Unfounded.Ltd

Unlocking a USD1.7 trillion global investment opportunity

Unfounded Ltd is an investment opportunity that...

- Focuses on a global and largely unexplored market with significant potential for economic growth
- Has higher returns – 4.3 percentage points higher internal rate of return
- Comes with a lower risk – 31% less risk than comparable investments
- Offers better financial efficiency – 47 cents more generated for every one dollar invested
- Is under-financed by USD1.7 trillion
- Has profound social and societal impact
- Will help fulfill a number of the UN Sustainable development Goals by 2030 – by promoting equality, education and human rights
- Can potentially create an annual revenue of USD330 billion

Ignoring this potential means missing out on revenues bigger than an Apple Inc or an Amazon.com. Every year.

So, what is Unfounded Ltd?

It's women!

Unfounded Ltd is a metaphor for the untapped financial potential women and female-led businesses represent for the global economy.

Equally, it is also a way to bring attention to one of the major barriers for women today, and could-be entrepreneurs of tomorrow – the access to finance.

Growth potential

Women represent half the population, yet women-led enterprises is an investment theme that is largely unexplored among most of the world's investors. For perspective, companies founded by women received only 2.8% of US venture capital in 2019.[1] The business case and market opportunity is so significant, that no investor or financial services provider can afford to overlook it.

If men and women could participate equally as entrepreneurs, global GDP could rise by approximately 3% to 6%, boosting the global economy by USD2.5 trillion to USD5 trillion, according to an analysis by Boston Consulting Group (BCG).[2]

A high value investment

Women and women-owned companies display a range of appealing financial characteristics compared to male equivalents with higher returns, lower risks and greater financial productivity. These characteristics imply that virtually any investment portfolio would improve with an increased share of women-owned investees. The challenge is that women-led enterprises face difficulties obtaining financing and accessing financial services, particularly in low-income communities. 80 percent of women-owned businesses with credit needs are either unserved or underserved[3], resulting in a financing gap – the difference between funding available and funding needed – at an estimated USD1.7 trillion[5] in emerging and frontier markets. In terms of revenues, BNY Mellon estimates an annual USD330 billion in turnover is not materialized due to this finance gap.[4]

Profound social impact

Since 2014, non-profit H&M Foundation has supported CARE International's work to ensure equal rights for women, through economic empowerment. These projects have helped more than 167,500 women entrepreneurs in 18 countries start their journey out of poverty and into financial self-sufficiency, that in turn leads to job creation and economic growth where it is needed most.

This report is part of the H&M Foundation's global program on equality, raising awareness of the importance to re-define who can be a business leader. Why? Entire economies lose out when a substantial part of the population can't realize its full potential. Including women in the global economy is crucial to achieve the UN Sustainable Development Goals by 2030.

Unfounded's imagery illustrates women entrepreneurs that are locked behind the statistics.

Why fund women-owned businesses?

Unlocking the potential of women-owned businesses represents a significant opportunity for economic growth. In the developing world alone, 80 percent of women-owned businesses with credit needs are either unserved or under-served.

Many women, particularly in low-income communities, have turned to self-employment to earn a living. Entrepreneurial activities constitute a large proportion of women's paid work and are therefore an important step towards economic independence and empowerment.

In emerging markets alone, there are close to 162 million formal Micro and Small & Medium sized enterprises (MSMEs), driving economic growth, employment, and innovation. 28 percent of these are women-owned – around 45 million enterprises.[5] But the number of informal microenterprises is thought to be much higher, with women over-represented within this group.

MSMEs do not only represent a significant part of the world economy, they're also one of the strongest drivers of economic development, innovation and employment. Access to finance is frequently identified as a critical barrier to growth for MSMEs.

