Investing in fintech for greater financial inclusion

An impact investor's perspective

Triodos Investment Management

About this report

Financial technology (fintech) has taken centre stage in the financial inclusion industry in recent years. Think digital lending platforms where small businesses can apply for a loan in just a few minutes. And apps that allow people to pay for utility bills or school fees, saving them hours of have to walk to a brick-and-mortar bank. Or Pay-As-You-Go systems that use mobile technology to give people access to electricity via solar home systems.

Many believe that these low cost, far-reaching digital solutions hold the key inclusive finance because they have the power to reach the 1.4 billion people worldwide who are still excluded from formal financial services, and the 131 million (or 40% of) formal micro, small and medium-sized enterprises in developing countries that struggle to access business finance.

The speed of fintech adoption in emerging markets is accelerating. Platforms are mushrooming, and investment activities are increasing. At the same time, numerous governments and regulators across many jurisdictions are working to develop adequate fintech ecosystems, trying to keep pace with the market's rapid growth.

Recognising the potential of inclusive fintech solutions, and relying upon our unique longstanding track record in financial inclusion, Triodos Investment Management is building an impactful fintech investment portfolio.

In this publication, we explore how fintech can be a tool for greater financial inclusion in emerging and developing markets. We look at the evolution of the fintech industry and the benefits and pitfalls for financial inclusion. We highlight our own fintech investment journey, our processes and our regional perspective. We also share how we see the market developing and our next steps as impact investors in fintech.

We invite you to learn more about this rapidly evolving and dynamic industry and how fintech contributes to greater financial inclusion.

Triodos Investment Management

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300 ml
Lay's
SUBLIME
TiendaPago
Nestle
MILO

Table of contents

About fintech and how it has evolved

The term fintech was first coined several decades ago, but more recently the fintech industry has been attracting the attention of investors, consumers and regulators with a diverse range of products and services for individuals and businesses around the world. Understanding what fintech is and how the industry has evolved is a good starting point for explaining the connection with financial inclusion and our investments.

Fintech defined

The term ‘fintech’, is a blend of the words ‘financial’ and ‘technology’ that has been interpreted in various ways. While some definitions focus on the digital transformation within traditional financial services providers, others describe it as a non-traditional, disruptive innovation.

The Oxford English Dictionary defines fintech as ‘computer programs and other technology used to support or enable banking and financial services’. With a similar flavour, Investopedia describes it as ‘new tech that seeks to improve and automate the delivery and use of financial services’. However, these are somewhat bland explanations that hide a far more intricate world of opportunity. EY, in contrast, more broadly interprets fintech as ‘organisations combining innovative business models and technology to enable, enhance and disrupt financial services’. This emphasises that fintech is not only about early-stage start-ups and new entrants, but also about scale-ups, maturing businesses and even non-financial services firms. The Financial Stability Board, an authority in monitoring and making recommendations about the global financial system, also describes fintech as ‘technologically-enabled financial innovation that could result in new business models, applications, processes or products with an effect on financial markets, institutions and the provision of financial services’.

These definitions demonstrate that fintech represents not only the new, non-traditional, disruptive entrants in the financial industry, but also digital transformation within traditional financial services providers.

For us, fintech is a tool for financial inclusion in developing and emerging economies. It is not just an industry employing technology and innovation that competes with traditional financial methods, but one that also has a strong social dimension. As well-regulated technology in finance, fintech can deliver financial services to low-income households and small and medium-sized enterprises in a more efficient, cheaper and customer-friendly way. Moreover, it is steadily scalable and can therefore achieve significant outreach.

Changing the world of finance

Digital financial inclusion has been evolving from online payments to a broad array of products and services, both in locations where financial services are less present, and in complementing traditional financial services. COVID-19 has created more opportunities for digital financial services, most visibly in payments triggered by the surge in online shopping, digital exchange of cash in shops, and emergency government transfers issued during lockdowns.

Fintech is changing the world of finance at an ever-increasing scale. Digital finance providers are also proving that new, non-traditional entrants in the financial industry can easily exploit the latest developments in electronic communication and data management systems to reach millions of new customers.

A few noteworthy examples are:

- **Chime**, an online-only financial company in the United States that partners with two banks to offer no-fee and automatic savings accounts as well as early payday via direct deposit. It is expected to reach 22.7 million account holders by 2025.
- **FarmDrive**, a female-led fintech company in Kenya that uses mobile phones, alternative data, and machine learning to close the critical data gap that prevents financial institutions from lending to creditworthy smallholder farmers.
- **Wise**, a UK-based remittance platform which is used by over 10 million people and businesses, in more than 170 countries, to send, spend, convert, and receive money internationally, at rates that are eight times cheaper on average than leading UK banks.

Fintech can deliver financial services to low-income households and small and medium-sized enterprises in a more efficient, cheaper and customer-friendly way. Moreover, it is steadily scalable and can therefore achieve significant outreach.

