance Corporation, one of the main barriers faced by SMEs is lack of access to appropriate financial services (ranked in many countries as one of the top obstacles) and this can impact their growth. Addressing this constraint can have important consequences, as the IFC also highlights the potential contribution SMEs have on job creation in developing countries. It estimates that a US$1 million loan to an SME can be associated with the creation of 16.3 direct jobs over 2 years.

Why responsible lending practices are crucial

Greater access is good, but responsible lending practices are paramount. While enabling more people and MSMEs to access financial services can accelerate positive economic and social development, having irresponsible lending practices could also lead to negative effects. Over-indebtedness and coercive collection practices are among some of the risks of this industry, especially if vulnerable households and MSMEs are targeted. These risks, nonetheless, can be mitigated if financial institutions have adequate policies and procedures in place. For example, financial institutions can show adherence to best market standards for responsible financial inclusion practices (like the Universal Standards for Social Performance Management and even get external certifications on these practices)

Investors must then select fund managers that are seriously committed to perform rigorous ESG assessments to their investees, particularly focusing on the "S". Due diligence processes and analysis must ensure that financial institutions have appropriate lending and underwriting practices, policies and procedures that include fair treatment of customers, repayment capacity analysis and responsible collection practices, among others. The ESG assessment process must also include criteria such as debt burden, interest rates and profit levels.

The development of the formal microfinance sector has contributed to greater consumer protection, including protection against over-indebtedness, and transparency. Examples include the establishment of credit bureaus, associations of microfinance institutions, (a financial institution that provides poor and vulnerable households and micro and small enterprises access to financial services) and the adoption of industry standards in consumer protection. As the market grows and financial institutions evolve into receiving banking licenses, much of the MSME sector falls under government supervision, increasing protection to clients.

The formal microfinance sector has helped to push back the informal money lending sector, which is associated with predatory lending practices. It is important that financial institutions are financially sustainable, as this is the only way they can expand their outreach. Relying more on the formal sector can have positive effects for households. Case studies from the World Bank show that increased access to finance for segments of the population who previously relied on unregulated money lenders provided households with longer loan durations and lower effective interest rates relative to informal lending.

What is impact investing?

The essence of impact investing is the intention to generate a societal benefit, in combination with a financial return for shareholders and to measure the impact.

The 2030 United Nations (UN) Sustainable Development Goals (SDGs) provide a framework that seeks to represent a world that is fair for its people and the planet. Yet, progress towards achieving those objectives is lagging and there is less than a decade to fulfil them. The Organisation for Economic Cooperation and Development (OECD) estimates an annual funding gap of around to $3.7 trillion to meet the 2030 goals.

Public financing alone will not be enough, so increasing flows of private capital to sustainable investments will be key. Impact investing is a growing asset class, that done appropriately, can contribute to scale up private capital into sustainable investments to achieve the SDGs.

There are many different approaches and definitions of impact investing, and this creates confusion in this asset class. There is a key distinction between impact investing and strategies which adopt a sustainable or responsible approach towards environmental, social and governance (ESG) practices. Impact investing goes a step further by investing purposefully to seek a positive social or environmental outcome. We define impact investing as the conscious and intentional decision to invest to achieve a previously defined, measurable social and/or environmental objective, alongside a financial return.

The essential attributes of impact investing

1. **A clear investment intent, both on impact objectives and market rate returns.** From the start, a fund or investment vehicle must elaborate, on top of their financial returns, on i) which problem or SDGs the investment intends to address, ii) how investments are expected to contribute to solve that problem, and iii) what the potential impact targets are, as well as how progress will be measured. A well-articulated strategy will help achieve the positive impact investors seek.

2. **A strategy that boosts investors' contribution or additionality.** Engaging with investee companies to support them in improving their ESG practices as well as in developing the products and services to drive positive change is a very powerful tool. Especially in private markets, where fund managers can influence investee companies from the close relationship they build.

3. **A sound impact measurement system.** Like credit risk, impact and sustainability considerations must be incorporated across the various stages of the investment process. This not only ensures that impact is properly reflected and assessed during the life of an investment, but also allows fund managers to identify any opportunities for engagement.