Creating opportunities for MSMEs in emerging markets is a key way to advance economic development and reduce poverty. It is also one of the major priorities of the World Bank and other development institutions around the globe. Although women's access to microfinance has grown exponentially in the last twenty years, the MSME finance gap in developing countries for women is estimated to be valued at USD1.7 trillion. [5]

Closing this finance gap represents an opportunity to unlock USD330 billion in annual global revenue. [4] This equals the potential of a new Apple Inc or an Amazon.com – every year.

At the same time, women outpace men in saving and repaying loans and, as calculated risk-takers, represent a lower risk compared to men making them sustainable clients. Banks that serve women also do well for themselves.

Data from banks serving 22 million customers in 18 countries show that: [6]

- Women outpace men in overall growth in volume of credit (15% vs. 10%) and volume of deposits (17% vs. 14%)
- Women are strong savers, with lower loan-to-deposit ratios than men (66% vs. 115%)
- Women are prudent borrowers, with lower nonperforming loans than men (2.9% vs. 4.2%)
- Companies that do well in the women's market also do better for investors (5.9% Internal Rate of Return (IRR) vs. 1.6% IRR)

Women-owned companies perform better on average than those with all male founders. Women-owned start-ups deliver higher revenue – more than twice as much, per dollar invested – than those founded by men.

"If you invested in a company with a woman at the helm, you would have outperformed the market." [7]

Robert Naess, Portfolio Manager, Nordea. Responsible for USD42 billion.

This fact is also reflected in the stock market where companies run by women perform far better than the market. During eight years, Nordea Bank analyzed nearly 11,000 publicly traded companies across the globe. The results showed that on average companies with a female chief executive officer or a female head of the board of directors had a 25 per cent annualized return since 2009, more than double the 11 per cent delivered by the MSCI World Index. [7]

According to Boston Consulting Group, start-ups founded and co-founded by women perform better over time and generate 10% more in cumulative revenue over a five-year period. [6]

"In terms of how effectively companies turn a dollar of investment into a dollar of revenue, startups founded and cofounded by women are significantly better financial investments. For every dollar of funding, these startups generated 78 cents, while male-founded startups generated less than half of that—just 31 cents."

Boston Consulting Group "Why women-owned start-ups are a better bet". [8]

- 78 cent revenue increase per dollar invested, female founded start-ups
- 31 cents revenue increase per dollar invested, male founded start-ups

Limited access to financial services – a barrier for women

A lack of access to financial services is one of the main barriers for women entrepreneurs in the developing world today. This means that a lot of the financial freedom that people in developed countries take for granted is not accessible for those women due to a number of factors.

Globally, 35 percent of women – or 980 million – do not have a bank account.[9] In the developing countries this figure increases to 41 percent of women compared to 33 percent of men.

In some areas in the world, it is common that women do not even have access to their own bank account, mobile phone or let alone the internet. In the world's poorest communities, girls and women bear the brunt of poverty. Women have lower average levels of education and business experience, and fewer professional networks which prevents them from productively utilizing their earnings.