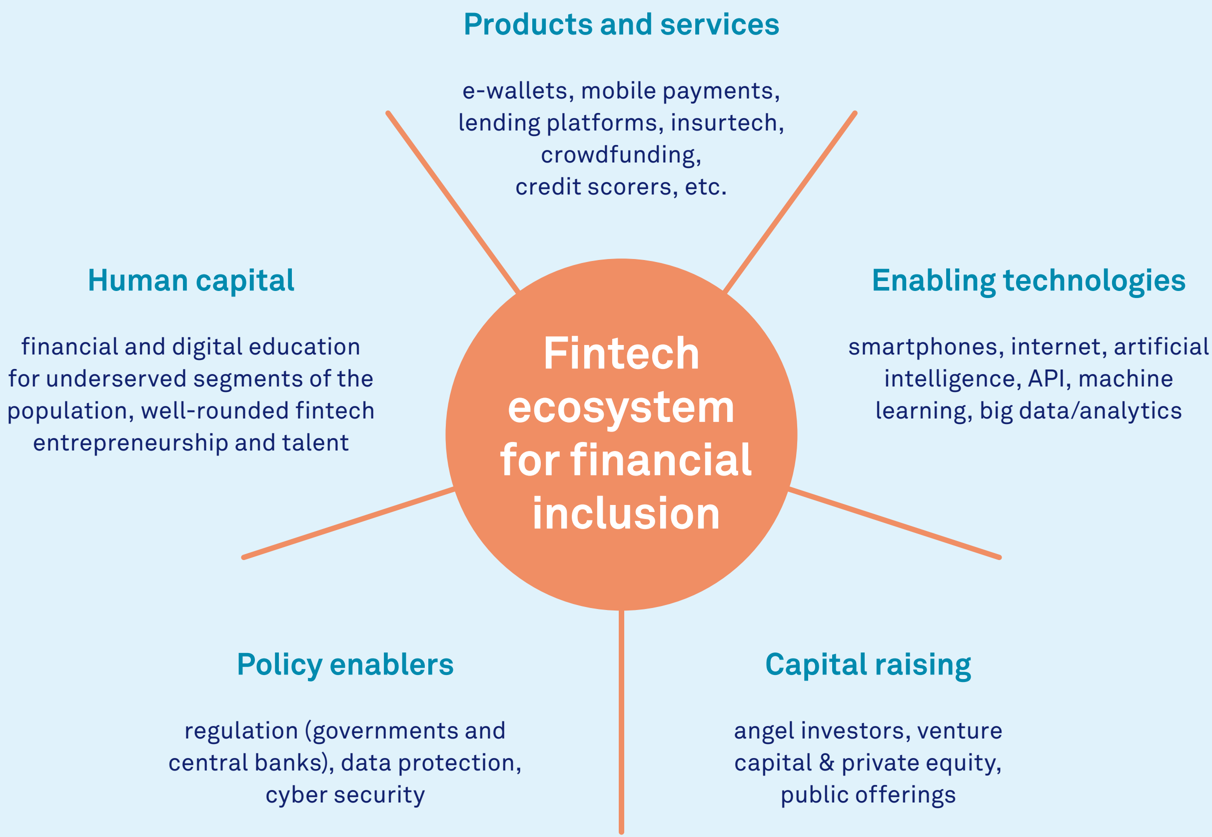
Market disruptors
New disruptive entrants have been joining the market, especially in the past ten to fifteen years. With increased internet access, growing ownership of mobile (smart) phones, the development of online shopping, and a closer connection between financial services and more advanced technologies such as artificial intelligence, and data analytics. These market disruptors are creating alternatives to traditional financing due to the lower costs, more access to funding, and reduced barriers to entry. Fintech has already become part of the personal and professional daily lives of billions of people all around the world. Technology in financial services is providing the underserved segments of the population in emerging markets access to cheaper and better customised products.

Fintech industry maturing
Fintech is not an overnight success and fintech firms have been gaining ground for more than a decade. The initial start-ups were created to unbundle, and carve out niches where their services could make a difference. Nowadays these firms are adding new products to their offering and becoming more meaningful platforms. COVID-19 has also accelerated the trend. For example, in the absence of physical contact, governments, consumers and businesses are increasingly using digital financial services to access and disburse funds. The surge of e-commerce platforms and e-wallets are also signs of the radical shift in consumer behaviour. More recently, geopolitical risks and uncertainty in global economic developments made venture capital funding more difficult for fintech and other sectors. Mckinsey in its recent report on Fintechs: A new paradigm of growth suggests that funding levels for fintech are slowly returning to long term trends. And adds that given the technological revolution that is underway that the fintech industry will be facing more opportunities in expanding financial-services ecosystem.

Large fintech firms are now part of the establishment and their geographical presence is expanding. Several years ago, the largest firms were essentially located in the US and China, but these days, Europe, Latin America and Asia are catching up. They are now big enough to be on the radar of institutional investors, including asset managers and wealth funds, and have also paved the way for investors to welcome promising start-ups before they go public. However, there is some concern about how well fintech firms will thrive in a more regulated and competitive environment, where the culture and financial conditions that allowed them to succeed may wither.

Fintech ecosystem for financial inclusion

A dynamic and rapid development of fintech is being enabled by the combination of technology applied to products, and to methods for exchanging information, together with policy enablers that are paving the way for more trust in fintech firms. Cybersecurity, data protection and regulation are essential considerations, particularly for services aimed at financial inclusion. Human capital is also a part of the mix: on the fintech demand side, more successful fintech firms are prospering where financial and digital education are being upgraded; and on the supply side, well-round talented professionals are bringing in start-ups and accelerating inclusive fintech initiatives from a promising early-stage phase to a solid path of growth. As the sector expands, businesses are actively seeking new ways to raise capital, through angel investors and venture capital for start-ups, as well as traditional financing sources including loans and equity investing.