To achieve the SDGs, we need private capital to play its part. So it is fundamental to increase the credibility of this asset class. Indeed, investors are increasingly recognising their power to contribute to creating a sustainable and more prosperous world for all. This can be achieved through their important role in the financial system, allocating capital to areas that deliver both social and investment value.

Why impact investing is so important in emerging markets

Given the typically smaller role and more limited resources of governments in emerging economies, private capital can play a particularly important role in meeting these challenges. Enabling greater financial inclusion can have a hand in a wide range of areas, helping to mobilise domestic resources such as taxes, foster greater savings, and broaden government revenues. Critically, private companies can often take decisions around their operations, products and services at a faster pace than governments. This is especially true in many emerging economies where the burden of bureaucracy is heavier. And this can result in a greater positive impact and improvement in financial inclusion.

There is a positive externality for wider society from the inclusion of more people and businesses in the system. By empowering those previously excluded, and often bringing these groups into the formal economy, there is potential to improve living standards and contribute to addressing inequality. As we have discussed, the need for improved financial inclusion is arguably greatest in EM, given its close linkage with development and the associated challenges. For example, while the World Bank's Global Findex Report shows an increase in the average rate of bank account ownership between 2017-21 to 71%, there is still significant scope for improvement, and there are notable gaps. Indonesia has a bank account ownership rate of below 60% (up from around 20% in 2017) while in Egypt the equivalent figure is below 30% (from below 20% in 2017). There are numerous other examples.

How technology is advancing financial inclusion

What is fintech?

Technology has transformed the way we live, and financial services have not been excluded from this process. The digitalisation of traditional financial services has led to what is termed 'Fintech'. Essentially, this is any form of technology that enables, supports or facilitates a financial service. Consumers can now do anything from making payments and transfers and managing deposits, to applying for complex financial products via applications on their smartphones. This includes applying for and agreeing mortgages, or managing investment portfolios composed of both traditional and more niche asset classes.

Perhaps the most notable outcome of this all is the increased accessibility consumers now have to banking services. In many cases, consumers have leapfrogged the various barriers to traditional, typically branch based, routes to financial services.

Why fintech has been so beneficial

Until very recently there existed significant barriers to traditional finance, be that limited physical presence or high-cost product offerings. This is because, unlike technology-based banking, traditional banking relies on human interactions and physical branch presence. These are factors that increase the cost base and lead to higher fees and charges being passed on to the end consumer. The need for a physical branch also excludes those that are based in more rural or isolated areas, which is often the case in developing markets. In contrast, fintechs can offer traditional banking services through automated systems and online platforms which can be easily accessed. A smartphone is often the only requirement. With global smartphone penetration reaching close to 80% and mobile broadband coverage (3G or higher) reaching 95% of the world, access to finance can be dramatically increased. Figure 2 summarises some of the barriers to finance access posed by traditional banking, as well as the potential solutions the fintech offers.

Many monetary financial institution have taken advantage of the features that fintechs offer. Those that typically require microfinance are also those that have been faced with many of the barriers that traditional finance presents. Increased accessibility and lower costs mean that those that would most benefit from microfinance are now more able to do so. Additionally, there is a vast increase of those that can now be part of the banking system (either due to more rigorous credit scoring enabled by data analytics or greater reach through digital presence vs physical). This is made increasingly possible with the use of technology from fintechs. Ultimately, financial technologies can be instrumental in the work of monetary financial institution's in increasing the number of people that are financially integrated with many monetary financial institution's now adopting them.

