

An aerial photograph of vast sand dunes under a sunset sky. The dunes are illuminated with warm, golden light, creating soft shadows and highlights. A small blue vehicle is visible on one of the dunes in the lower center. The sky is filled with scattered clouds, and the overall atmosphere is serene and expansive.

VEF

The emerging market fintech investor

Sustainability Report 2020

Fintech driving financial inclusion – VEF’s sustainability footprint

VEF’s purpose is to create long term sustainable value for our shareholders by investing in the future of finance across the emerging world. As a key input into driving long term shareholder returns, we integrate environmental, social and governance (ESG) considerations into our investments process and we are strong believers in the positive impact fintech companies in emerging markets can have on society.

Our investment decision-making process is driven by a strong belief in: (1) sustainability as a fundamental part of business and (2) the power of active shareholding, to ensure strong governance and responsible business practices. By being an active and responsible shareholder, we can ensure that our portfolio companies build long-term and sustainable businesses that contribute positively and not negatively to society.



VEF core values

The basis of VEF’s overall mission and strategy are our core values, which form the basis for how we conduct business in a sustainable way. The core values are always on our minds to guide us in our mission and strategy to build a successful investment company.

Stewardship

We are an active and responsible shareholder and we take corporate governance very seriously, both with regards to how we conduct our business and how our portfolio companies conduct theirs.

Integrity in everything we do

We are transparent, open, honest, fair and ethical towards all stakeholders: our investors, employees, investments, suppliers and the communities served.

Respect for people and diversity

We seek diversity of thought and background and respect the individual. Innovation and success come out of bringing people together from different backgrounds, with different ideas, strengths and experiences.

Positively impact the world

We strive to make returns by positive social impact, participate in the creation of economic opportunities for those without, advance new technologies and business models that are sustainable and improve financial intermediation.

What does sustainability mean to us?

For VEF, sustainability has two dimensions: 1) sustainability at VEF as a company and investor and 2) sustainability in our portfolio companies. VEF is a small company with few employees, but we recognize the value and importance in keeping our house in order for our long-term and sustainable growth as an investment company. At the same time, we believe that our most meaningful and effective impact comes from our capital and our portfolio companies.

Sustainability in our portfolio companies is also addressed on two levels:

1. Ensuring that all portfolio companies conduct fair, ethical, non-discriminating and ESG-compliant businesses to allow long-term sustainable growth.
2. The positive impact they may have on the society by enabling financial inclusion of consumers and SMEs in emerging and frontier markets.

“Our ambition and goal are that our capital positively impacts the financial inclusion of consumers and SMEs in emerging markets while staying true to our mandate of creating shareholder value”

While the first is a fundamental requirement for long-term and sustainable businesses, the second is taking responsibility for bettering the world. Our ambition and goal are that our capital positively impact the financial inclusion of consumers and SMEs in emerging markets while staying true to our mandate of creating shareholder value. By investing in VEF, you also make a difference and contribute to the financial inclusion in the emerging world.

Focus areas

Our sustainability efforts are focused on three core areas that we believe are the most relevant and effective to VEF and the portfolio companies given that we invest specifically in fintech companies in emerging and frontier markets. Not all of VEF’s geographies have adequate local laws and regulations that meet VEF’s ethical standards. As an example, there may be issues with corruption in some of these countries. In addition, financial services companies are often regulated and deal with large amounts of private data, hence the importance of regulatory compliance.



Business ethics

- Regulatory compliance, anti-corruption, AML and general business ethics



Responsible financing

- Fair and transparent consumer practices
- Data privacy and security
- Responsible lending and debt prevention



Financial inclusion

- Improve and provide access to fair and affordable financial services

You can read more about business ethics and responsible financing on pages 62-64 where we present detailed information on our sustainability processes and about financial inclusion on the following pages.

The UN Sustainable Development Goals and Financial Inclusion

We support the United Nations Sustainable Development Goals (SDGs) and we believe in the importance of private businesses contributing to the goals for them to be achieved. VEF's main contribution to the SDGs is via our portfolio companies and specifically the financial inclusion of consumers and SMEs. By investing in fintech companies in emerging markets, we are convinced that we positively contribute to society and the SDGs. We see economic prosperity as an enabler to tackle both fundamental issues such as poverty, hunger and literacy, but also as a means for societies to develop and advance.

The Office of the UN Secretary-General's Special Advocate for Inclusive Finance for Development (UNSG-SA), the Better Than Cash Alliance which is hosted by the United Nations Capital Development Fund (UNCDF), and the World Bank have identified that digital financial services can contribute to almost all of the SDGs. UNSG-SA have narrowed this down to 7 SDGs that financial inclusion more specifically contributes to and we agree with this selection of relevant SDGs based on our portfolio companies' impact:



In the coming year we will further develop and define our work strategy towards having an impact on the SDGs.