Note: excludes the general technological developments from outside the financial inclusion world.

The benefits and pitfalls of fintech and financial inclusion

The benefits

The banking system in emerging markets is often characterised by elevated fees and transaction costs; there is little incentive for the traditional banking sector to serve the poorer segments of the population. Unsurprisingly then, where access to traditional banking services has been limited, the surge of fintech developments has been greatest. Many users have already benefited from opportunities such as improved access and affordability and an expanded choice of products and services.

Fintech firms are designing, customising and distributing an array of financial products, such as microinsurance, microsavings and remittance products, which have been tailored to the needs of low-income earners.

Improved access and affordability

Tech-enabled financial solutions, such as mobile phone technology and data analytics, have the potential to radically enhance and foster financial inclusion in developing and emerging economies. Fintech firms that apply these solutions are typically able to provide faster, more integrated and cheaper financial services than traditional service providers.

One such example is our investment Capital Float in India, which started in 2013 and has already served more than two million customers.

Credit processes of banks in India are slow and arduous, with the rigid guidelines making access to credit challenging for small businesses. Capital Float has developed a technology based lending marketplace through which small entrepreneurs can quickly access credit at flexible and affordable terms. Borrowers can apply online in minutes, select desired repayment terms and receive the loan in their bank account within three days. For the underwriting of loans, Capital Float uses a mix of traditional and alternative data sourced from third-party partners, such as point-of-sales transactions, banking history, tax returns and credit bureaus.

Expanded range of products and services

Fintech firms in emerging markets have also broadened their scope far beyond traditional microcredit products. Tapping into technology, they are designing, customising and distributing an array of financial products, such as microinsurance, microsavings and remittance products, which have been tailored to the needs of low-income earners. They are also helping financially excluded people build a credit score so they can access the traditional financial system and are supporting over-indebted customers who are unable to meet their financial obligations. They do this by consolidating debts, offering cheaper rates and providing customised advice that helps their customers gain financial stability. An example of this type of fintech firm is Destácame in Chile, which developed the first behaviour-based credit score in Latin America.

Mitigated economic impacts of COVID-19

The COVID-19 pandemic has placed an even stronger emphasis on the role and importance of fintech. The International Monetary Fund's publication 'The Promise of Fintech: Financial Inclusion in the Post COVID-19 Era', states that tech-enabled providers play an important role in mitigating the economic impacts of the pandemic for low-income households and small businesses by deploying services quickly and efficiently. For example, in countries where access to banking networks is limited, such as Namibia, Peru, Uganda and Zambia, mobile money networks are being used to deliver government transfers. Information from data garnered from mobile payments is also connecting governments to informal workers outside of formal benefits programs. In Togo, for example, a new programme that targets informal workers was introduced, and transfers are made through mobile money.

Government interventions to reduce mobile costs and the rollout of cash transfers to mitigate the impact of the pandemic have also stimulated large segments of the population to open bank accounts and use digital wallets. After COVID, digital finance is benefiting from the leap made on the back of the pandemic triggered acceleration in digitalization. Africa's share in the use of mobile money surged amounting to 65% of the world's total, with a great potential as some parts of the continent still have limited access to the Internet and financial services.

Unequal access to technology limits the potential of fintech and increases the digital divide.

The pitfalls

Without question, fintech has enormous potential to increase financial inclusion. However, it also poses risks, especially for low-income and less financial educated customers, which as investors we are keen in addressing. In addition to general risks related to overpricing, over-lending, and lack of transparency, the main risks particular to fintech include unequal access, discrimination, and consumer and data protection.

Unequal access

Unequal access to technology limits the potential of fintech and increases the digital divide. Although some progress has been made in recent years, regional differences also still exist. The lack of basic infrastructure, access to affordable mobile phones, Internet penetration and emerging fintech services, disproportionately disadvantages women, those living on a low income, and those living in rural areas.

Discrimination

The promise that arms-length analytical decision-making tools could remove bias, has met with mixed levels of success. For some, a shift away from human to algorithmic processing has simply shifted the method of discriminative lending, for example the discrimination against minority homebuyers who typically pay higher mortgage rates still takes place.

Technological advances in Artificial Intelligence (AI) have increased concerns regarding discrimination and the potential for creating new sources and transmission channels of risks for consumers. Regulators will need to pay close attention to how technology is applied in the financial sector. It helps to improve communication with consumers to raise awareness of risks, as well as lead discussions with the industry with respect to the ethical principles and trustworthiness of technology in finance.

Consumer protection and data security

Processes are evolving so rapidly that it is often hard for consumers and regulators to keep pace. This complicates supervision, cyber and operational risks, the safeguarding of data privacy, and addressing digital illiteracy, among others. Risks such as the compromise of customer privacy, identity theft and fraud, have the potential to cause greater harm where consumers have low levels of financial education and digital capability, and lack of alternatives, as is the case in many emerging and developing economies.

Our fintech investment journey

Our fintech investment journey first began in 2016 and is underpinned by our extensive experience as an impact investor in emerging markets. For many years we have financed values-based financial services organisations around the world. By extending our approach and investing in fintech we have strengthened our commitment to increasing access to finance to underserved client groups.

