

September 2020

SEB Microfinance Fund III

Final report



Contents

Introduction	3
Key achievements during the life of the fund	4
SEB Microfinance Funds & the UN SDGs	6
Investment Strategy	8
Portfolio investments	10
Financial performance.....	13
Social performance	15
Social outreach.....	16
Key factors & figures	21

What is microfinance?

Microfinance is the provision of access to capital and financial services that meet the needs of underserved individuals and businesses in view of improving social and economic development, generally in lower-income economies. Microfinance is offered in the form of credit, savings, remittances, payment services, insurance and other basic financial products. Microfinance extends the reach of financial markets where they would otherwise not go. It provides low-to-middle income entrepreneurs with services they need to start or grow a business and increase their capacity to absorb financial shocks, access goods of first necessity, accumulate assets, and invest in human capital such as health and education.

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Introduction

The SEB Microfinance Fund III was invested from June 2015 to June 2020. During this period the Fund's annualized return was 6.2% with an annual volatility of 6.2%. The capital was invested in 37 emerging and frontier markets, reaching out to 11.7 million entrepreneurs, of which more than half were women. Microfinance offers investors a double bottom line return, by being both socially transformative and offering an attractive financial return.

Table 1: Fund Key Facts & Figures

Launch date	1 June 2015
Term	5 years
Objective	Pursue a double bottom line return, being both a socially transformative impact fund and offering an attractive financial return.
AuM	USD 133 million
Number of transactions	125
Number of financial institutions	87
Number of countries	37
Number of borrowers reached by financial institutions	11.7 million

About this report

This report provides an overview of the investment strategy and portfolio, as well as the financial and social performance achieved by the SEB Microfinance Fund III. It also provides illustrative cases and describes how investors contribute to building inclusive and sustainable financial markets in emerging and frontier economies.

This report was prepared by SEB Investment Management in collaboration with Symbiotics.

About SEB & Microfinance

Microfinance is today the most established asset class within the field of impact investments. Its success is founded on the ability to offer investors both an attractive financial return and contribute to socioeconomic development for a population usually excluded from the financial system.

SEB was a pioneer among Swedish banks when launching its first microfinance fund in 2013, enabling institutional investors to channel capital to low- and middle-income entrepreneurs in emerging and frontier markets. SEB was also the second in Europe to offer microfinance funds in local currency (unhedged) to institutional investors.

About Symbiotics

Symbiotics provides investment advisory services to SEB Investment Management for their investments in the microfinance sector.

Symbiotics is the leading market access platform for impact investing in emerging and frontier markets, offering market research, investment advisory and asset management services to professional investors. Symbiotics currently employs over 150 people and is headquartered in Geneva, with offices in Zurich, London, Amsterdam, Mexico City, Singapore and Cape Town. Since 2004, Symbiotics has structured nearly 5,000 investment transactions in over 450 financial institutions across 85 emerging and frontier markets.



Key achievements during the life of the fund

USD 236m

Total volumes
loans

79%

Portion of loans in
LCY

37

Emerging and
Frontier Countries

87

Number of
investees

220,221

Estimated number
of jobs supported

53%

Female borrowers

30

Currencies

48 %

Rural areas



SEB Microfinance Funds & the UN Sustainable Development Goals (UN SDGs)

The SEB Microfinance Fund III contributed to the achievement of the United Nations Sustainable Development Goals (UN SDGs) through the investments made in emerging and frontier markets.

We identify the key SDG contribution for each transaction based on the main area of investment and the institution's activities. For example, an institution with more than 70% female clients was assigned SDG 5, and an institution with more than 70% of clients working in agriculture was assigned SDG 2.

As microfinance primarily address targeting financial inclusion, 61% of SEB III's portfolio contributed to SDG 1 (no poverty). In addition, 10% was invested in SME finance, providing financial services and products to small- and medium entrepreneurs. Through those investments the fund contributed to SDG 8 (Decent work and economic growth) as

it promotes job creation and ultimately economic growth. In terms of its contribution to SDG 5 (Gender equality), 24% of SEB III's portfolio focused on providing women with access to finance (funding institutions where at least 70% of borrowers are women).