Figure 2: Traditional finance versus fintech

Financial Services	Traditional retail banking	Barriers to access and usage	New technology	Enables FinTech solutions
Payments	– Cash/ATM – Check/Cards (deb/cred) – Wire/MTO – Centralised settlement	– High cost-structure – Distance to access points – Reliance on traditional sources of information – Geared towards formal, larger clients – Policies geared to traditional products/ FSPs	– Digitisation – Connectivity – Data and analytics – Network effects – Process re-engineering	– Online, mobile payments, POS – Peer-to-peer, B2B – QR codes – Tokenisation
Savings and investment	– Bank deposits – Mutual funds			– Spending monitoring – Online savings solutions – Investment platforms – Robo advisors, auto wealth mgt.
Lending	– Bank loans – Mortgages – Credit			– Credit modeling – Alternative credit scores – Online SME lending – Peer-to-peer, crowd-funding
Insurance	– Community insurance – Traditional Insurance Co's, brokerages, re-insurers			– Automated insurance – Digital distribution – Sophisticated analytics – Smart contracts
Capital Markets	– Spot currency exchange – Inv. banks/asset mgrs. – Exchanges, depositories, centralisation			– Peer-to-peer – Digital brokerage – Fund raising platforms – Cross-border A2F, decentralisation

Source: IFC Sector Deep Dives: "Fintech".

The World Bank's Findex survey shows that over the last decade, 1.2 billion previously unbanked adults have gained access to financial services and the unbanked population fell by 35%, primarily boosted by the increase in mobile money accounts. The reduced requirement of human capital and physical branches also reduces the cost base of these fintechs which ultimately results in lower costs being passed on to the end consumer. In this context, fintechs serve as accelerators of economic growth and consequently development. The far-reaching ability of digital based finance also presents an opportunity to reach the 1.7 billion globally who remain unbanked.

According to PWC's Global Fintech Survey (2019), payments are the second largest part of finance to be transformed by fintechs, after consumer banking. The move away from cash dependence globally has brought about this change and the adoption of technology-based payment systems have been welcomed. EM, as a function of their population size and relatively younger demographics have been particularly receptive to digital based payments. Not only is this an economic driver but there has been a marked shrinking of the informal economy due to factors such as digitisation and reduced cash intensity, which still forms a material part of many EM economies today.

For example, India's informal economy has shrunk by 15-20% according to estimates from State Bank of India, as payments systems have rapidly digitalised, and as the informal and formal economies have converged. The informal economy, which is comprised of activity that would be additive to tax revenues and GDP if recorded, presents a hinderance to sustainable development whilst separate from the formal economy. The IMF note that benefits that arise from the convergence of the two economies can be higher productivity, access to finance, and better social protection via formalised contracts.

Innovations from fintechs have appealed to those who remain averse to owning a bank account and new ways to target the unbanked have been created. Mobile money for example has provided a way for payments to be sent, including by those without a bank account as their mobile phones serve as a pay-as-you-go digital medium of exchange. Kenya's Safaricom is a key example of this, where its product M-pesa has improved the efficiency of the payment system significantly.

MSMEs are typically also net beneficiaries from fintechs as challenges such as insufficient access to credit and limited finance have historically contained the growth of these businesses. Access to finance has been identified as a critical barrier to growth for MSMEs by the World Bank. The reasons for these barriers have been identified as anything from irregular income and high transaction costs to distance and connectivity issues. Low financial literacy, an issue that many fintechs tackle alongside their product offerings, is also among a list compiled by the United Nations Conference on Trade and Development (UNCTAD). Technology addresses a large proportion of these, with lower costs due to overall lower fixed operating costs associated with fintechs. Issues regarding distance and access to a physical branch can also be removed almost entirely. Finally, financial education courses being embedded into online platforms and an ever-growing number of providers to choose from give business owners greater autonomy over their finances.

The challenges faced by fintech

Alongside the significant benefits that fintechs provide, there is a need for adequate risk management as financial services become increasingly digitalised. As fintechs grow in number and scale, the necessary regulation needs to keep up. Disparate regulatory frameworks and a lack of centralisation are potential issues. Many fintech do not currently need to adhere to banking regulations which are often more stringent for the purposes of transparency, risk management and the security of customers' data and funds. This poses potential risk to end consumers if the same level of security cannot be guaranteed. In some instances, attempts to promote financial inclusion have led to accumulation of debts that can devastate the borrower leading to outcomes as extreme as imprisonment as a consequence of missed payments. Although this is not unique to fintechs alone, it emphasises the need for greater regulation whenever the objective of financial inclusion is concerned.