2016

First fund investment In Accion Frontier Inclusion Fund and first direct investment in Asia

2017 - 2018

First direct investments in Latin America and Africa

Year-end 2018
EUR 29M portfolio
2 fund and 6 direct investments

2019 - 2020

Further building an impactful investment portfolio

Year-end 2020
EUR 62M portfolio
3 fund and 13 direct investments

2021 - 2023

First direct equity investment in 2021

Year-end 2023
EUR 93M portfolio
3 fund and 20 direct investments

The path ahead: neo/challenger banks, embedded finance, responsible retail finance and payments/ remittances

Fund investments
Our initial fintech investments were in specialised, venture capital funds that shared our mission to foster financial inclusion and that wanted to catalyse innovations to radically improve the quality and availability of financial services for the underserved.[1] These investments brought diversification to our funds, which mitigated the early-stage risk of fintech start-ups. They also provided us with multiple opportunities to develop our knowledge, which has helped us further define and structure a phased and dynamic approach for our other direct fintech investments.

Fund investments also provided co-investment opportunities. Investing directly alongside the funds allows us to play a stronger role in the governance of the companies that share our vision, and to add value at an early stage, while providing financial services to those who most need them. Wherever possible, our ambition is to grow with the company. We continue to selectively consider fund investments alongside our direct investment strategy, however we are extremely selective and will only invest where we see the potential for a strategic partnership.

Direct investments
With increased fintech expertise, we began to focus on direct investments. Combining our extensive experience and in-depth knowledge of lending models, our initial focus was on fintech companies that were active in alternative lending channels that were leveraging technology and alternative data. Examples include firms focusing on utility and bill payments, tax returns, and mobile data, and with lending models designed to target un(der)served SMEs.

We also started looking at embedded finance models and companies whose core business is a non-financial product or service that also have an integrated financial service offering, such as credit or leasing. In this way, the finance is a means to delivering a (high impact) product or service. With embedded finance

[1] In 2016, we invested in the Accion Frontier Inclusion Fund, and in 2018 in the follow-on fund Accion Quona Inclusion Fund. Both are managed by Quona Capital, the leading global impact investment manager in fintech, with the US non-governmental organisation Accion as General Partner.

models, we started to primarily target agricultural technology (AgTech) and Pay-As-You-Go (PAYGO) models that focused on energy transition solutions. We will continue to pursue these types of models, and further explore health technology (HealthTEch) and education technology (EdTech) companies. We will also take a deeper look at other subsectors that meet our impact financial criteria, such as responsible retail finance and payments/ remittances.