Through a few investments in specialised financial institutions, SEB III also contributed to SDG 2 (zero hunger) and SDG 7 (affordable and clean energy). Contactar in Colombia and Kissandhan in India are good examples of institutions contributing to SDG 2. They are specialised in agriculture and offer financial products and services that address the needs of their customers and allow them to better seize opportunities. In terms of SDG 7, SEB III invested in M-KOPA in Kenya and Greenlight Planet Group. These companies provide solar lamps and solar home systems to customers located in sub-Saharan Africa and India to increase access to clean energy to people that had limited or no access to these services.

Source: Symbiotics

In addition, by investing in financial intermediaries with a wide range of socially and environmentally responsible products, SEB III indirectly contributed to several other SDGs, including access to clean water and sanitation, good health and well-being, and combating climate change, among others.

Financial Inclusion and the Sustainable Development Goals (SDGs)

SDGs indirectly addressed



SDG 3 – Good health and well-being
Offering affordable loans for health needs, as well as life, health and disability micro-insurance.



SDG 9 – Industry innovation and infrastructure
Financing small enterprises active in the production of goods and services in low and middle-income countries, and improving standards of technology and infrastructure.



SDG 4 – Quality education
Facilitating access to training for the development of skills for employment, decent jobs and entrepreneurship.



SDG 13 – Climate action
Combating climate change and mitigating the impact of natural disasters, particularly through the financing and teaching of resilient and adaptive practices through renewable energy products such



SDG 6 – Clean water and sanitation
Expanding access to clean and affordable drinking water and sanitation facilities, notably through loan products for septic tanks and latrines.

Financial Inclusion and the Sustainable Development Goals (SDGs)

SDGs directly addressed



Theme		How does SEB III contribute?	% of total origination
Microfinance		SDG 1 – No poverty Ensuring low-income individuals' access to financial services, including microfinance and savings products, as well as job opportunities.	61 %
Small business finance		SDG 8 – Decent work and economic growth Fostering inclusive job creation by financing micro, small and medium enterprises, and supporting the adoption of fair, equal and safe working practices	10 %
Microfinance		SDG 5 – Gender equality Empowering women by providing them with equal access to economic resources and opportunities.	24 %
Food and agriculture		SDG 2 – Zero hunger Increasing the output and efficiency of small-scale food producers and processors, to expand access to affordable food.	3 %
Climate and energy		SDG 7 – Affordable clean energy Facilitating access to affordable and reliable energy, including through renewable energy products such as solar, wind, hydro, biogas.	1 %
Total			100 %

Microfinance client story



Promoting Opportunities for Farmers in Colombia
Name: **Nohelia Matabachoy**
Institution: **Contactar**

When Mrs. Nohelia got married, she received 14 guinea pigs as a wedding gift, a type of meat of high demand in southern Colombia. These pigs are good business since the costs in terms of space and food are low and the reproduction cycle is short. Since becoming a client of Contactar her family business has grown, thanks to the financial literacy trainings and the low cost of the loans. She has broadened her business to raising pigs and has enough liquidity to cultivate vegetables and aromatic plants. Today, her loan amount to USD 1'000, and have a duration of 12 months, without collateral. As a result, her socio-economic situation has substantially improved. She was able to buy land that she now rents to cattle producers, built a second floor in her home, and reinforced her home's foundations, to mitigate the earthquake risks her family is exposed to

Mrs. Nohelia Matabachoy is a client from Contactar, her story illustrates how SEB III contributed to SDG 2 through its investments. With funding from Contactar, Mrs. Matabachoy has been able to diversify her agricultural business and seize new opportunities.