Technology can also fail. In these instances, there can be material impact on the day-to-day lives of those who are now 'fintech dependent'. Risks such as a delay in accessing services, an inability to make payments and also to transfer funds can be detrimental. Finally, as with any online based platform, cybersecurity risks are present with especially harmful impacts where money and personal data is involved.

Overall, fintechs have allowed for technology to transform the way in which traditional banking is carried out. The lower costs of services and the greater accessibility for consumers has meant that those who have historically been excluded from centralised finance now have many ways to become integrated. Benefits exist for already included individuals, as well as the regions in which they live, as more economic activity is captured. As transitions to ever increasing digital ways of finance take place, we should also hope to see a reduction in the risks that currently remain.

How can investors support financial inclusion in practice?

Engaged, active investors, with sufficient resources, can target their investments with the intention of having a positive impact. In the case of financial inclusion, this can be achieved by channelling capital towards companies which are contributing positively through their products and services, while in tandem delivering attractive financial returns.

We discuss specific case studies in more detail later, but as an illustration, a company providing greater access to banking services via a mobile app, can aid financial inclusion on a number of levels. The ability to deposit savings more securely and efficiently, without the need to visit a physical branch, while also earning interest, is among the simplest benefits, and can help individuals in their planning and pursuit of longer-term goals. Access to other products such as insurance, investment, payments, and borrowing, are also beneficial. For those individuals who are sole traders or MSME owners, these benefits may extent to their businesses too. In a nutshell, individuals and small businesses can be brought into the broader financial system.

At the same time, the company providing this access has potential to benefit through growth in customers, revenues and profits. This should flow through to the benefit of shareholders. Publicly listed companies are also subject to greater scrutiny because of listing requirements, and the ongoing publication of earnings results. These should help to reinforce and raise both disclosure levels and corporate governance standards.

When making initial investment decisions, understanding and measuring the impact of a company's contribution towards these goals is an important consideration. For example, what proportion of revenues are derived from activity directly contributing to SDG linked segments.

On an ongoing basis, an important element of impact investing is the engagement process, regularly meeting with investee companies and monitoring impact via key performance indicators. For financial inclusion, this may include discussions around regulation, risk management and customer data, through to pricing, new technology and longer-term growth. At the same time impact investors can identify, evaluate and mitigate potential negative externalities, be it with regards to a specific investee company or at a portfolio level.

The role of public market equity investments in financial inclusion

Listed equity impact investing is growing at a fast pace. GIIN shows that listed equity impact investing grew at a compound annualised growth rate of 22% between 2015-2020. Strikingly, the vast majority of listed equity impact investment is in developed markets, meaning there is significant scope for growth in listed equity impact investing in EM.

Public equity markets in EM offer investors scale, liquidity, and typically demand greater disclosure, which can help with the ongoing engagement process. Many of the major benchmark indices already include a significant opportunity set. Financials are the largest sector in the widely followed MSCI Emerging Markets Index, with a share of around 23%. This figure really bears out the potential impact that these companies can have.

The role of equity market investment is multi-faceted. In EM, and in the impact investing world in general, it plays two particularly important roles:

Funding for growth 1

Traditionally, public equity markets provide companies with the opportunity to raise money which can finance future growth. This may be through an initial public offering (IPO), or secondary market offering (SPO). On the flip side, and IPO can provide an exit point for private companies, potentially opening the door to future growth, but also demanding greater disclosures and public scrutiny. This can only be positive in terms of aiding engagement and ongoing sustainability and impact monitoring.

Efficient capital allocation 2

The actions of active investors in public equity markets play an important role in contributing to efficient capital allocation. Companies which perform well on a sustainable basis, giving investors confidence over future returns, are rewarded by shareholders who mark up their valuation. Conversely, struggling companies are marked down.

The role of Private Markets for financial inclusion

As seen in the previous section, impact investing is growing fast. However, driving investments into private markets is also essential to sustain the growth of companies contributing to financial inclusion in emerging markets.

The need for additional equity and regulatory capital in emerging countries remains high and has accelerated after the Covid 19 pandemic. Non-listed companies accessing additional capital can benefit from the fast-growing segments in these dynamic markets (positive demographics, MSME growth, emerging middle class).

