



# SECTOR SPOTLIGHT

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## IMPACT INVESTING IN FINANCIAL INCLUSION & FINTECHS



# 1 INTRODUCTION

With the aim of better understanding trends, challenges and growth opportunities, the **Aspen Network of Development Entrepreneurs (ANDE)** has developed a series of publications about impact investing in four sectors: biodiversity conservation, education, financial inclusion and health.

This publication focuses on the specifics of impact investing in financial inclusion and fintechs. It begins with an overview of

the social and economic context in Brazil, which is followed by data on impact investing in the sector taken from the second edition of the report "**The Impact Investing Landscape in Latin America**"<sup>i</sup>, recently published by ANDE and LAVCA (The Association for Private Capital Investment in Latin America). The publication then presents a case study of a business that received investment, before concluding with recommendations for the future.


## 2 CONTEXT FOR FINANCIAL INCLUSION & FINTECHS IN BRAZIL


Impact investments seek to combine positive social impact with financial returns. By investing in financial inclusion, investors inject capital into businesses whose purpose is to offer accessible and high-quality financial services to people and communities that are excluded from or at the margins of the traditional market. Financial inclusion creates benefits not only in financial life per se, but also allows the user to access a host of opportunities in income generation, education and healthcare, offering improvements in diverse aspects of life for the low-income population. Recent years have seen the emergence of "fintechs", businesses that use


information and communication technology (ICT) to offer new financial products and services and new channels for interacting with consumers.

In its third Financial Inclusion Report, launched in 2015, the Brazilian Central Bank considers three dimensions: **(i) access**—availability of financial products and services; **(ii) use** – breadth and depth of use of financial services; and **(iii) quality** – relevance of financial products and services to the daily life of the consumer<sup>ii</sup>.

Analyzing these three dimensions it becomes clear that Brazil still faces significant challenges to increasing financial inclusion:

**1** Approximately **35% of women** do not have a bank account<sup>iii</sup>. 

**3** **27% of low-income adults** managed to save in the previous year, but **39% of these kept the money at home**<sup>v</sup>. 

**2** Of the **57% of adults** in **classes CDE** that have a bank account, only 7% use it more than once per month<sup>iv</sup>. 

**4** The number of **defaulters** nationally reached a record of **61 million** in July 2018<sup>vi</sup>. 

On the flip side, these challenges represent an enormous opportunity for entrepreneurs and investors. A study conducted by EY in 60 emerging markets estimated potential revenues in Brazil of US\$20.5 billion by 2020, placing the country behind only China and India<sup>vii</sup>. The rapid growth in smartphone use in the country, coupled with the development of new technologies such as blockchain, offers opportunities to create new solutions that are accessible and appropriate for excluded groups whilst also being economically viable.

# 3 IMPACT INVESTING IN FINANCIAL INCLUSION

## Globally

The 2018 edition of the Annual Impact Investor Survey<sup>viii</sup>, published by the GIIN (Global Impact Investing Network) reports that of the US\$228.1 billion of assets under management (AUM) controlled by impact investors around the world, 19% is allocated to financial inclusion. Of the investors that responded, 45% reported having capital available for financial services. Transactions in the sector represented 27% of all investments made in 2017.

There is however a considerable difference between the proportion of AUM allocated for financial services in developed markets (28%) and that in developing markets (9%).

## Latin America & Brazil (2016-2017)

Looking at the data from the 2018 edition of the ANDE and LAVCA study in Latin America, and considering both deals categorized as “financial inclusion<sup>1</sup>” and deals in fintechs listed as “ICT”, it can be observed that:

- Of the 69 investments reported in Brazil in 2016 and 2017, three were made in financial inclusion and five in fintechs;
- Of the US\$131M invested in the country during the period, US\$10.3M was invested in financial inclusion and a further US\$13.8M in fintechs;
- The median value of deals in financial inclusion was US\$4M, and in fintechs US\$2M;
- Five different investors made investments, with two of these being Brazilian and three based in the USA;
- Of the 29 investors active in Brazil, 16 listed financial inclusion as a priority sector, making it the most common among the sectors chosen;
- Despite no exits being reported in financial inclusion in Brazil over the period, it was the sector with the highest total exit value for Latin America as a whole (US\$30.2M).