Investment strategy

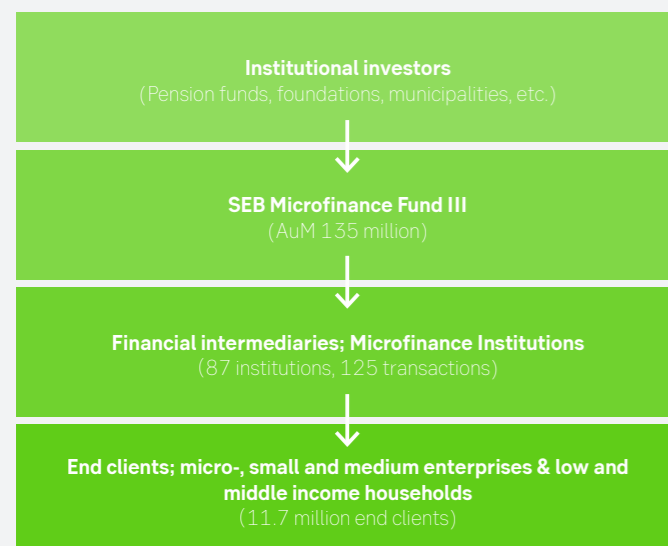
SEB Microfinance Fund III's investment strategy was to enable institutional investors to channel capital to markets and clients where it otherwise doesn't flow.

The SEB Microfinance Fund III pooled institutional capital and lent directly to financial intermediaries, such as microfinance institutions and banks, in emerging and frontier markets. These institutions provide credit and other financial products and services to meet the needs of micro-, small and medium enterprises and low- and middle-income households.

Micro-enterprises are defined as small businesses that employ up to 5 people, whereas small enterprises employ up to 50 people and medium enterprises employ up to 250 people.

SEB Microfinance Fund III's investment universe included financial institutions of all sizes, from institutions with total assets below 10 million to institutions with total assets exceeding USD 1 billion.

Figure 1: SEB Microfinance Fund III investment value chain.



Going local currency, unhedged in emerging and frontier markets

The strategy of the SEB Microfinance Fund III is to provide unhedged debt financing to microfinance institutions in their domestic currencies. There are two key reasons for this:

1. Ethical; taking the currency risk away from microfinance institutions and end-clients

There is a need for domestic microfinance institutions in emerging and frontier markets for local currency funding. When lending in hard currency the foreign exchange risk is passed to the microfinance institutions or the end client.

The microfinance institutions that have significant hard currency liabilities face a mismatch between their assets (in local currency) and liabilities (in hard currency). In many of these countries, the local solution for managing currency risk may be complicated, too expensive or unavailable.

By lending in local currency, the SEB Microfinance Fund III meets the borrowing needs of domestic microfinance institutions, improves their credit quality and takes the local currency risk from the investee to the fund. That currency risk has been managed by having a diversified portfolio throughout the life of the fund as well as receiving a premium on the interest on the loans, as explained herewith. With that said, the fund also had a USD exposure due to the fact that some of the targeted countries are dollarized.

2. Financial; the local currency risk premium

Historical analysis suggests that a well identified local currency (unhedged) strategy yields higher returns for investor portfolios. Investors benefit from a material premium since higher yields can be obtained with unhedged loans in domestic currencies, which would more than compensate for the depreciation of such currencies over the long term.

Symbiotics analysed the performance of hedged versus unhedged investment strategies over an 11-year period and found that unhedged strategies are more profitable overall. In fact, for 9.5 years of the 11-year study, going unhedged would have yielded additional profits for the investor¹. Investing in unhedged, local currency also allows for a more diversified portfolio as the fund can include a broader number of countries where complicated, too expensive or unavailable solutions for managing currency risk are not required.

Figure 2: Net yield of a basket of unhedged local currencies compared to hedged.