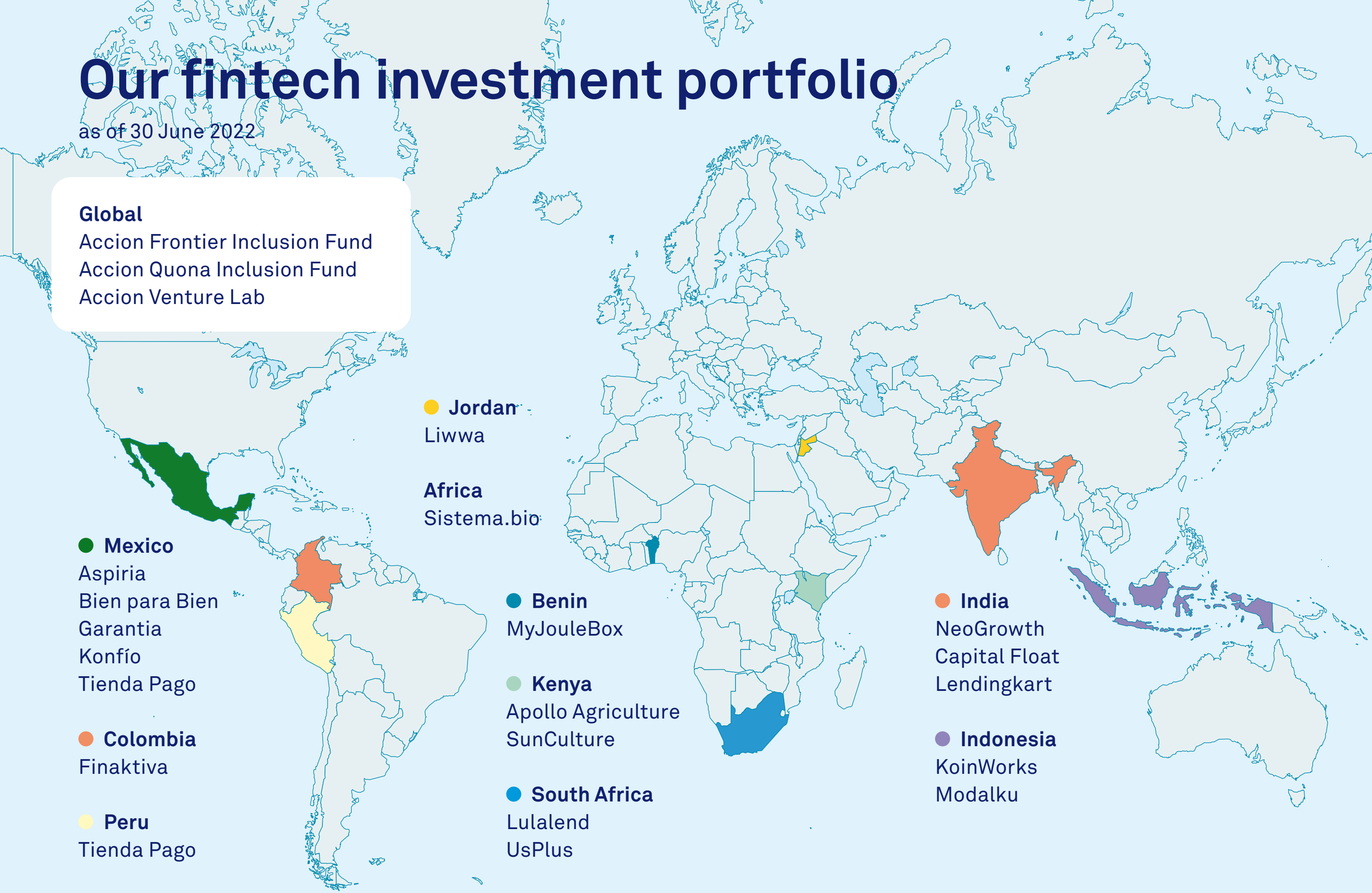
Financial Inclusion 3.0

Financial Inclusion 1.0 refers to the late 1970s when the world's roadmap to inclusive fintech began and microcredit became a proof of concept that poor and low-income households are bankable. The 1990s gave birth to Financial Inclusion 2.0 when microfinance institutions become scalable and commercially viable through information technology and back-office automation. These days, for Triodos IM, Financial Inclusion 3.0 means keeping focus on the low-income segment across emerging markets using a regional approach to serve the un(der)banked and micro, small-and medium-sized enterprises (MSMEs), with fintech playing an instrumental part in increasing outreach exponentially.

> Table of contents

Our fintech investment portfolio

as of 30 June 2022



Global
Accion Frontier Inclusion Fund
Accion Quona Inclusion Fund
Accion Venture Lab

Jordan
Liwwa

Africa
Sistema.bio

Mexico
Aspiria
Bien para Bien
Garantia
Konfío
Tienda Pago

Colombia
Finaktiva

Peru
Tienda Pago

Benin
MyJouleBox

Kenya
Apollo Agriculture
SunCulture

South Africa
Lulalend
UsPlus

India
NeoGrowth
Capital Float
Lendingkart

Indonesia
KoinWorks
Modalku

Our fintech investment portfolio in alphabetical order

Accion Frontier Inclusion Fund
Venture capital fund investing in fintech companies at the growth-stage

Accion Quona Inclusion Fund
Venture capital fund investing in fintech companies at the growth-stage

Accion Venture Lab
Venture capital fund investing in seed-stage startups

Apollo Agriculture
Ag-tech company focused on small-scale farmers

Aspiria
Lending platform for SMEs

Bien para Bien
Lending platform for SMEs

Capital Float
Lending platform for SMEs

Finaktiva
Digital credit platform focused on promoting growth of high-impact early stage companies

Garantia
Healthcare equipment leasing to doctors and small private clinics

KoinWorks
Peer-to-peer lending platform for SMEs

Konfío
Lending platform for SMEs

Lendingkart
Lending platform for SMEs

Liwwa
Lending platform for SMEs

Lulalend
Lending platform for SMEs

Modalku
Lending platform for SMEs

MyJouleBox
Provides access to energy in rural areas through a Pay-As-You-Go system

NeoGrowth
Card receivables financing for SMEs

Retail Capital
Merchant Cash Advance provider in the SME market

Sistema.bio
Sells biodigesters which smallholder farmers can repay over time through an automated financing scheme

SunCulture
Offers productive off-grid solar use for smallholder farmers through a Pay-As-You-Grow model

Tienda Pago
Provides small shops with short-term working capital via a mobile platform

UsPlus
Lending platforms for SMEs

How we balance the impacts and risks

Our portfolio expansion is led by our search for investments with impact, which means bringing together underserved segments of the population with regulated and trusted fintech firms.

Fintech has the power to impact the lives of many in a meaningful way and contribute to an equitable and resilient society through products, services, and business practices. As impact investors, we do not invest in fintech for the sake of fintech, but rather to deepen the impact of financial inclusion. We believe that transformative opportunity offered by the fintech revolution needs to reach the world's poorest in a way that is transparent, fair and responsible, and that it is important to strike a balance between impact and risk.

Our portfolio expansion is led by our search for investments with impact, which means bringing together underserved segments of the population with regulated and trusted fintech firms. To embed sustainability, we follow our own investment strategy, processes, frameworks, and internal sustainability policy for financial institutions. We will also not invest in institutions that are not aligned to the *Investor Guidelines for Responsible Investing in Digital Financial Services*.

Embedding sustainability
When evaluating the impact of fintech investment proposals, we focus first and foremost on the alignment of the investees to our mission and vision. We use our own methodology and assess the company's profile and how it fosters finance. We review its commitment to financing the real economy, and verify if it does not engage in any activities on our exclusion list. We also look closely at the products and services from a customer perspective to ensure the right combination of 'tech & touch' and financial inclusion exists.

