sonen capital

Financial Inclusion

Financial Inclusion Defined

At Sonen Capital, we believe sustainable financial services means affordable, effective and safe services that consider social and environmental impacts. Sonen's investments in financial services seek to expand availability and affordability of related offerings of and minimize negative externalities.

The Role of Financial Services in the Global Economy

Financial services including credit, savings, insurance and payment platforms play a critical role in global social and economic development. Relevant data shows that expanding financial services reduces poverty and expands economic opportunity across all socioeconomic groups.

As the main source of employment generation and economic growth, Small and Medium Enterprises (SMEs) play a critical role in financial opportunity globally. The latest data shows that SMEs contribute 50% of total GDP in high-income countries[1] and 40% of GDP in emerging economies. Worldwide, SMEs represent about 90% of businesses and their employees represent over 50% of employment.[2] Despite their central role in global economic growth and employment, SMEs are systematically under-financed by over $5 trillion annually.[3]

SUSTAINABLE DEVELOPMENT GOALS

Financial inclusion is a critical element to achieving multiple Sustainable Development Goals (SDGs). Research shows that access to financial services can contribute to 11 SDGs, particularly poverty, food security, health, education and gender equality. Financial inclusion makes direct contributions to SDGs 1 (poverty), 8 (employment) and 9 (infrastructure).

The Positive Impact of Greater Access to Financial Services

- Expanding digital financial services could increase global GDP by $3.7 trillion and expand available credit by $2.1 trillion by 2025.[4]
- Greater control over productive resources by women can enhance growth prospects – agricultural output, for example, could increase between 2.5%-4%.[30]
- Pay-as-you-go solar companies have used digital finance to provide 10 million people with affordable, modern energy for the first time in their lives.[5]
- The spread of mobile money lifted roughly one million Kenyans out of extreme poverty from 2008 to 2014 – the equivalent of 2% of its population.[7]
- Digitizing teacher salary payments in Liberia cut the cost of collecting wages by 92%, from $25 per paycheck to $2.[7]
- Community development financial institutions (CDFIs) manage $108 billion and fill gaps in financing for economically disadvantaged communities across the U.S.[8]

The COVID-19 Effect

The coronavirus pandemic is taking an unprecedented, systemic impact on economies and employment around the globe. Global extreme poverty is expected to rise in 2020 for the first time in over 20 years as the disruptions of the COVID-19 pandemic compounds the forces of conflict and climate change, which were already slowing progress on poverty reduction. Estimates indicate that the pandemic will push an additional 88 million to 115 million people into extreme poverty this year, with the total rising to as many as 150 million people into extreme poverty depending on the severity of the economic contraction.[9]

Shutdowns are causing systemic disruptions in all economic activity, with disproportionate impact on more vulnerable communities through rapid depletion of limited savings, food insecurity, health challenges and further challenges in accessing basic financial resources.

Economic contraction is exacerbating the already considerable challenges for small businesses and entrepreneurs to keep afloat and secure financial resources that can provide business continuity. Such businesses are the backbone of the global economy, accounting for half of all jobs and GDP worldwide.[10] For women-owned businesses, this economic disruption means even more difficulty: globally, female-owned businesses were nearly 6% more likely to close than male-owned businesses.[11] In order to minimize economic disruption and preserve countless economic livelihoods, expanding financial inclusion is more important than ever.

Impact Drivers	THE MACRO, SOCIAL & ENVIRONMENTAL DRIVERS FOR FINANCIAL SERVICES
MACRO	» Close to two billion people worldwide lack access to financial services.[12] » Micro, small, and medium sized enterprises (MSMEs) in emerging economies have an unmet financing need of $5.2 trillion every year.[13] » Approximately 70% of all MSMEs in emerging markets lack access to credit, and up to 37% of MSMEs are women-owned.[14, 31] » $110 billion is lost each year in government expenditures and unclaimed tax collections globally. The use of cash in government payments contributes to this significantly.[15] » Digital payment technologies will surpass $726 billion in transactions by 2020,[16] driven by more than 90% of global citizens owning a mobile phone.[17]
SOCIAL	» 35% of women worldwide, or close to one billion women, are excluded from the formal financial system.[18] Women are less involved in the formal economy than men, reducing their ability to control their own finances. Women-owned businesses face a credit gap of $1.7 trillion globally.[19] » Small community banks are often the only provider of financial services in one out of every five U.S. counties.[20] Community and regional banks generate 40% of all small business loans that in turn generate $6 trillion in annual revenue and employ 32 million people.[21] » 27% of U.S. households, or 91 million people, do not have access to banks and other financial services.[22] Americans spend $8 billion annually in fees for check-cashing services and payday loans.[23] » Global remittances totaled $600 billion in 2016. Digital remittances cost on average just 3.93% of the amount sent compared with the average cost of sending a remittance of 7.42%.[24] This amounts to $21 billion in added costs.[25]
ENVIRONMENTAL	» Natural resources are declining in 116 out of 140 countries and at current rates, these trends are expected to further erode global natural wealth by over 10% by 2030.[26] » The world's $80 trillion annual economy creates environmental externalities valued at over $7 trillion annually.[27] » Growing numbers of financial institutions are adopting measures to ensure more effective consideration of environmental externalities through risk pricing and policies.[28] » Banks that actively integrate sustainability benefit from reduced risk, improved access to international financing, improved brand value and reputation, and improved community relations.[29]