Annualized over or underperformance of unhedged strategy compared to hedged strategy (each data point below shows the beginning of a 3 year investment period) (net)

¹Symbiotics, *Impact Finance in Frontier Markets: the Case for Unhedged Investing*, September 2019

Microfinance client stories



Empowering Women Through Loans in Kyrgyzstan

Name: **Seyil Husanovna**

Institution: **OXUS Kyrgyzstan**

Seyil Husanovna lives in Osh, the second largest city in Kyrgyzstan. She has completed secondary education and decided to start her own business, a beauty salon. To diversify and grow that business, she applied for a loan of KGS 50,000 with OXUS (USD 630) and acquired a barbershop chair, a hair washing sink and a shelf cabinet to store her salon accessories. After repaying that first loan, she applied for a second to buy a washing machine which allowed her to offer customers a wedding dress cleaning service. With a third loan she was able to buy cosmetic products and accessories for her beauty salon. All three loans granted to Ms. Seyil were used for the purpose of growing and enhancing her business. Nowadays, Ms. Seyil's business has developed into a wedding salon where she employs four people. Her plan for the future is to open a branch in Osh city and to continue expanding into different regions in the country.



Providing finance to women-owned enterprises

Name: **Ms. Myint**

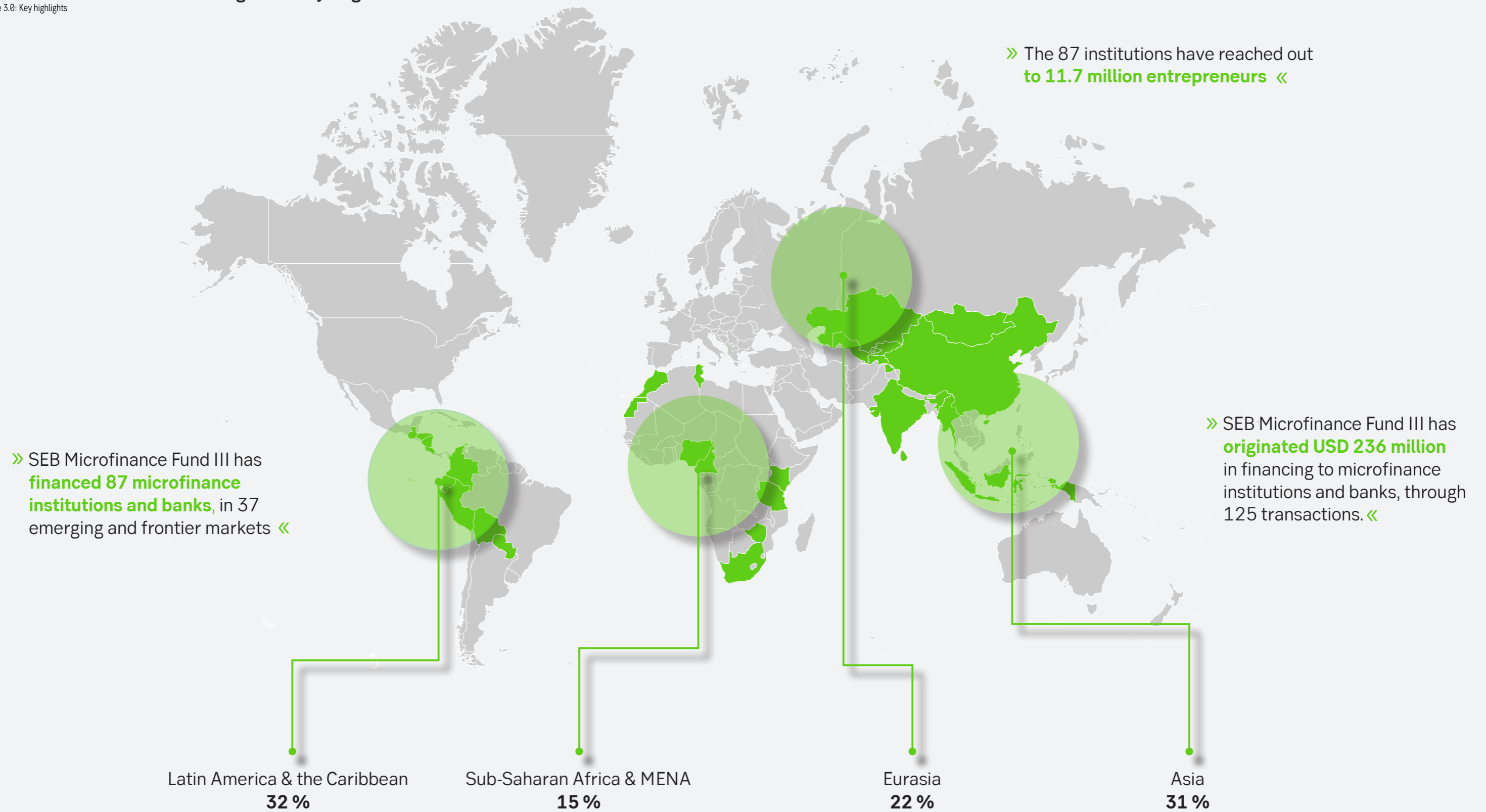
Institution: **LOLC Myanmar**

Ms. Myint lives in Yangon, the economic capital of Myanmar. She provides for nine family members. She is a client of LOLC Myanmar and is part of a six-member group within the institution's group lending methodology. She has taken a loan of USD 372 from LOLC Myanmar to expand her stationery shop. It has been four years since she opened her small, but fully stocked shop with her savings. Thanks to this initial loan, she was able to expand her business by increasing inventory and offering a greater variety of products. Ms. Myint earns USD 744 per month in net profits from her micro-enterprise. She is able to save USD 222 per month as well as repaying the weekly instalment of USD 17 from her profits.

Portfolio Investments

Portfolio investments - Fund Origination by Region

Figure 3.0: Key highlights



