

# VEF

**The emerging market fintech investor**

**Sustainability Bond Framework**

**March 2022**

## VEF in brief

VEF is an investment company focused on growth stage private fintech companies across emerging markets. Since our inception in 2015 as a spin-off from VNV Global (an investment company focusing on high-growth, tech-enabled businesses that benefit from network effects), VEF has become a leading investor in companies with outstanding fintech opportunities that are diversified by geography, business type and stage of development.

We are an active, long-term investor that looks to back entrepreneurs, and their teams, through to exit. We see finance as a force for good, and with our capital we have the possibility to positively impact the access to fair and affordable financial services while staying true to our mandate of maximizing returns. Listed on the Nasdaq First North Growth Market in Sweden, our team is represented in Stockholm, London, and Dublin.

## Fintech as a driver for financial inclusion

In large parts of the world, financial services for consumers and MSMEs (micro, small and medium enterprises, defined throughout this framework as per the IFC definition<sup>1</sup>) are largely either unavailable or of poor quality. Fintech represents a massive opportunity for financial inclusion, with the World Bank asserting that fintech applications are particularly well-suited to help support a positive development in emerging markets.<sup>2</sup>

Access to financial services contributes to individuals' ability to save for future needs such as education and healthcare, prepare for financial emergencies, and invest in their businesses. Close to 1.7 billion people globally lack an account at a financial institution or through a mobile money provider. Nearly half of them are in just seven countries, including India, Pakistan, Mexico, and Nigeria<sup>3</sup> – all of which are focus markets for VEF.

Financial inclusion for SMEs is key to further the socio-economic advancement of emerging market economies. Mentioning but two contributions; they support employment generation and the economic advancement of countries and communities. Firstly, more job

opportunities are needed to absorb the growing workforce, and in emerging markets 70% of all formal jobs are generated by SMEs. Secondly, contributing up to 40% of GDP and representing around 90% of businesses in emerging markets, small businesses contribute to further the economic development of countries and communities.<sup>4</sup>

However, the International Finance Corporation (IFC) estimates that 40% of formal SMEs in emerging markets lack access to credit - an unmet financing need which represents a missed opportunity. The financing gap is even larger when micro enterprises and informal SMEs are taken into account.<sup>5</sup>

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<sup>1</sup> [IFC's Definitions of Targeted Sectors](#)

<sup>2</sup> [Digital-Financial-Services.pdf \(worldbank.org\)](#)

<sup>3</sup> [2017 Findex full report chapter2.pdf \(worldbank.org\)](#)

<sup>4</sup> <https://www.worldbank.org/en/topic/sme/finance>

<sup>5</sup> IBID

# Our portfolio

We invest in technology that enables financial services across emerging- and frontier markets. Every market has its unique features, challenges, and opportunities - be it the regulatory backdrop, digital adoption access or wrongly priced financial services. Therefore, our portfolio represents investments in a broad array of sub sectors within the fintech theme.

On the credit side, our portfolio companies offer solutions for people and MSMEs on both the secured and unsecured side. In the payments space we are invested in companies offering solutions including specialized digital payments offerings, mobile focused payments, cross border remittances as well as mobile tools and services (e.g., mobile wallets) that support people' financial wellbeing.

Below are some examples of companies we are invested in, highlighting fintech as an important tool to drive financial inclusion for un- and underserved people and MSMEs.

**B** Brazilians pay some of the highest interest  
**R** rates in the world, whilst secured lending  
**A** remains uncommon. This means that  
**Z** many, regardless of initial economic  
**I** standing, find themselves caught in bad  
**L** spirals of costly borrowing. However,  
approximately 70% of all homes and cars  
are owned debt-free. Efficient lending  
solutions can allow people to use assets  
that they own as collateral to significantly  
reduce their borrowing costs.



Creditas is a digital lending company, leveraging collateral to offer loans at more affordable rates. Typically, interest rates are cut by some 80-90% from the normal 100-400% per annum usually charged by unsecured consumer lenders and credit card providers.

**M** Mexican MSMEs are largely underserved  
**E** by traditional banks, with only 30 % of  
**X** businesses having access to formal credit.  
**I** Out of Mexico's approximately seven  
**C** million SMEs, 19 out of 20 are considered  
**O** 'very small'<sup>6</sup>, implying even greater  
challenges gaining access to financial  
services, particularly for those that fall  
outside the scopes of micro funds.



Konfio provides credit to small businesses in Mexico.