It presents a good business opportunity. In its report on [Impact Private Equity](#) (BlueOrchard Academy, 2022), BlueOrchard highlights that non listed banks and non-bank financial institutions have grown their assets three times faster than their listed peers in emerging markets (based on a study conducted on 180 portfolio companies).

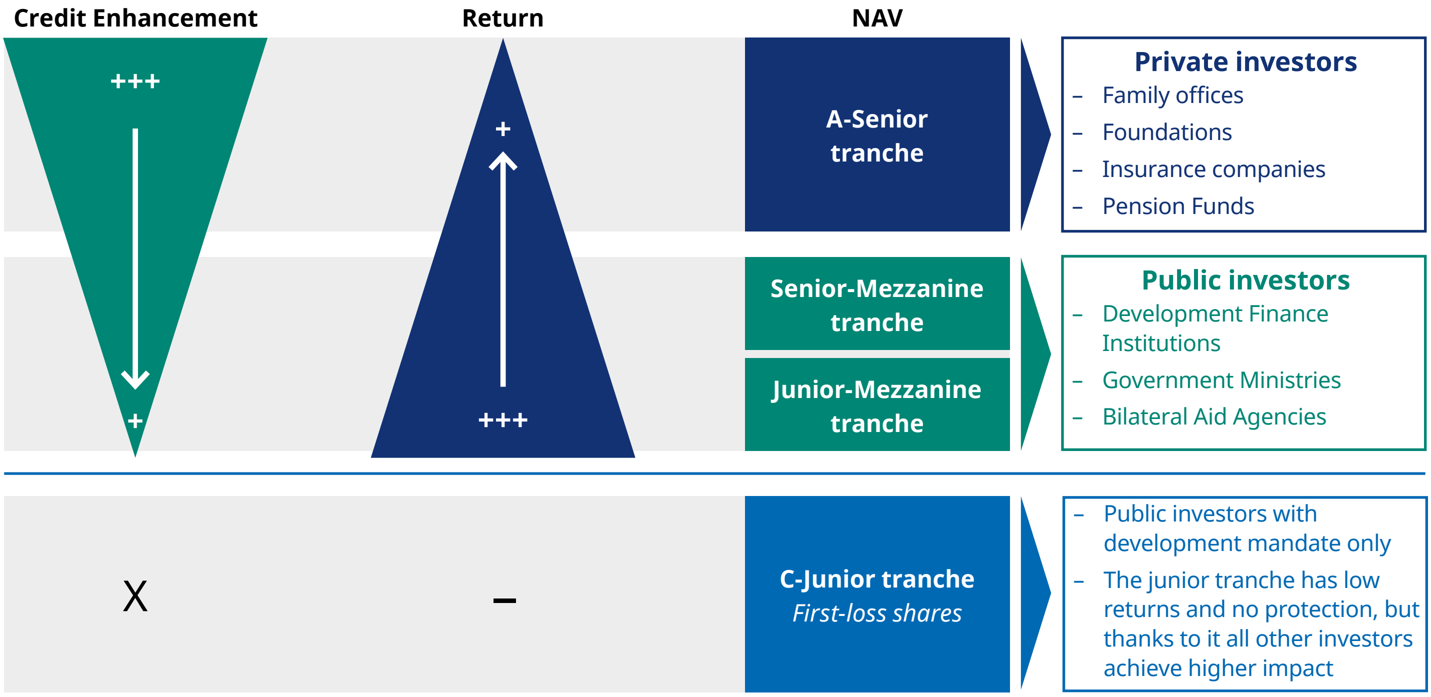
Private capital impact investing has the potential to create additional value. Strong engagement with management teams can accelerate impact, by supporting growth of responsible financial services to underserved communities and promoting best standard ESG practices.

Blended finance and financial inclusion

Blended finance can be an effective alternative to help increase the scale of impact investments from the private sector. Blended finance aims at enhancing the concept of partnership between the public and private sector by maximizing synergies and setting clear impact targets towards sustainable development.