In terms of specific regions, SEB III invested most capital in Latin America and the Caribbean (USD 76m) followed by Asia (USD 74m), Eurasia (USD 51m), Sub-Saharan Africa, and Middle East and North Africa (USD 34m).²

²SEB III also made one indirect investment of USD 750,000 in Greenlight Planet Group. Greenlight Planet Group is a social business, domiciled in the United States, that finances solar home energy for underserved consumers in over 60 countries worldwide.

Financial Performance

Table 2: Portfolio Investments by Region

Portfolio Investments	Amount disbursed (in USD M)	Number of Transactions	Number of Countries	Number of Investees	Number of active Borrowers
Asia	74.3	39	8	28	7,574,828
South Asia	26.1	11	2	9	5,067,092
East Asia & the Pacific	48.2	28	6	19	2,507,735
Eurasia	50.8	29	8	18	1,364,252
Latin America & the Caribbean	75.6	40	9	26	1,904,506
Central America	17.5	8	4	7	167,249
South America	58.1	32	5	19	1,737,257
Sub-Saharan Africa and MENA	34.4	17	11	14	856,682
Sub-Saharan Africa	25.1	13	8	11	486,286
Middle East and North Africa	9.3	4	3	3	370,396

When the fund expired, in May 2020, uncertainty was high. The Covid-19 pandemic was spreading across the globe and forced many countries into lockdown with severe effects on low-income households and small business.

Microfinance institutions and banks granted payment moratoriums to clients during lockdowns and consequently, visibility was low in May on how the situation would evolve and to what extent institutions would be able to repay lenders. In the end it was only a handful of institutions that needed to prolong loans. The prolongations in combination with some workout positions held by the fund, meant that we had to keep 10% of AUM beyond the maturity of the fund. Half of that was repaid in May-21 and we are working on the sale of the remaining positions (described further down).

While it is too early to assess the long-term effects of the crisis, the sector has so far shown resilience, supported by coordinated efforts from impact investors, MIVs, and Development Banks.

As of April 13th 2021 the cumulative net returns of the SEB Microfinance Fund III to investors amounted to 30,5% in SEK for the A share class and 25,8% in SEK for the B share class, implying annual returns of 6,2% and 5,5%, respectively. Note that 5% of AUM has not yet been repaid as we are working on selling these positions. Further write-downs may take place, negatively affecting the final performance.