To do this we evaluate:
- the impact of the digital service on the end user;
- if the quality, accessibility and affordability of financial services have improved;
- if the fintech company balances digital technology with appropriate human interactions to engage, educate, and support customers; and
- if there is sufficient transparency in terms of product and pricing.

Mitigating risks

In addition to understanding the opportunities for impacts being generated, we also take careful and cautious steps to mitigate the risks, which includes:

- conducting a detailed country risk analysis of the investee's home base and how this aligns with our risk appetite;
- seeking sufficient evidence that the business model/technology is scalable (beyond seed phase);
- ensuring that a strong group of (like-minded) shareholders with the ability and willingness to support the company in its growth exists;
- analysing financials, projections, and asset quality;
- assessing the credit process, including (when applicable) assessment of algorithm composition and usage, and the availability and relevance of alternative data;
- evaluating data and privacy protection; and
- assessing the country's digital infrastructure and regulation.

Responsible investing

In 2018, the Responsible Finance Forum for Digital Inclusion developed the *Investor Guidelines for Responsible Investing in Digital Financial Services*, of which we are a founding signatory. We've incorporated them in our investment process and developed a due diligence framework to assess responsible practices of digital lenders and to contribute to a more responsible and inclusive digital finance ecosystem. Our framework comprises a number of principles, which we actively promote with (potential) investees (see text box).

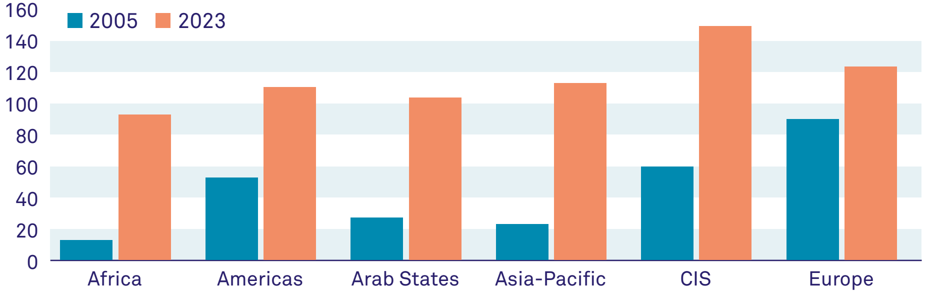
Principles of our due diligence framework

- The company is driven by consumer centric principles
- Impact is at the core of the company
- Pricing is responsible and terms and conditions are transparent
- The company actively prevents over-indebtedness
- Underwriting and algorithmic lending are based on the reality of consumers
- Product offering is accessible, understandable and relevant
- Data collection, management and security is done responsibly
- Recovery practices are adaptive, customizable and fair
- Remuneration policies are balanced and staff is treated fairly

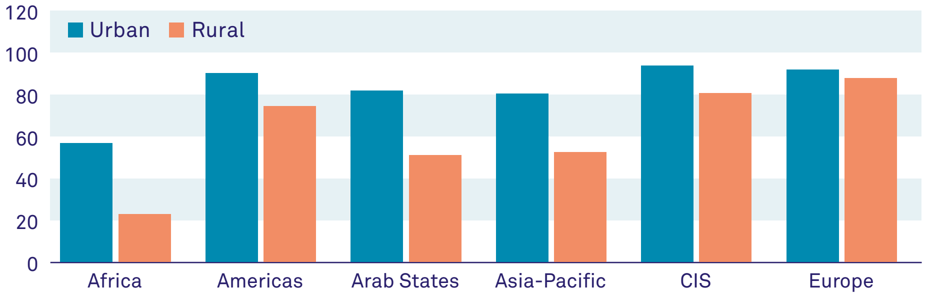
How regions we invest in compare

Our portfolio expansion is led by our search for investments with impact, which means bringing together underserved segments of the population with regulated and trusted fintech firms. Emerging markets are proven fertile ground for fintech and there is a rapidly expanding geographical presence. However, the level of fintech uptake and development across the regions varies significantly. This can be caused by the individual challenges faced by each country, such as regulatory frameworks, investments in technology, access to the internet and financial education. For each region where we are an active investor, we take these factors into consideration during the investment process.

Mobile telephone subscriptions per 100 inhabitants



Access to internet % of households by area 2023



Source: ITU World Telecommuinication/ICT Indicators database

Latin America

Fintech is quickly gaining traction in Latin America, mainly in the area of payments and alternative finance. We see Mexico, Brazil and Colombia as the most mature countries for fintech investments in terms of market size, and fintech regulation is also an important enabling factor. Mexico, for example, was at the forefront with the introduction of the region's first sector specific Fintech Law in 2018. This legislation acts as an umbrella for all fintech operations and is a first step to protecting customers and the credibility of the financial system.

Low banking penetration is a key driver for the surge and development of fintech firms in the region. More than half of Latin Americans have no access to any type of financial service, while banking costs for those that do are high. This provides fintech firms plenty of opportunity to truly disrupt and transform financial services, while the massive demand from both individuals and SMEs also makes the region a hot bed for alternative lending innovation.

Despite growth and opportunity in Latin America, fintech also faces challenges there. Progress is required to build the necessary infrastructure that supports and enables a fintech ecosystem. For example, to enable and boost digital payments and to digitalise cross-border payments. Adequate regulation is also lacking in many countries, and although venture capital and private equity funds have entered some Latin American fintech markets, this is not yet the case in many countries.