Outcomes Sonen Seeks

1. Expand Access

2. Improve Affordability

3. Increase Products and Services for the Underserved

Outcome 1: Increased access to financial services broadly, particularly among underserved markets (especially women and women-owned MSMEs)

Investment Objectives	**1.1 Support digital financial services and innovations**	**1.2 Expand the range of financial services that support greater economic growth and job creation**	**1.3 Expand availability of financial services for the underserved**
Investment Strategies	1.1.1 Focus investments on simple, low-cost, easily accessible digital services that can significantly increase economic participation, particularly among women	1.2.1 Focus on transfers/payments and storage of savings. Secondary focus includes access to credit and mitigating risk (e.g. insurance)	1.3.1 Target basic services in rural areas where populations are generally poorer and are underserved
	1.1.2 Target markets with low rates of economic participation or where dependence on alternative financial services is common	1.2.2 Focus on trade finance, receivables loans, electronic data management or other mechanisms that can increase availability of credit for MSMEs	1.3.2 Ensure higher rates of participation among women, particularly with increased access to capital
	1.1.3 Consider how "big data" can expand and customize affordable financial services for the unbanked	1.2.3 Invest in platforms or technologies that provide highly customized services that meet local/regional needs	1.3.3 Consider how "big data" can expand and customize affordable financial services for the unbanked

Outcome 2: Increased affordability of essential financial services among current and future customers

Investment Objectives	**2.1 Drive transaction costs down for basic financial services**	**2.2 Increase customers through cost-effective services**	**2.3 Reduce need for alternative financial services**
Investment Strategies	2.1.1 Target digital technologies that expand access to basic financial services, e.g. savings accounts and remittance payments, and drive costs down through economies of scale	2.2.1 Electronic payments and transactions that increase efficiencies, lower transaction costs and provide seamless services for MSMEs and employees	2.3.1 Focus on digital payments and micro-insurance to help low-income families better manage costs and financial risk
	2.1.2 Support low-cost or simplified accounts to increase rates of adoption	2.2.2 Target digital financial services that benefit from greater scalability, customer-centric design and convenience	2.3.2 Technologies or platforms that tap into new sources of capital (e.g. peer to peer, cryptocurrencies) and make use of data that can further streamline service delivery

Outcome 3 Increased financial services and products that meets the needs of the underserved.

Investment Objectives	**2.1 Ensure investments in financial products and services satisfy social, economic and environmental sustainability targets**	**2.2 Support regional and local service providers to better meet local needs**
Investment Strategies	2.1.1 Invest in financial institutions or technologies with explicit social and environmental risk management policies and practices	2.2.1 Target municipal finance, local service providers and structured project finance that reflects local needs and urgencies for businesses, individuals and regional practices
	2.1.2 Invest in financial service providers that intentionally support increasing access and affordability and where use of proceeds make demonstrable contributions to the underserved, particularly women	2.2.2 Identify investments that can clearly demonstrate and communicate results

UN Sustainable Development Goal Analysis

Providing more inclusive financial services makes indirect contributions to SDGs 2, 3, 4, 5 and 10, and makes direct contributions to SDGs 1, 8 and 9. Specifically, the following targets are addressed:

» 1.4: By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance.

» 8.3: Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

» 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

» 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

Below are Sonen's abbreviated Financial Services impact investing guidelines .

Issue	Sonen's Position
General	» Target the expansion of financial services to women, who are disproportionately excluded from modern financial services » Support lenders with a focus on financing the low-carbon economy » Invest only in providers who exhibit best practices, including transparency on use of proceeds, policies that manage environmental externalities and avoid excessive debt among customers » Support initiatives that provide financial literacy training and education
Micro-finance / Micro-credit	» Support scaling of existing microfinance and microcredit institutions that exhibit industry best practices and who target the underserved » Focus on providing peripheral services such as financial literacy, education or technical assistance alongside capital and avoid over-indebtedness or loans used only for consumption
Small Business Lending	» Focus on supporting MSMEs to expand employment creation and economic growth » Seek investments that expand access and affordability of loans to MSMEs, particularly to the underserved such as women-owned enterprises
Loan Consolidation and Refinance	» Help consumers regain financial stability and credit histories through affordable debt service and consolidation » Ensure lending packages adhere to industry best practices to avoid increasing debt
Community Finance	» Focus on alternative financial sources, such as peer-to-peer lending, to tap into new sources of capital and expand access and affordability » Support services that couple financial support with financial literacy and training.
CDFIs and Smaller Banks	» Support CDFIs with a better understanding of local community needs and the needs of lower-income populations » Support smaller, regional banks that provide financial services to local communities
Digital Finance	» Invest in digital technologies to expand financial services and overcome barriers that have prevented such services from reaching billions of poor and low-income customers » Invest in a combination of digital technologies and data-based businesses that can meaningfully accelerate the closing of the global financial inclusion gap
Insurance	» Support insurance as an essential tool to manage household financial risk » Support financial products that help buffer the poor from risks of sickness or catastrophic events.
Other Financial Instruments	» Consider reverse mortgages so long as they do not saddle participants with excessive debt or take advantage of the vulnerable or uninformed » Support innovations that expand access, including remittances, government transfers, direct deposits or mobile-based savings accounts
Exlusions	» Payday lending » Banks that lend primarily to activities with explicit environmental or social harm, e.g. fossil fuels, extraction and mining » Predatory lending or usurious practices » Lenders that discriminate

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