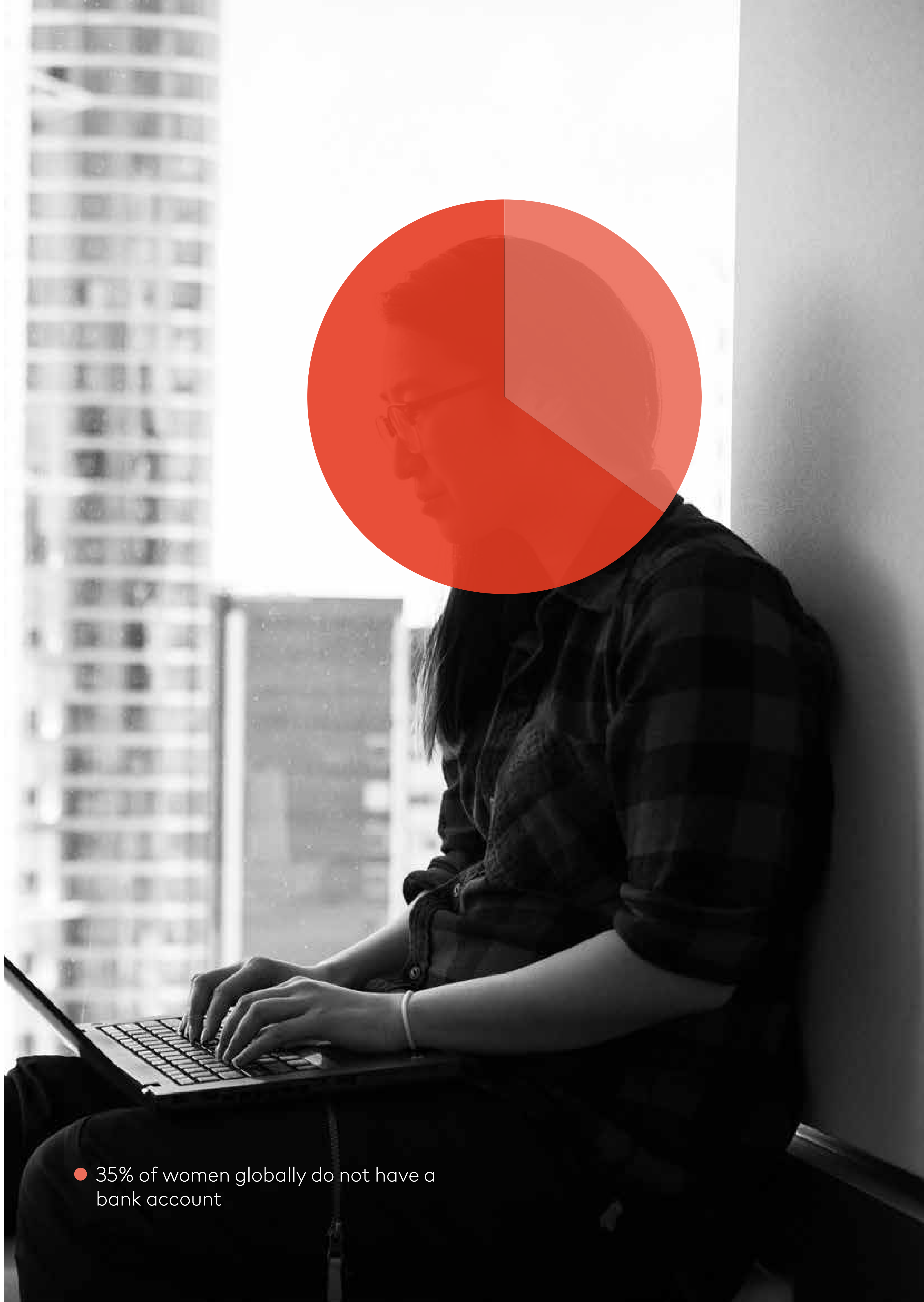
Men dominate the financial sector and traditionally, financial products and services have been designed by and for men. Women continually feel exasperated by the way financial companies serve them, citing disrespect, poor advice, contradictory policies, and seemingly endless red tape and one-size-fits-all forms.[10] Women have different demands than men, for example they want more detailed information, timesaving access to services, easy to navigate websites and easier access to staff and peers.[11]

In many countries, laws, political systems and social norms disadvantage women, for example by prohibiting property ownership. Collectively, all these barriers limit women from participating as equals with men in society and deter women from starting, growing and expanding their enterprises and believing in their ideas.

Empowering women to create income for themselves and grow their ideas into businesses is key to lift communities and countries from poverty and create equal opportunities. It addresses a number of important steps in fulfilling the Sustainable Development Goals for 2030 set out by the United Nations and could have a deep social and societal impact.