Africa and the Middle East

Fintech is rapidly spreading into Africa and the Middle East, and in many countries tech-enabled solutions such as mobile payments, mobile banking and digital lending are bypassing traditional banking infrastructure.

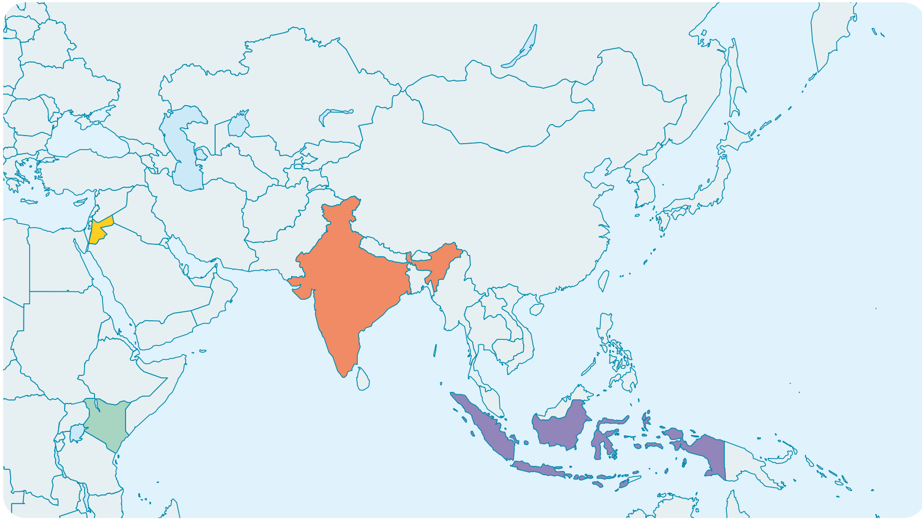
In this region, the countries with the most developed fintech ecosystems are Nigeria, Kenya, Egypt, Morocco, Jordan and South Africa. The main drivers for this developed ecosystem is a focused regulatory effort, which is driving financial inclusion and cashless payments, increased mobile phone access (93% in Sub Saharan Africa), Internet penetration, and a youthful, tech-savvy population.

Another growth factor for fintech in Africa is the low levels of financial inclusion: only 23% of adults in Africa have an account at a formal financial institution. This incentivises many fintech firms to offer solutions where the infrastructure is available. They also have the advantage of leapfrogging to data-mobile solutions, while many banks remain highly reliant on mostly branch-based face-to-face processes for acquisition and servicing.

Africa has built its fintech activities on the foundation of payments services, but in recent years there has been an influx of embedded finance initiatives. This has occurred in numerous sectors, including agriculture, renewable energy solutions, affordable healthcare and education.

Challenges making it difficult for businesses in the region do remain, including insufficient regulation and infrastructure in a large number of countries, and poor access to internet in Africa, which is the lowest in the world.

Asia



Over the past few years, the adoption of fintech tools has skyrocketed among consumers and small businesses in Asia. More people and businesses are using digital technology for e-payments, digital banking and online retail sales. Although COVID-19 fuelled a significant uptake, the main reason for fintech growth in the region is a lack of financial inclusion: 51% of adults in Indonesia are unbanked, around 20% in India and 31% in Vietnam.

Large markets in particular, like those of India and Indonesia, offer opportunities for multiple players to operate in different niches, including peer-to-peer lending platforms, embedded finance, mobile payments and neo-banks. Regulators in these countries are also pro-active and appear to want to open up the fintech sector for financial inclusion.

We also acknowledge that work still needs to be done to close digital divides that deprives vulnerable groups from the connectivity they need to join the digital economy, and which is more marked is some regions. This includes those living on a low income, women, elderly, and rural communities. Providing digital education and training is essential to unlocking the ability of communities to capitalise on the spread of digital technologies.

What's next for Triodos IM and fintech?

The fintech ecosystem is extremely broad and is constantly evolving with new innovative models. The enormous potential of these developments to deepen the impact of financial inclusion strengthens our ambition to further evolve our own fintech strategy.

We see four key fintech trends that can strenghten and support the development of the financial inclusion market, namely neobanks/challenger banks, embedded finance, payments/ remittances and responsible retail finance. Our future fintech investments will primarily focus on these market segments.

Neobanks and challenger banks
We see a trend towards product bundling that provide SMEs with multiple value-added services and, which in turn, produces greater access to data that can be used to underwrite businesses more effectively. These players are referred to as neobanks or challenger banks. Neobanks don't have a banking license themselves, but rather work through partners to reach out to their customers from web platforms and mobile applications, in combination with multiple touch points. Challenger banks also leverage technology to streamline the banking process, however contrary to neobanks, they often have a banking license and also maintain a brick-and-mortar physical presence.

Our fintech investment focus

Embedded finance

- Neobanks / challenger banks
- Agricultural technology (AgTech)
- Energy transition
- Other (e.g., health and education)
- Responsible retail finance
- Payments/ Remittances

An example in our current fintech portfolio is Konfío in Mexico. It offers SMEs access to agile credit with an immediate decision process, which is based on data and artificial intelligence, as well as a platform for managing and financing payments between companies, a cloud system for operational, accounting, and financial management for companies and accountants providing those types of services.