**P** Out of Pakistan's 200 million population,  
**A** only 21% of all adults have a bank account,  
**K** and as little as 2% of adults and 7% of  
**I** SMEs receive formal credit from financial  
**S** institutions. This represents countless  
**T** individuals and SMEs without access to  
**A** financial services, as well as the risk of  
**N** furthering a large shadow economy.



Finja's digital financial platform offers Pakistan's MSMEs and people credit and payments solutions.

<sup>6</sup> Annual sales of less than the equivalent of USD 700.000

# The UN Sustainable Development Goals

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, specifically the financial inclusion of consumers and MSMEs. 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 (UNSGSA), 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 SDGs.<sup>7</sup> UNSGSA has narrowed this down to seven SDGs that financial inclusion more specifically contributes to which we agree with:



## Sustainability, an integral part of our business

VEF’s purpose is to create long term sustainable value for our shareholders by investing in the future of finance across emerging markets. We are strong believers in the positive impact that fintech companies in emerging markets have on society, and have therefore integrated environmental, sustainability and governance (ESG) considerations into our investments process.

We have specifically identified three core areas to focus our sustainability work on. These are particularly relevant for VEF as an investor in fintech companies in emerging markets.

<p><b>Business ethics</b></p> <p>E.g., Regulatory compliance, anti-corruption, ALM and general business ethics</p>	<p><b>Responsible financing</b></p> <p>E.g., Responsible lending and prevention of over-indebtedness</p>	<p><b>Financial inclusion</b></p> <p>E.g., Improving and providing access to fair and affordable financial services</p>
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<sup>7</sup> [SDG Compendium Digital Financial Inclusion September 2018.pdf \(unsgsa.org\)](https://unsgsa.org/wp-content/uploads/2018/09/SDG-Compendium-Digital-Financial-Inclusion-September-2018.pdf)

The application of sustainability has two dimensions to VEF:

- Sustainability at VEF as a company and investor  
*We recognize the value and importance of sustainability for our long-term success and growth as a company*
- Sustainability in our portfolio companies  
*We recognise that our most effective impact comes from providing capital to our portfolio companies. Inherently, sustainability and long-term value creation for shareholders goes hand in hand*

## Sustainability at VEF as a company and investor

We are transparent, open, honest, and fair towards all stakeholders, including investors, employees, portfolio companies, suppliers and the communities served by the companies that we invest in.

VEF's business is conducted in accordance with several internal policies adopted by the Board of Directors, including a Code of Conduct, Information- and Insider Policies, Investment Policy, Anti-corruption Policy and Sanctions- and AML Policy. All employees at VEF are obliged to follow these policies. Our Sustainability Policy combines relevant aspects of these various internal policies and together with the Responsible Investment and Shareholding Policy, this sets out the core of our sustainability practices.

At VEF, we follow international standards for business conduct, including the principles of the UN Global Compact, the OECD Guidelines for Multinational Enterprises, the ILO's core conventions and the UN Guiding Principles on Business and Human Rights. Through active

shareholding, we strive to instil, to the largest extent possible, our values and guidelines in portfolio companies as well.

We have consciously built a diverse team, in particularly in terms of thought and background, as innovation and success come out of bringing people together from different backgrounds, with different ideas, strengths and experiences.

Since 2020, we are a proud signatory member of the Responsible Finance Forum<sup>8</sup>, a global community promoting responsible investing practices within the digital finance industry. Furthermore, we are members of the Sweden's Sustainable Investment Forum (Swesif)<sup>9</sup>, Impact Invest Sweden<sup>10</sup> and Swedish National Advisory Board for Impact Investing<sup>11</sup>.

## Sustainability in our portfolio companies

To us, being a responsible investor means being active, engaging, and supportive in our portfolio companies' sustainability work and insisting on proper corporate governance.

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<sup>8</sup> [Responsible Finance for Digital Financial Inclusion, Global Investing \(responsiblefinanceforum.org\)](https://responsiblefinanceforum.org)

<sup>9</sup> [Framsida - Swesif](https://framsida.se)

<sup>10</sup> [Impact Investing | Impact Invest | Sverige](https://www.impactinvest.se)

<sup>11</sup> <https://www.linkedin.com/company/swedish-nab/?originalSubdomain=se>

We conduct both pre-investment and post-investment ESG analysis as part of investment practices. Should a potential investment have material ESG risks or deficiencies with limited possibility of improvement, it would not be completed.

VEF has established a thorough sourcing and due diligence process for investing. The investment team is responsible for the sourcing process. Investment opportunities with a strong sustainability impact and potential for financial inclusion are particularly attractive.