Barriers facing women

- Access to financial service providers (bank accounts, insurance, credit, advice)
- Access to mobile phones and internet
- Financial control
- Male-by-design
- Social norms, laws
- Financial literacy



How to close the finance gap

As a part of the financial sector, you are uniquely positioned to create positive change.

Depending on your position, there are a number of tools and practices to use if you want to address the barriers facing women and give more women the opportunity to equally participate in business.

This might require different approaches and solutions depending not only on what role you play in the financial eco-system, but also where in the world, in what market and in what stage you operate and have an impact.

Regardless of position or role, anyone working within the financial and business sectors should consider these general strategies for financial inclusion:

Welcome women

Listen to them, understand their needs, support their ideas, hire more women and involve them in decision-making processes. By doing so, your organization will have a better chance of addressing potential gender-lens biases from within.

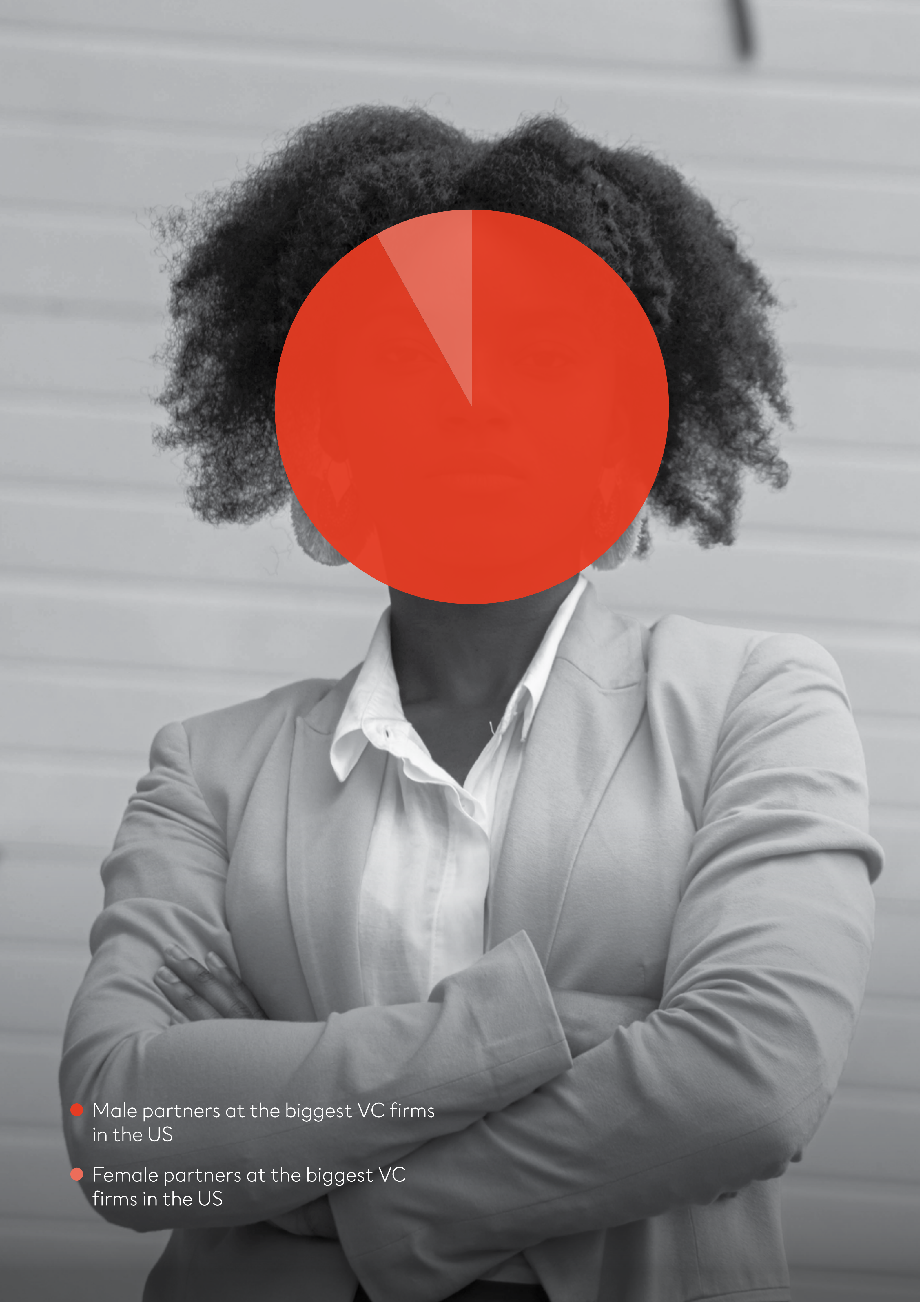
Understand how women equal good business