A blended finance product is structured in various layers to incorporate different risk appetites. For instance, donors and development finance institutions (DFIs) have a higher credit risk tolerance and can absorb losses above those of the private sector. Consequently, a blended product could be designed with different tranches that incorporate these differences. While the underlying investment portfolio is the same, and is built towards achieving a common specific social or environmental impact objective, investors can decide which tranche suit their risk and return appetite best (see Figure 5). The catalytic effect of donors and DFIs is evidenced by the amount, and volume, of private investors these strategies attract. Without the first loss, or any other credit enhancement included, these investors may not have participated.

Figure 3: Blended finance: risk-return model



Source: BlueOrchard, 2018. [BlueOrchard Academy, Blended Finance 2.0., 2018](#).

While the benefits are clear, blended finance products have not yet accelerated at the large scale needed. Since 2015, capital flows to blended finance products have been around US$9 billion for the last 7 years, according to data from Convergence, a blended finance data specialist.

Based on our experience, some of our main observations to scale up blended finance products are:

- **The need for a common language** to measure impact to ensure a more efficient communication with commercial investors and facilitate comparability. The SDGs have created a unified platform to lead the effectiveness of impact reporting, but they must come with a measurable contribution (as opposed to just showing the SDG logos).
- **Standardisation of offering** would help blended finance initiatives to become comparable with other type of investments. An example could be the development of a rating practice for blended finance funds to quantify the credit enhancement provided by junior first loss capital (and make these mandates more comparable with other offerings in the market).
- **Increase Transparency:** having clear impact objectives and reporting on achievements is key to increase confidence in the sector. A sound impact management framework and periodic reporting on material performance indicators will help attract private investors.
- **Risk-returns expectations** should be set in line with market returns.
- **Commercial investors' contribution** should not be only considered for funding, but also for their sectoral and technical expertise.

The private sector's interest in impact investment strategies is increasing and blended finance structures can take advantage of this momentum. Greater coordination between common impact sustainability objectives between public and private players is crucial as well as increased transparency on returns, risks and impact achieved.

Case Studies

Case Study: Mercado Libre, a Schroders investee

What does the company do?

Mercado Libre is a Latin American commerce and financial services company. The mission of the business is to democratise commerce and financial services to transform the lives of millions of people across the region.

Mercado Libre's key markets are Brazil, Argentina and Mexico, although they operate across 18 different countries with almost 140m active users in Latin America. They provide a commerce platform which aims to provide equal access to opportunities for large and small vendors. In 2021 close to 900,000 families derive their main economic livelihood from the platform which is estimated to have generated an average of six direct jobs per hour.

As well as providing a platform for SMEs to grow their businesses and improve their economic position they specifically aim to provide access to financial services as a key instrument for fighting poverty and generating sustainable economic and social development.

How are Mercado Libre services increasing financial inclusion?

In 2021 Mercado Libre reached over 51m unique fintech users and 3.2 billion transactions were carried out. They offer a range of services from basic payments, Mercado Pago, to offering loans and savings and investment.

Mercado Pago enables financial transfers to be made simply and easily through QR codes or links. Individuals can transfer money to friends and family at no cost, add credit to mobile phones or pay services directly. In 2021 over 225m payments were made with QR codes.

As well as providing a simple payment process the company offers financing solutions for those who do not have access to credit in the traditional financial system. The advantages they provide are accessing money quickly through the internet in a simple, agile and secure way. They granted almost US$3.9 billion in loans in 2021. The scale that Mercado Libre have alongside the simple processes open up significant opportunities for many SMEs to access credit for the first time. Based on an study of 4000 users it confirmed that over 50% of users received their first credit offer through Mercado Pago.

Mercado Libre also provides access to savings and investment and over 78 million people invested with mercado Pago in 2021. One additional focus for the company is increasing financial education which they have found through surveys that 77% of people wanted more financial education.

Overall, as a leading fintech company within Latin America which is operating at a large scale in terms of users and merchants the company is providing individuals with access to services for the first time delivering on democratising of financial services.

How does Mercado Libre approach sustainability?