Embedded finance

Embedded finance companies have a non-financial product or service as a core business but they have integrated a financial component that enables or enhances their offering. Embedded finance exists across a broad range of industries, from mobility, education and healthcare to e-commerce and trade. An example in our current portfolio is SunCulture, a solar irrigation company headquartered in Nairobi, Kenya. SunCulture offers productive off-grid solar use for smallholder farmers. Its flagship products are high-quality yet affordable solar irrigation pumps that can pump water from as deep as 100 metres to use for crop irrigation and livestock rearing, as well as domestic uses. SunCulture has pioneered a Pay-As-You-Grow model that allows the farmers to pay in affordable instalments by using various technologies, including mobile payments.

We closely monitor the embedded finance developments, in particular those that are related to our three key transition themes for the coming decade: the food transition, the energy transition and the transition towards an inclusive society. Agricultural Technology (AgTech) in particular, is a sub-segment of embedded finance that we particulary want to grow. AgTech companies use digitalisation and technology in order to help address some of the greatest challenges facing our global food system, particularly with a focus on food production. Important players are an estimated 500 million smallholder farmers in developing countries, who often lack access to production inputs, credit and markets. These models have become even more relevant during COVID-19, with agriculture considered an 'essential service' that has been shielded from the most severe economic effects of the recent pandemic.

Our exploration of this segment has resulted in our first investment, in Apollo Agriculture. This company targets sustainable agriculture businesses in Kenya. It bundles everything a smallholder farmer needs, for example farm inputs, such as high-quality seeds and fertiliser, are provided on credit coupled with insurance, training, and access to markets, when possible. Technology drives each customer's touchpoint however it does not yet replace human interaction due to the current low customer comfort level with technology.

Payments/Remittances
Fintech platforms have the potential to be a game changer for remittances. Cross-border remittances sent by migrant workers represent a major source of income and subsistence for millions of families and businesses. Fees and other costs for transfers can typically account up to half of the amount sent by migrant workers via traditional channels, however fintech firms are able to systematically charge less fees than conventional money operators and banks. Governments in the context of the G20 have made it a priority to reduce transaction costs and facilitate these capital flows, while the Sustainable Development Goals also have specific targets for these costs. Examples of these kinds of fintech firms are Wise and MFS Afica, both of which have connected money transfer operators to local payment infrastructures. In most countries these financial services are regulated by financial conduct and regulatory authorities.

Responsible retail finance
Responsible retail finance companies use technology to develop insights into the needs and behaviours of their customers, reduce costs, and design and deliver tailored, simple, transparent and fair financial products. This offering can be attuned to the various life-stages of customers and combine the power of savings, credit and insurance into one solution. Often they not only give customers access to finance, but also provide guidance on how to use financial products in a responsible way. These models will evolve and become more tailored to the context of emerging markets, where the access to credit gap continues to be vast, especially for those living on a low income. We are closely monitoring these developments and are exploring investment opportunities in this segment.

Final reflections

Inclusive fintech has the power to impact the lives of many in a meaningful way. Therefore, Triodos IM will continue to invest in those fintech players that contribute to an equitable and resilient society through their products, services, and business practices.

Emerging markets are the next place to be in fintech, driven by huge addressable markets, low levels of financial inclusion and, a young, tech-savvy population. We see an important role to play for central banks and regulatory authorities, as their fintech regulation policies can either promote or stifle the progress of financial inclusion. For many regulators this means 'learning by doing', for example by testing grounds for new business models, adapting regulatory frameworks and addressing cross-border problems. We see across regions that fintech players work together with regulatory authorities, combining financial innovation and sound risk management practices. The role of impact investors and the venture capital/private equity industry at large will also be key in helping innovative start-ups get off the ground.

Fintech is developing a strong track record in financial inclusion and we see it as an integral component and natural next step in promoting financial inclusion. Our fintech investments around the world are contributing to this momentum by improving access to financial services for the underserved, as well as facilitating government transfers and payments. We are part of this digital financial revolution and are well aware that trust will largely dictate the future trends and success of fintech. Our choices are to favour fintech that support customers through accessible, affordable and transparent services.

We encourage regulation that imposes responsible lending to prevent over-indebtedness and protect consumers from discrimination and support data security. We encourage equal access to financial literacy and to the benefits of the positive impact of technology in finance.

Fintech is helping our integrated approach to impact investing in emerging markets by complementing our investments in financial inclusion, renewable energy, as well as sustainable food and agriculture. We are now even better equipped to realise our ambitious goals to deliver sustainable impact, while realising healthy financial returns.

› Table of contents

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Colophon

Triodos Investment Management (Triodos IM) is a globally active impact investor. We see impact investing as a driving force in the transition to a green, inclusive and resilient economy.

We have built up in-depth knowledge throughout our 25+ years of impact investing in sectors such as Energy and Climate, Financial Inclusion and Sustainable Food and Agriculture. Triodos IM also invests in listed companies that support sustainable solutions for the future.
Assets under management as per end of December 30 June 2023: EUR 5.7 billion.

Triodos IM is a wholly owned subsidiary of Triodos Bank, a leading expert in sustainable banking.

Investing in positive change
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