Women-owned companies, on average, perform better than those with all male founders with lower risks, higher returns and better financial efficiency. Moreover, the financing gap means that there is less competition for women-owned companies.

Embrace female perspectives

Because much of the financial sector and business world traditionally has been inhabited by men, the needs of women have continually been overlooked. Their needs and perspectives may be different and that may open doors to new groups of customers and markets, if understood and supported appropriately.

In this section we have compiled a number of tips, recommendations and insights from experts also dedicated to address the financing and gender gaps in business: BNY Mellon, United Nations Foundation, Boston Consulting Group and CARE International. We have also included experiences from the work H&M Foundation has done so far to support equal opportunities in business.



If you are a VC or investor:

you are the one writing the checks. This means you have great power to make a change. You need to be aware of structural biases and social norms built into funding decisions such as

Being bias

Be aware of the fact that you are more likely to invest in people and ideas that are familiar to yourself. 92% of partners at the biggest VC firms in the US are men.[8] If you're male, you're more likely to invest in other male investees.

Including women

Include women in investment decisions. Investment firms tend to have a male dominated culture. By including more women in the organization and into your decision making you open up for a more creative and unconventional thinking.

Technical skills

Don't just assume women to have less technical skills than men. Think about who you are turning to with all the technical questions.

Responding to feedback

Some founders are more direct in responding to feedback in pitches. Others more often hesitate to respond directly to criticism and need time to rethink and reflect over the feedback before responding. There's no better way, only different strategies that neither of them will directly affect the business idea itself.

Pitching styles

Some founders make bold projections and assumptions in their pitches. Others by contrast are more conservative in their projections. This may look like the founders that are more conservative are asking for less than the bold ones. Look for realistic projections in pitches. Don't just assume that the bold pitches are the best ones. More often realistic projections are a far better investment than some bold idea that maybe will make it, or not.

Share this report

Information is everything. Share this report on your next weekly meeting with your organization and ask everybody to read this. Discuss it on your next meeting and try to start working with these tips actively during pitches.

If you are a startup accelerator:

you have a significant role to play in giving women access to finance and closing the investment gap.

You can't be what you can't see

If you do not have a balanced field of applicants, start actively recruiting women entrepreneurs. Also, ensure you have sufficient numbers of women across industries. In this way women experts can act as role models and mentors to other women regardless of industry.

Seize the opportunity

Be aware of the fact that current market forces make women-owned companies very promising opportunities. The financing gap and non-existing funding means that there is less competition for women-owned companies. Also, women-owned companies, on average, perform better than those with all male founders.

Coach female entrepreneurs

Be open to coach other women entrepreneurs on the realities of the market and be able to guide them through all the startup challenges and the most common problems during the first critical period.

Create a community to create a case for change

Connect women founders to external resources. External resources could be: women-led, startup-friendly investors, incubators or partnerships. It could also be networking opportunities that can help women grow their businesses. You can share data on successful women-led businesses. You can be the spokesperson who cultivates a network within the financial community that female entrepreneurs can tap into.

If you are a financial services provider:

there's another dimension to this that comes in before investing in a female-led business, and even before the business idea is born – the basic financial system and related services.