Our due diligence covers for instance commercial, financial, legal and sustainability aspects. It is conducted in-house by the investment and legal/sustainability teams in a thorough and detailed process tailored to each company. The due diligence process specifically includes assessment of sustainability risks relevant to fintech companies, such as over-indebtedness, predatory lending activities and fair consumer practices/transparency where relevant. Further details are outlined on our website and in the Responsible Investment and Shareholding Policy.

As an active owner, we encourage and support portfolio companies to identify gaps in their ESG strategies. We act proactively to ensure that portfolio companies adopt and implement appropriate policies, systems of internal monitoring and control and other routines as may be appropriate to ensure compliance with our ESG standards. We conduct periodical ESG analysis of portfolio companies to ensure that we are up to date with any ESG issues as well as to track progress.

Our investments are typically in the early stages of the business life cycle, meaning that some portfolio companies may not have yet developed proper ESG policies and practices. However, we expect to see devotion and commitment to build on and improve ESG work as they mature and grow. 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 sizable and active minority shareholder, we influence, assist and support this work. Additional details on our investment practices can be found in our Responsible Investment and Shareholding Policy.



São Paulo, Brazil (Photo: unsplash.com)

## About this Sustainability Bond Framework

VEF invests in fintech companies that provide financial services to underserved people and MSMEs in emerging markets as well as companies providing access to fair and affordable financial services, thereby promoting financial inclusion and economic empowerment. Furthermore, we invest in companies that make environmental solutions available to the many. Underserved people and MSMEs, are more frequently seen in many of the countries where VEF's investment companies operate, according to the Global Financial Inclusion ("Global Findex") database<sup>12</sup>. Therefore, by increasing access to fair financial services in those countries, we make financial services available to many more.

We wish to issue Sustainability Bonds to finance these investments and have therefore established this Sustainability Bond Framework (the "Framework"). The Framework has been developed in accordance with the Sustainability Bond Principles and the Green Bond Principles, both published in 2021 by the International Capital Markets Association ("ICMA").

The Framework defines investments that can be financed with proceeds from Sustainability Bonds, and outlines the process for evaluating, selecting, tracking and reporting on such investments.

Each Sustainability Bond issued under this Framework should in their relevant transaction documentation refer to this Sustainability Bond Framework.

As the market for sustainable and sustainability finance evolves, we may in the future update this Framework if appropriate. Potential future updates will not have an impact on Sustainability Bonds issued under this version of the Framework.

## Use of Proceeds

An amount equal to the net proceeds from Sustainability Bonds issued under this Framework will be used to finance investments, in whole or in part, that create positive sustainability impact by promoting financial inclusion.

Only such investments that comply with the criteria stated below are deemed eligible to be financed with Sustainability Bonds.

Sustainability Bond proceeds can be used for the financing of new investments, as well as for refinancing purposes. New investments are defined as investments made no more than 12 months prior to the issuance of a Sustainability Bond.

For the avoidance of doubt, Sustainability Bonds will not be used to finance investments linked to fossil energy generation, nuclear energy generation, research and/or development within weapons and defence, potentially environmentally negative resource extraction, gambling, or tobacco.

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<sup>12</sup> [Home | Global Findex \(worldbank.org\)](https://www.worldbank.org/global-findex)

# Eligible Sustainability Investments

An amount equal to the net proceeds from issued Sustainability Bonds will be used to finance and refinance VEF’s investments in companies that derive at 90% or more of their revenues from one or several of the categories listed below. In line with the ICMA Social Bond Principles, a particular target group may also be served by addressing a broader group.

## Social categories

	Details	Target population	Sustainability Bond Principles aligned category
<b>Financial inclusion</b>	<p>Improved access to the following financial products:</p> <ul style="list-style-type: none"> <li>• Savings</li> <li>• Insurance</li> <li>• Loans</li> <li>• Payments</li> </ul>	Underserved people <sup>13</sup> and MSMEs in emerging- and frontier markets as per the MSCI definition <sup>14</sup>	<ul style="list-style-type: none"> <li>• Access to essential services</li> <li>• Employment generation</li> <li>• Socioeconomic advancement and empowerment</li> </ul>
<b>Financial fairness and wellness</b>	<p>Improve financial fairness, health and wellbeing, through:</p> <ul style="list-style-type: none"> <li>• Lowering the price of financial products<sup>15</sup></li> <li>• Improved access to a broader array of financial products</li> <li>• Transparent fee structures and other cost implications of products products Transparency</li> </ul>	People and MSMEs in emerging- and frontier markets as per the MSCI definition where the offer of financial products is limited, poorly priced, ill-suited to consumers’ needs and with limited potential for individualization, low in transparency in terms of fees and other costs charged	<ul style="list-style-type: none"> <li>• Access to essential services</li> <li>• Socioeconomic advancement and empowerment</li> </ul>
<b>Financial infrastructure and enablement</b>	Development of services related to financial infrastructure buildout in areas such as payments	Underserved consumers and MSMEs in emerging- and frontier markets as per the MSCI definition, where the financial infrastructure does not support financial services to be accessed	<ul style="list-style-type: none"> <li>• Access to essential services</li> <li>• Socioeconomic advancement and empowerment</li> </ul>