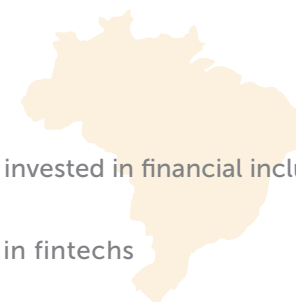
<sup>1</sup> The study separated investments in financial inclusion and those in microfinance institutions (MFIs). Specifically in Brazil, however, there were no MFI investments reported for the period analyzed.



In Brazil in **2016 & 2017**

**US\$ 10.3M** invested in financial inclusion

**US\$ 13.8M** in fintechs



In Latin America in **2016 & 2017**

**US\$ 30.2M**

total exit value for  
financial inclusion



**16** listed financial inclusion as a  
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# 4 CASE STUDY

# 4 MARÉ DIGITAL BANK

With the aim of promoting impact business and impact investing in financial inclusion, we present below a case study of an investment deal made in the sector.

## Context:



**Banco Digital Maré** (Maré Digital Bank) exists to facilitate access to financial services for people living in regions that are underserved by traditional players, offering its own cryptocurrency and online bank accounts.

## Problem:



Around 200,000 inhabitants of *Complexo da Maré*, one of the most vulnerable areas of the city of Rio de Janeiro, spend the majority of their lives with no access to traditional financial services such as a bank account or branch. This makes many everyday activities more difficult, such as paying bills, receiving money or accessing services, such as a cellphone contract. There are 55 million people in a similar situation across the country<sup>ix</sup>.

## Solution:



Alexander Albuquerque, founder and current CEO of Maré Digital Bank, perceived an opportunity to create impact and founded the bank in 2016, focused only on Complexo da Maré. Two years later he intends to reach the other 55 million Brazilians that need the bank's solution<sup>ix</sup>. By combining blockchain technology with a mobile app the bank allows its clients to transfer money, pay bills, make purchases and withdraw money at ATMs. This is all done without analyzing credit history or consulting the default register, thus avoiding reinforcing the vicious cycle of exclusion.

## Business Model:



The bank created a digital currency, called "*Palafita*", and generates revenue via a B2B model, thereby offering services free of charge to the end user.



### Social Impact :

In two years the bank has reached the milestone of 23,000 account holders with more than R\$23M in transactions, accelerating the economy of the local community.



### Future:

Currently operating in the Rio de Janeiro -São Paulo corridor, Maré Digital Bank is seeking to expand into other parts of Brazil in 2019 and into Latin America by the end of 2020. *"We don't want to be only a community bank. We want to be a bank for everyone who is excluded from the traditional financial system"*, says Albuquerque.



### Investments:

To continue with its ambitious growth plan, *Maré Digital Bank* has already raised two rounds of investments and is preparing itself for a series A shortly. The first round came from an independent investor and the second from the Catalyst Fund, supported by the Bill & Melinda Gates Foundation and JPMorgan Chase & Co. Since receiving the first round the bank's focus has been on improving product performance, developing relevant metrics and structuring its marketing and financial areas. The support of an advisory board with international representatives has been fundamental in raising funds and applying them effectively, increasing impact and potential for financial return.



MARÉ DIGITAL BANK



# 5 CONCLUSIONS & RECOMMENDATIONS

The **opportunities to increase financial inclusion in Brazil** are abundant, given the needs of the low-income population and the possibilities offered by technological advances. It is therefore encouraging to see that more than half of active impact investors in the country reported the intention to prioritize the sector in the coming years. To realize this potential, however, there are significant challenges and actions that need to be taken by both investors and entrepreneurs.