Hire the right staff

Start training and employing more women in customer-facing roles within the industry. Deploy field agents who can reach women in marginalized communities. There is increasing evidence that employing women as banking and network agents in their own communities may be especially effective for commercial banks or mobile network operators seeking to expand access to and knowledge about financial services to underserved women.

Educate your staff

Improve training for male staff on working with women, listening to and interpreting their needs.

Stop pink washing

Making your business or products seem to be more women friendly without doing something about it for real is bad will.

Stop asking for collateral

Many lenders ask for collateral, such as land or a house. In many cultures, it is men who traditionally own the land or the house, which exclude women.

Develop your products

Involve women in the development of products and services, including marketing and financial management materials.

Add alternative products

Offer alternative solutions to collateral requirements for women who need loans.

Alternative solutions could be:

- (Legal) assistance in securing property rights
- Loans to buy land
- Loans based on cash flow, savings group history, mobile phone transaction history or track record of enterprise performance
- Group guarantee (approach similar to Villages Savings and Loans Associations)
- Accepting moveable assets (like jewelry)
- Introduce loans with more flexible repayment terms, for example; delaying repayment until a business is more established; recognizing cycles of income e.g. in agriculture; and maternity leave on loans. Evidence from India shows that more flexible repayment schedules can benefit clients and significantly lower transaction costs without increasing default rates.
- Offer low or no-cost savings and credit products.
- Introduce mobile money/digital financial services bespoke to women to improve access.
- Provide non-financial services e.g. financial literacy training, business mentoring/coaching and legal aid.

Make your distribution more including

Introduce more flexible opening hours that fit with the multiple tasks and limited time of women.

Look to women's needs

When reviewing data to better understand women and their bespoke needs, separate men and women.

Partner up

Partner with development organizations (who specialize in enterprise and financial training for women) to design products tailored to the needs of marginalized and low-income women.

If you are a female entrepreneur:

there are certain steps you could use to get even closer to investors and increase your chance of getting an investment.

Seek a coach

Ideally, find a coach with VC experience, who is able to assess practice runs and provide feedback.

Go bigger

During your pitch, ask for more money than you first intended to. There's no need to brag, but focus more on the positives than the risks or negatives. Just bring the objective data and let that guide you into responding to unwarranted criticism from the investors.

Prioritize female led VC firms

Be aware of which VC firms are led by women or have a great female culture or track record of investing in women. If you prioritize these firms, eventually other VC firms and investors will also go by their example.

Challenging stereotypes and creating positive change

Since 2014, and together with CARE, H&M Foundation supports women living in low-income communities to set up and run their own businesses by providing training, skills development and funding.

Investing in women entrepreneurs is a triple opportunity: there is a business case for financial institutions; it improves the enterprises and lives of women; and the domino effect of equality will be felt in their communities and beyond.

The Women in Enterprise Programme supports women living in low-income communities to set up and run their own businesses by providing support including training, skills development and funding. This encourages women from low-income communities to believe in themselves so they can move from survival to success.

Enterprise development is a proven mechanism to lift women out of poverty. The support does not stop at the most basic level, though. The global Women in Enterprise programme offers those women the opportunity to continue growing and even act as role models to other women living in poverty, as many become the employers of women in their communities. This cycle is both scalable and sustainable and allows for the continuous opportunity for women living in poverty to become economically independent.

Phase One of the Women in Enterprise programme ran from 2014-2017 and reached 100,000 women from low-income communities in eleven countries to start their own enterprises.

- In Burundi, all 10,000 women who participated in the project increased their income. The average rate of increase in income wa s 203%.
- In Guatemala, of the 1,006 women that participated in the training process, 55% were able to increase their production volume and their income.
- Access to finance can be a real challenge for many of the women we work with. In Burundi, CARE facilitated a link with Kenyan Central Bank so that 50 women could take out loans under favourable and secure conditions.
- Between 2015-2018 the programme's work in Ethiopia focused on women living in the slums of Addis Abeba. The project supported 5,000 women who stated that they have increased their income by 500%. Approximately 70% of the target group did not have any savings in the beginning of the project - this number was reduced to 3.6% in 2018.