Coordination among MIVs in Response to Covid-19

As a first step towards a solution, nine microfinance investment vehicles (MIVs), including Symbiotics, collaborated to issue a Memorandum of Understanding (MoU), titled Coordination among MIVs in response to Covid-19. The MoU takes into consideration that the economic consequences of the pandemic will have significant effects on MFIs, and on micro- and SME clients. As such, it aims to guide the industry's response to the pandemic in a way that is transparent to investors, while continuing to support financial inclusion and protect vulnerable end-clients. It provides a coordinated response, depending on the health of the investee in terms of liquidity, solvency and payment default. This MoU was endorsed by the European Microfinance Platform and was made publicly available to encourage further coordination among industry actors. This ensured that financing was available during the height of the uncertainty.

Figure 4 Country Concentrations

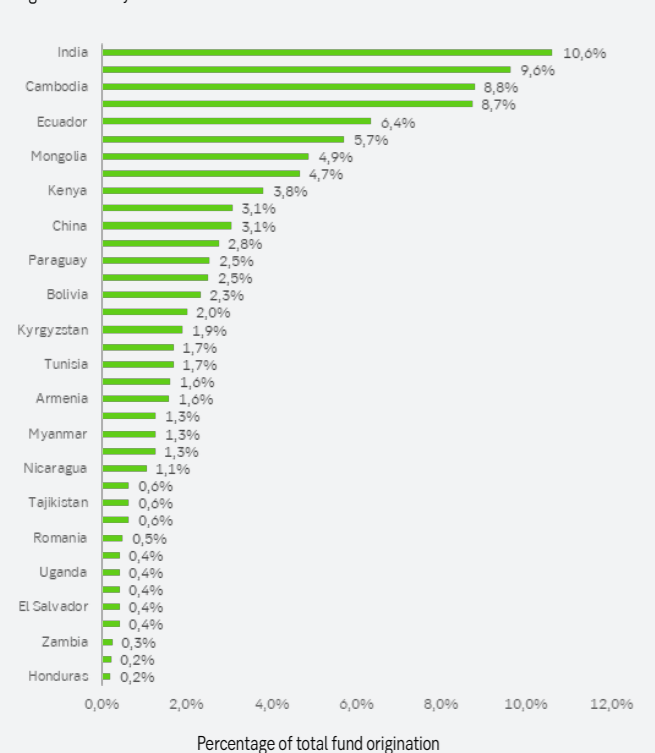


Figure 5 Currency Concentrations

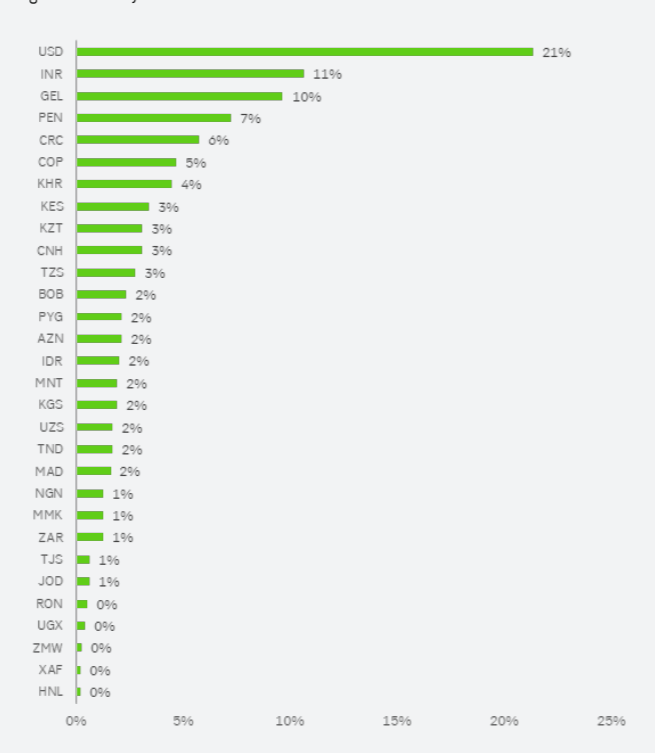


Figure 6: NAV SEB Microfinance Fund III – SEK

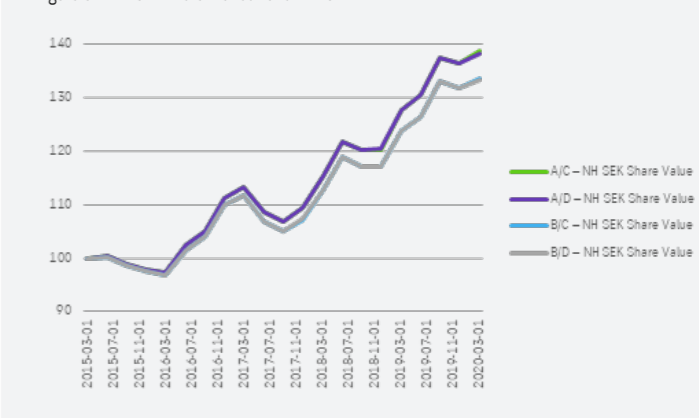


Table 3: Dividends

Share class	2015	2016	2017	2018	2018	2019
A/D SEK	0.00%	2.0%	5.0%	4.0%	10.0%	9.0%
B/D SEK	0.00%	1.0%	5.0%	4.0%	10.0%	7.0%
B/D EUR	0.00%	1.0%	5.0%	4.0%	10.0%	5.0%

Local currency yields and the currency effect

As a fully unhedged fund, SEB Microfinance Fund III's returns were driven by both the yields, or coupons, from the loans to the investee microfinance institutions as well as the movements in foreign exchange rates over the life of the fund. Over this five-year period, the currency effect was neutral in the fund and it was the yield of the loans that contributed to performance.

While several currencies showed a positive performance, a number of currencies have moved in the opposite direction. The strongest performing currencies were the Ugandan shilling (UGX), the Moroccan Dinar (MAD) and the Cambodian Rial (KHR). On the other hand, investments in Zambian Kwacha (ZMW) Nigerian Naira (NGN) and Azerbaijani Manat (AZN) had the most negative development during this time.