<sup>13</sup> Defined as those who have not previously used formal financial services or those lacking access because financial products are either unaffordable or to a large extent unavailable to them

<sup>14</sup> [Market classification - MSCI](#)

<sup>15</sup> Compared to incumbent alternatives



**Green category**

	<b>Details</b>	<b>Green Bond Principles aligned category</b>
<b>Renewable Energy</b>	Improve access to renewable energy sources through financing solutions offering private individuals the opportunity to install solar cells or wind power	Renewable Energy

**Selection of eligible investments**

To ensure transparency and accountability around the selection of Sustainability Investments, VEF has established a Sustainability Bond Committee which is, together with the Board of Directors, responsible for the evaluation and selection process. The Sustainability Bond Committee consists of the CEO, the CFO, the Head of Sustainability and the Chief Investment Officer. The group will meet at least twice yearly, and all decisions will be made in consensus. The Sustainability Bond Committee’s decisions will be presented to the Board of Directors for final approval (or presented as investment recommendations to VEF’s wholly owned subsidiary VEF Cyprus, as the case may be).

Only investments eligible as per the Use of Proceeds section of this Framework will be funded by proceeds from any Sustainability Bond issued under this Framework. The Sustainability Bond Committee will keep a register of all Sustainability Investments. All decisions made by the committee will be documented and filed to ensure traceability.

The Sustainability Bond Committee and the Board of Directors each hold the right to exclude any Sustainability Investment already funded by Sustainability Bonds. This is further described below under Management of Proceeds. The Sustainability Bond Committee is also responsible for the future oversight of and updates to this Framework.

**Management of Proceeds**

An amount equal to the net proceeds from issued Sustainability Bonds will be earmarked for financing and refinancing of Sustainability Investments as defined in this Sustainability Bond Framework.

VEF will ensure that the aggregate amount of Sustainability Investments approved by the Sustainability Bond Committee and the Board of Directors is equal to or exceeds the aggregate net proceeds of all outstanding Sustainability Bonds issued under this framework. If the Sustainability Bond Committee, or the Board of Directors, were to conclude that a Sustainability Investment already funded by Sustainability Bonds has, in their opinion, lost its eligibility in line with the criteria in this Framework, it will be replaced by a qualifying Sustainability Investment as soon as practically possible.

Net proceeds from Sustainability Bonds awaiting allocation to Sustainability Investments may be invested in short term money market instruments or held as cash. For the avoidance of doubt, the same exclusion criteria as outlined in the Use of Proceeds section of this Sustainability Bonds Framework applies in these instances.

## Reporting

For as long as VEF has Sustainability Bonds outstanding in the debt capital market, we will publish an annual Sustainability Bond Report, to be made available for investors and other parties of interest on our website. The report will contain two sections, one outlining information regarding allocation of proceeds and the other describing sustainability impact (measured where possible and otherwise estimated). All methods and assumptions forming the basis of any calculation will be explained to provide transparency.

### The allocation section will include:

- Nominal amount of Sustainability Bonds outstanding
- Investments made per Eligible Sustainability Investment category
- The share of refinancing versus new financing
- The balance of unallocated funds and information regarding any temporary placements, if applicable

### The sustainability impact section will include:

- Examples of investments financed by means of Sustainability Bonds, including details of their impact for the target group
- Number of beneficiaries, i.e. loans granted

## External Review

VEF has obtained a Second Party Opinion from Sustainalytics to confirm the transparency of this Sustainability Bond Framework and its alignment with the ICMA Sustainability Bond Principles published in 2021. The Second Party Opinion will be made available on VEF's website together with this Sustainability Bond Framework.

An independent auditor appointed by VEF will provide a limited assurance report confirming that an amount equal to the net proceeds from issued Sustainability Bonds has been allocated to Sustainability Investments.