Fintech driving financial inclusion

For the majority of the world, financial services are either unavailable or of poor quality.

- **1.7 billion** people globally have no access to financial services
- **76%** of those live in sub-Saharan Africa and South Asia
- **67%** of sub-Saharan adults and **32%** in South Asia are unbanked

Reliance on cash makes it extremely difficult for individuals to save for needs such as education and healthcare, prepare for financial emergencies, and invest in their small businesses. Fintech represents a massive opportunity for financial inclusion, with the World Bank asserting that fintech applications can especially help to drive development in emerging markets. Digital financial services, such as mobile wallets, electronic payments, fintech apps, digital credit services etc. can reach people previously excluded from these services.

Below are some examples of how fintech companies contribute to financial inclusion:

- **Providing access to financial services for previously unbanked or underbanked consumers and SMEs, i.e. democratising access to financial services**
- **Providing credit to low-income consumers and SMEs**
- **Providing financial services, e.g. loans and remittance services, to consumers on fair and affordable terms**

Each market has its unique challenges when it comes to financial services: Brazil with its high interest rates; Mexico where few SMEs have access to formal financial services and credit; or Pakistan where its large unbanked population and SMEs who cannot access formal credit.

In India, the vast majority of the population have been unbanked until only recently, and today approx. 80% of the population is banked. India has for many years also battled a shadow economy. Fintech has been a massive and positive contributor to financial inclusion and a weapon for the government and regulators in the war on cash. You can read more about this in the India section on pages 16-29. Both of our portfolio companies in India, Juspay and Rupeek, contribute to financial inclusion. Juspay enables and facilitates digital payments and Rupeek gives its customers access to secured credit at affordable terms to many of whom have previously not had access to formal credit.



Photo: Subman/Getty Images

Our portfolio company footprint

JUMO

JUMO has built technology that powers inclusive mobile financial services such as credit, savings and insurance products for unbanked and under-banked customers in emerging markets.

Since founding in 2015 JUMO has served almost 18 mln customers and originated over USD 2.5 bln in loans to consumers and MSMEs. When it comes to financial inclusion, JUMO is the benchmark holding in our portfolio, having integrated ESG into their strategy, processes and daily business operations.

-  **27% of customers earn less than USD 2 per day**
-  **1 in 3 customers are women**
-  **21% of customers live in rural areas**
-  **6 in 10 customers are entrepreneurs or micro-enterprises**
-  **60% first-time users of formal financial services**

“Our mission is to bring financial inclusion to the masses by making credit accessible to Indians in a convenient and cost-efficient way.”

- Sumit Maniyar, Founder and CEO of Rupeek






FINJA

Pakistan is a greatly underpenetrated market in terms of financial services.

With a population of 200 mln people, only 21% of the adult population have a bank account, and as little as 2% of adults and 7% of SMEs receive formal credit from financial institutions.

Finja is Pakistan’s leading digital lending platform with an integrated payments ecosystem focused on the financial wellbeing of businesses and their employees and specifically MSMEs. Finja also offers a mobile wallet which allows anyone with a smartphone to open a bank account easily, giving users access to multiple additional financial services. Finja collects transactional data and can therefore develop credit scores for its users. Only a fraction of the population and MSMEs in Pakistan have some kind of credit scoring today and for Finja users this is a clear value-add.




-  **More than 35,000 loans disbursed to date**
-  **More than 200,000 unique retail customers of which almost 50% are underserved**
-  **More than 3,000 unique MSME customers of which 100% are sole proprietors and a vast majority are underserved**



konfio

Mexican SMEs are underserved by traditional banks, where only 3 out of 10 businesses have access to formal credit.


Konfio is facilitating growth opportunities for SMEs and sole traders in Mexico, which have been severely constrained in the past. Many of its customers, even though creditworthy, have not had access to formal financing before.

-  **41% are sole proprietors**
-  **30% are female owned business**
-  **More than 50% are first-time users of formal financial services with no previous formal credit scores.**

creditas

Brazilian consumers pay some of the highest interest rates in the world.

Creditas defines its mission as reducing the Brazilian consumer debt burden. In Brazil consumers face some of the highest interest rates in the world, with APRs of commercial banks comfortably above triple-digit percentages for products such as credit cards, overdrafts and personal loans. Creditas allows consumers to use the assets they own as collateral to significantly reduce high borrowing costs.

-  **Cuts interest rates c. 80-90% from the normal 100-400% per annum typically charged by unsecured consumer lenders and credit card providers**

XERPA

Xerpa helps employees to avoid expensive loans by providing cheap credit through their payroll lending product.

60% of Brazilian workers struggle to make their paycheck last the month and consumers are often restricted to the expensive credit facilities with average APRs of more than 200%. Xerpa estimates that it has helped saved USD 130 thousands in credit costs for their users in 2020.