The company has a high level of commitment to operating the business in a sustainable way and to improving how they operate over time. For example they are migrating 100% of their operations to be renewable energy sources and increasing the proportion of recovered waste.

For the commerce website they have a specific section focussed on positive-impact products where over 4.7m users have purchased products and 169,000 companies sold products on the platform.

Case Study: Bank BTPN Syariah (BTPS), a Schroders investee

What does the company do?

BTPS is the Sharia subsidiary of Bank BTPN in Indonesia. It focuses on female lending 'with the mandate to deliver empowerment activities and financial literacy for the women in the country'. The bank's target market is also considered as the 'productive poor' which can be thought as those that contribute to the economy but still face financial limitations such as inadequate financing or access to credit. It operates a similar business model to Grameen Bank in Bangladesh. In Indonesia almost 80% of MSMEs remain underfinanced and/or unbanked despite making up around 60% of GDP contribution.

BTPS operates primarily within Indonesia due to the large unbanked population which makes up its addressable market. Indonesia remains a relatively underbanked country, with a loan to GDP ratio of around 35% in the banking sector (compared to 100%+ in Thailand, Vietnam and Malaysia). Additionally, 97% of companies within the country fall under the MSME category. The bank is therefore best suited to serve the financial needs of the 'productive poor'.

As well as providing initial loans to SMEs to grow their businesses, the bank has designed a five year program to ensure customers have sufficient ability to grow their businesses. BTPS provides measured and sustainable training and assistance with the aim of customers becoming fully independent in their fifth year of business. It is the bank's plan to aid sustainable growth of businesses while also monitoring other social conditions such as borrowers access to good sanitary facilities and transportation options.

How do BTPS' services increase financial inclusion?

The bank has found that within its addressable market only 12% of people have access to loans from friends, family, or non-formal financial institutions. This fact is an opportunity as well as a calling for BTPS to strategically focus and massively serve this segment

The bank has 4 million active customers with an additional 2 million that have progressed through the 5 loan cycle stages and have moved on to lower rate, larger ticket lenders. The progression of customers across all 5 of the bank's loan cycles demonstrates taking the customer from a point of an initial low ticket loan (which in many cases would be their first loan as a small business) to being able to scale up the business to a size that qualifies them for loans eligible to larger businesses with better terms.

Group-based lending allows for a more accessible format as collections are made weekly and in person by agents and employees of the bank. With a structure that allows for payments to be carried out without reliance on a central bank, accessibility issues are minimised.

How does BTPS approach sustainability?

Outside of its activities in promoting financial inclusion via their loan offerings, BTPS is expanding its digital financial offerings which allows for even greater accessibility and targeting of those that are currently unbanked. The bank has made a push to become more green and has promoted the concept of 'environmental stewardship', where employees are encouraged to partake in initiatives such as reforestation and waste reduction. Within its offices BTPS has moved to a 'Green Office' framework and has become paperless and reduced plastic waste. Finally it is transparent on reductions in the consumption of flight travel electricity usage, fuel and plastic.

Source: PT Bank BTPN Syariah Tbk

Case Study: Satin Creditcare, a BlueOrchard investee

What does the company do?

Satin Creditcare Network is a Tier 1 Microfinance Institution which was established in India in 1990. The company predominantly serves economically active women in rural and semi-urban areas who otherwise have limited access to mainstream financial services. Moreover, loans are provided to Micro, Small & Medium Enterprises (MSMEs). Satin Creditcare reaches clients in 23 states and union territories across India, covering more than 84,000 villages and 350+ districts.

Nearly all of Satin Creditcare's borrowers are women from financially disadvantaged backgrounds. Approximately 95% of borrowers reside in rural areas and about 60% of clients are unique, i.e. not served by any other lender. Satin Creditcare currently has about 2,800,000 active customers.

How are Satin Creditcare services increasing financial inclusion?

Satin Creditcare works on the Joint Liability Group Microlending model, which is particularly suitable to reach women who otherwise do not have access to credit. In line with the model, Satin Creditcare provides loans to small groups of women who borrow the money together and ensure timely repayment of the loan. By using this model, Satin Creditcare can forego collaterals, which often present a key barrier for women to access loans.