Phase Two and Three of the of the Women in Enterprise programme runs from 2017-2022 and will reach 100,000 women from low-income communities in seven countries worldwide, ensuring they have adequate conditions to become successful and empowered entrepreneurs. Men and boys and other local stakeholders will be involved to change gender norms.

The impact of Villages Savings and Loans Associations (VSLA)

In 1991, CARE harnessed the ancient practice of group savings in a new concept called the Village Savings & Loans Associations (VSLA). This programme particularly focused on women, and provided a safe way to save money and access loans. Without outside capital, the VSLAs were introduced as a tool to bring financial services to rural areas of low- income countries, where access to formal financial services is typically very limited.

CARE's model helps women work with what they have – and directly reap the benefits of their lending. In effect, the women become their own investors, their own bankers.

A VSLA is a self-managed group of 20-30 members that meets two to four times a month, providing members with a safe place to save their money, to access loans and to obtain emergency insurance.

The impact of VSLAs to date:

- As of July 2018, CARE has directly supported 7.6 million members across 51 countries to join VSLAs, while influencing others to replicate the group model, for a total reach exceeding 15 million globally.
- Nearly 1 million members in a dozen countries opened their first bank account, substantially increasing women's control over income.
- Groups have opened up women's access to agricultural supply chains, connecting smallholder farmers with larger markets. In Tanzania, VSLA members achieved a 59 percent increase in their cassava yields and a 73 percent increase in their sesame production, leading women's annual income to jump by 30 percent.
- More than 300,000 young people, many of them adolescent girls or young women, have joined VSLAs and established solid financial management skills and income early in life. In Burundi, this newfound power has helped reduce child marriage.
- By joining forces, members have used VSLAs as a platform for social justice and political empowerment. In Niger, savings groups have helped transform not only communities, but also the national political arena. Half of the women in public office in the areas where CARE works have taken part in CARE programs.
- Today, more than 74 programmes in 20 countries across sub-Saharan Africa cite VSLAs as a vital component of national plans to achieve financial inclusion.

With many VSLAs, CARE links them to a formal financial institution – this has been shown to result in:

- Safety: VSLA members feel confident in the security of their savings.
- Interest: Members are motivated to save as they understand their money is gaining interest and working for them.
- Larger loans: Access to larger loans is a motivating factor both to save (for eligibility), as well as to invest in income generating activities.
- Formality: A formal institution makes VSLA members "stand up straighter."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About H&M Foundation

The H&M Foundation is a non-profit global foundation headquartered in Stockholm, Sweden. Its mission is to drive long lasting, positive change and improve living conditions by investing in people, communities and innovative ideas.

Through partnerships with organisations around the globe, the H&M Foundation aims to act as a catalyst for change and accelerate the progress needed to reach the UN Sustainable Development Goals by 2030. It focuses on four areas; Education, Water, Equality and Planet and can also provide emergency relief.

The H&M Foundation is privately funded by the Stefan Persson family, founders and main owners of H & M Hennes & Mauritz AB. Since 2013, the family has donated 1.5 billion Swedish krona ($200 million/€163 million) to the H&M Foundation.

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Contact

Diana Amini
Global Manager, H&M Foundation
E-mail: diana.amini@hmfoundation.com

About CARE International

Founded in 1945, CARE is a leading humanitarian organization fighting global poverty and providing lifesaving assistance in emergencies. In 100 countries around the world, CARE places special focus on working alongside poor girls and women because, equipped with the proper resources, they have the power to help lift whole families and entire communities out of poverty. To learn more, visit:

www.care-international.org.

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