Sustainability report

VEF's ambition is to integrate sustainability into all aspects of our own business but also our investment process and shareholding of our portfolio companies.

VEF governance and sustainability

The Board of Directors of VEF adopts multiple policies on a yearly basis to ensure that the way we conduct business remains ethical and sustainable (Code of Conduct, Information- and Insider Policies, Investment Policy, Anti-corruption Policy, Sustainability Policy and Sanctions and AML Policy). Management has further implemented guidelines and practices to ensure compliance with VEF's various policies and sustainability principles. The relevant sustainability policies, guidelines and internal practices have been comprised into a Sustainability Policy and a Responsible Investment and Shareholding Policy. The policies are reviewed and updated annually by our Board. Our CEO, together with the Board, is responsible for ensuring internal compliance of all policies and that relevant and updated policies are in place when needed.

Sustainability Policy

VEF's Sustainability Policy sets out our core values and principles and acts as a framework for our sustainability standards, including accepted behavior at VEF regarding human rights, anti-corruption and diversity and inclusion. The content combines relevant aspects of the internal policies mentioned above and recognizes the importance of following international standards for business conduct and specifically the principles of the UN Global Compact, but also the OECD Guidelines for Multinational Enterprises, the ILO's core conventions and the UN Guiding Principles on Business and Human Rights. All employees at VEF are bound to follow these policies. Through active shareholding, we also strive to install these values and guidelines in our portfolio companies.

Responsible Investment and Shareholding Policy

Our Responsible Investment and Shareholding Policy sets out our expectations on and how we work with portfolio companies when it comes to sustainability matters. For more information see page 64 (How we invest).

Business ethics

At VEF, we take a clear stance against all forms of economic crimes and poor business ethics. Bribes, corruption, money-laundering and other forms of illicit and

unethical practices are strictly forbidden from both our own and our portfolio companies' businesses. The VEF anti-corruption policy stipulates the correct behavior relating to interaction with business partners and other parties. It contains guidelines concerning gifts, benefits and hospitality as well as compensation to business partners and potential influence on portfolio companies. As with any financial investments, especially considering some of the markets that we invest in, there are risks involved, for example regarding corruption and embezzlement. Therefore, our pre-investment analysis includes a screening for unethical businesses. We actively work to ensure that all our portfolio companies have proper policies and processes in place to meet our business ethics standard. The types of policies and processes required differs depending on business model as well as maturity of the company.

- During 2020 we have done a compliance review of 100% our portfolio companies.
- More than 90% of our portfolio companies (only 1 portfolio company lacks policies) have relevant business ethics policies or guidelines in place. Our goal is that 100% of all portfolio companies shall have relevant policies or guidelines by the end of the year 2021 and we will work actively with those that do not have any policies during 2021.
- During the year, no incidents of corruption or other unethical behavior were reported.

Industry involvement

Since 2020, we are a proud signatory member of the Responsible Finance Forum, a global community with the main goal to promote responsible investing and practices within the digital finance industry. By sharing knowledge and experiences, the aim with the forum is to harness evidence, solutions and best practices to advance responsible investments and innovation for digital financial inclusion. This includes promoting responsible financing practices, such as fair and transparent pricing and terms, data privacy and security as well as working to prevent over-indebtedness. VEF is committed to helping and guiding portfolio companies to improve their practices as well as interact with the wider investment community to collaborate on the furthering of responsible financing practices. Furthermore, we are members of the Sweden's Sustainable Investment Forum (Swesif), working for sustainable investing in Sweden, and Impact Invest Sweden, working to foster impact investments among Swedish financial market participants.

The VEF Team

We are a small but dedicated team, consisting of six employees, located in Sweden, London and Dublin. VEF prides itself on being an equal and diverse workplace with a gender balance of 50/50. One of VEF's core values is to seek diversity of thought and respect the individual, with a zero tolerance towards discrimination. VEF recruits, promotes and compensates based on merit, regardless of gender, ethnicity, religion, age, nationality, sexual orientation, union membership or political opinion.

Professional development

One of our most valuable assets is our staff, with a wide array of competences and experiences. Knowledge is not static, and one can always develop new skills and gain new knowledge, which we take great pride in. Courses, conferences and professional development in general is emphasized and encouraged. Internal knowledge initiatives included eg. training and participating in conferences related to sustainability, fintech, venture capital, finance, accounting, legal and tax.