On the **investors'** side it is important to explore ways of offering capital with smaller ticket sizes that meet the needs of early-stage businesses. Among the investments reported in this study, only one was for less than US\$200,000. **Broadening the ticket size in this way would help to strengthen the pipeline for future investments** and help new solutions and business models to be tested and improved in a more agile way.

**Entrepreneurs** need to be closely aware of the needs, preferences and attitudes of the low-income population in order to address the **three dimensions of financial inclusion: access, use and quality**. This includes questions such as the degree of comfort with **digital technology, and relationships with and trust in other service providers (such as traditional banks and cellphone operators)**. To this end the base of the pyramid population must not be viewed as one homogeneous group, but as a mixture of distinct behavioral profiles that transcend categories of income, age and geographic location.

Looking at access, it is important to look beyond bank accounts and credit for consumption. There are numerous opportunities relating to entrepreneurs' needs for productive **credit and advancement of receivables, savings and investment** for families, **payment methods** that substitute paper money for consumption, and **customized micro-insurance for emergencies**, for example.



To incentivize use it is **important to think about digital inclusion generally**, about working with networks of influence (family, friends, work colleagues) to increase confidence, and about the degree of interoperability with channels for mass distribution, such as WhatsApp and Facebook.



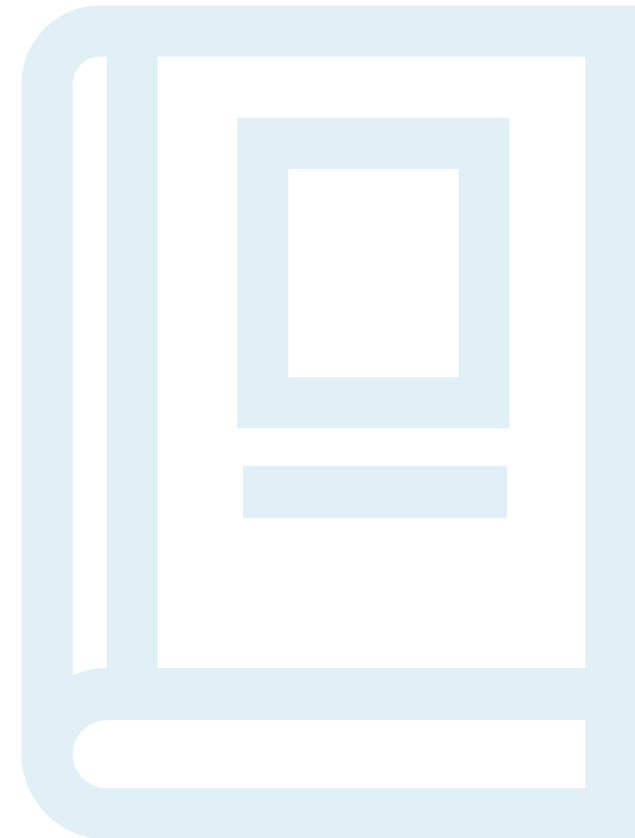
Lastly, but no less important, there is the question of quality. It is essential to think about the level of users' **financial education**, avoiding problems such as excessive indebtedness. Solutions must take into account the **characteristics of the mobile network** - frequently with slow or unstable connection and accessed via prepaid plans - as well as **issues of data security**.



**While developing, testing and expanding these new solutions, it is fundamental that entrepreneurs and investors maintain open channels of communication with regulatory bodies** such as the Central Bank. On the one hand this reduces the risk of operating outside the law, and on the other it allows these actors to contribute suggestions so that legislation itself keeps abreast of technological changes and the new business possibilities that arise from them.

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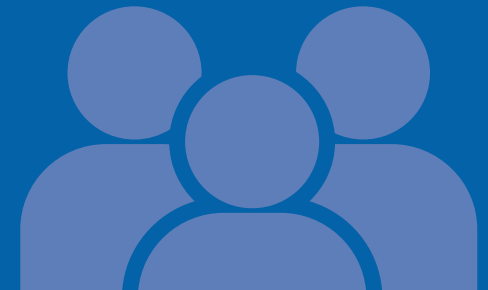
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