In addition to loans, Satin Creditcare offers comprehensive non-financial services, including financial literacy trainings that enhance the impact of loans on women's lives. Through their services, Satin Creditcare does not only increase access to finance for women, they also empower them to take decisions regarding their finances, thereby increasing their financial independence.

Satin Creditcare links life insurance to each credit product to cover the remaining loan outstanding should the borrower or co-borrower die. This helps prevent adverse effects of outstanding loans on the remaining co-borrowers and their families. Moreover, Satin Creditcare offers services in the fields of mobility and health/sanitation, such as information sessions on health and sanitation, meeting a key need of populations living in poverty in the targeted towns.

How does Satin Creditcare approach sustainability?

Satin Creditcare has a comprehensive approach to improving their clients' lives sustainably, which includes offering customized loans to improve access to clean energy (e.g. solar lamps), better mobility (through bicycles), as well as safe water and sanitation facilities. There are also loans available for home appliances such as induction or pressure cookers, or mobile phones, which allows clients to enhance their quality of life and their ability to communicate.

Satin Creditcare is committed to sustainability and implemented various initiatives such as going paperless, replacing plastic with glass bottles, or conducting plantation drives to contribute to environmental preservation. Satin Creditcare was awarded the Certificate of Excellence in Clean Energy Finance as a part of the UNFCCC Clean Development Program (CDM). Moreover, they were awarded for "Outstanding contribution to water and sanitation lending" from Sa-Dhan, and Water.org.

Case Study: Family Bank, a BlueOrchard investee

What does the company do?

Family Bank is a Kenyan bank founded in 1984 that provides loans to individual entrepreneurs, SMEs and corporates for working capital, business expansion and asset financing. The bank has over 90 branches across 34 out of Kenya's 47 counties.

How are Family Bank's services increasing financial inclusion?

Family Bank was founded with the aim to provide financial services to previously unbanked groups of the population, including of millions of small and medium scale enterprises, jua kali artisans, tea, coffee, dairy, grain, fish and sugar farmers, teachers, junior government employees, parastatals NGOs and private organizations. Since then, the Bank has grown to become a universal bank, while maintaining their focus on niche segments such as MSMEs, agriculture and the education sector.

Products are designed to meet the needs of specific customer groups, such as bank accounts for microentrepreneurs or students, and financial services are flexible and affordable. Mobile banking options further support financial inclusion by making financial services more easily accessible.

Family Bank demonstrates the importance of financial solutions for the education sector. The bank has identified education as one of the key sectors for growth under its strategy and is in the process of setting up a dedicated business unit to focus on this sector. The is cooperating with the Kenya Private Schools Association which has 7,000 education institutions that Family Bank intends to work with through transaction services and credit facilities. The bank currently provides loans to education institutions through its general SME lending and as of Aug-21 is reaching a total of 695 institutions from pre-primary, primary, secondary, TVETs, tertiary colleges and universities. The average loan size is US$ 27,000.

An example for such an institution is the Sharp Education Centre in Kayole, a densely populated suburb in Nairobi, which was opened in 2011. Today the school counts more than 700 pupils, and a second campus to house classes 9 to 12 is currently being constructed. The school owners accessed a loan facility of Kshs. 500,000 to equip classrooms with furniture, mainly desks and chairs. Over time, the client has been seeking financial support from Family Bank which has been utilized for infrastructure development, school buses for transport, and bridging finance to support the school whenever schools are closed. With additional loans the school plans to further expand and reach additional 1,150 pupils by FYE 2023.

How does Family Bank approach sustainability?

Since its foundation, Family Bank continues to have a strong social mission and is dedicated to minimizing the potential negative impact of its operations and those of its borrowers on the environment. To this end, the bank has an environmental policy and implements a variety of CSR activities through its dedicated foundation, the Family Group Foundation. Projects include for example reforestation and tree-planting activities, support of vulnerable young women and adolescent girls to access vocational training, or the provision of water and sanitation facilities. Moreover, further supporting its education pillar, the foundation provides scholarships to financially disadvantaged high school students and supports schools that provide inclusive education for children with special needs.

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