Employees

Employee type	Permanent	Temporary	Full-time	Part-time
Male	3	0	3	0
Female	3	0	3	0

Composition of governance bodies and employees

Gender and age	Female	Male	<30	30-50	>50
Board of Directors	20%	80%	0%	40%	60%
Management team	25%	75%	0%	100%	0%
Employees	50%	50%	17%	83%	0%

Environmental impact

As a small investment firm with global investments and a team in several countries, the majority of our own environmental impact comes from business travel. VEF is committed to reduce its environmental impact and contribute positively to the environment. The areas where we act to minimize our impact are business travel and paper usage. VEF is a company that has worked digitally from the start. Our core business, including the investment team, almost exclusively works digitally. However, we have recently also converted most of the finance and legal departments as well as other administrative functions to digital and today we try to minimize the amount of paperwork as much as possible.

As a result of the pandemic our business travel has slowed to a halt. We have used this window to learn how we can effectively work with our investors, portfolio, pipeline and indeed each other on a remote basis. Travel will always be a key part of our business, to understand the markets and companies we invest in and stay on top of our holdings in a responsible diligent manner. We pride ourselves in being an active investor.

That said, we have learned that we can complement and partly replace some of our travel with remote communication tools. We can travel smarter and arguably less and hence, we commit to try and reduce our air travel and avoid unnecessary trips where possible. When we do travel, we aim to maximize the benefits and do multi-purpose focused trips as opposed to multiple trips to the same destination for different reasons.

Greenhouse gas emissions	Total amount (Tonnes CO2e)
Direct emissions (Scope 1) Company owned cars	0.00
Indirect emissions (Scope 2) Office electricity and heating	2.29
Other indirect emissions (Scope 3) Business travel	15.68
Total	17.97

How we invest

Our main strategy is to deliver high returns to our shareholders, and we believe that investments in companies with poor sustainability performance or questionable business ethics are in direct conflict with that. As our investments are made in companies with high growth potential, we can support the development of proper sustainability structures from the ground up, prepared to expand upon. Our Responsible Investment and Shareholding Policy outlines the sustainability principles for our investment process and our commitment to sustainability in our investment strategy. It also sets our expectations on our portfolio companies when it comes to sustainability.

As some of the markets we invest in are considered high-risk from mainly social and governance perspective (eg. corruption, money-laundering, compliance with laws, labour laws and human rights) a sound sustainability-risk assessment both prior to and during the lifetime of our investments is critical to remain an attractive long-term investment option. Thus, our investment process consists of a two-step, bespoke sustainability assessment that has been included in all our investments since the end of 2017; pre-investment analysis and post-investment analysis. Our Compliance Toolbox acts as a guidance for what VEF considers best practice within compliance, including how to conduct pre-investment investigations, how we ensure compliance during the investment lifetime as well as tools for the portfolio companies themselves to use.

Pre-investment

Our pre-investment analysis focuses on sustainability risks and opportunities before committing to any new investments. Three core areas are considered especially relevant for our type of investments.

- Compliance with applicable laws and regulations
- Business ethics, anti-corruption, fraud prevention and AML
- Data privacy and security

The analysis consists of a Sustainability Due Diligence, analysing both immediate negative factors but also long-term sustainability growth possibilities. The Due Diligence is conducted in-house, both remotely and in-person through interviews and site visits. By conducting the DD in-house, we have the possibility to tie it deeply to our values and simultaneously adapt it to fit the presumptive investment. The purpose is not just to mitigate risks but also to identify opportunities to improve sustainability matters in portfolio companies.

Post investments

By being an active shareholder VEF can work to ensure that our values and ethical principles are trickled down to the portfolio companies. As outlined in our Responsible Investment and Shareholder Policy we expect our portfolio companies to strive to follow international standards and best practice on business ethics, data privacy, human rights, labour rights and environmental issues.

VEF conducts periodical sustainability analysis of portfolio companies to ensure that we are up to date with any sustainability issues that may arise and to track progress in this area. By conducting such analyses, a continuous, proactive approach towards compliance with VEF's sustainability policies can be ensured. By taking this approach and encouraging our portfolio companies to identify existing or emerging gaps within sustainability, VEF can be supportive towards implementing appropriate governance structures and policies. We expect commitment from portfolio companies to build on and improve their sustainability impact as they grow and mature. The Board of Directors of each portfolio company is responsible for developing the sustainability strategy and ensuring its implementation. As we have representation on those boards and are typically a sizeable and active minority shareholder, we can influence, assist, and support this work.

Going forward

While sustainability matters are at the very core of what we do, this is our first dedicated sustainability report, and going forward, this is something that we intend to improve and build upon and report on annually. During 2021 we aim to develop our sustainability strategy and strengthen our governance structure further, with the intention to conduct a materiality analysis with relevant stakeholders. This is best practice to gain further insights into how to increase the impact from efforts within sustainability, by including important stakeholders in the development process. This will help us include sustainability even more into our investment process as well as follow up on existing investments through dedicated relevant KPIs. Our ambition for the coming year is also to further define and formulate our impact towards the SDGs and to be even more involved in our portfolio companies and support them by e.g. developing policies and sustainability strategies where needed.



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