On a weighted basis, the US dollar (USD), Costa Rican colon (CRC) and Indian rupee (INR) contributed most to the performance. Taking the coupons into account, the combined return was positive for all but one of the 30 currencies in SEB Microfinance Fund III's portfolio.

Investing in quality microfinance institutions

As investing in quality microfinance institutions is essential to generate performance in a debt fund, 85% of the total investment were in investment grade microfinance institutions.³

As per the July 2021 valuation, cumulative write-offs over the life of the fund amounted to 1.8% of cumulative origination. This amounts to an annual write-off ratio of 0.7% of AUM over the life of the fund. However as noted earlier, 5% of AUM has not yet been paid out as we are working on selling these positions. Further write-downs may take place, negatively affecting the final write-downs. The following positions have been written down:

- The first case of loan default took place in 2016 with a microfinance institution in Azerbaijan, primarily due to the steep depreciation of the Azerbaijani Manat following the drop in oil prices in 2015. A restructuring of the institution took place in 2018 where the senior debt was converted into equity, contingency capital and senior debt. We are in the process of selling this position to another shareholder, but the legal process is lengthy.
- In May 2017, an institution in Zimbabwe started facing difficulties with repayment due to a deterioration in macroeconomic

conditions. A large budget deficient and imbalance of trade meant that the Reserve Bank of Zimbabwe was unable to make international payments. Consequently, many financial institutions in the country could not secure hard currency. Despite sound portfolio quality, one of the microfinance institutions in SEB III's portfolio was negatively affected by these developments. There has since been a persistent lack of hard currency as the government announced a 260% devaluation in February 2019. Despite the fact that the institution made one repayment in September 2019, it has been difficult for the institution to continue scheduled repayments in 2020 so the position has been written off.

- In Peru, COVID-19 hindered borrowers' repayment capacity, prompting the country's banking regulator to allow financial institutions to reschedule loans. For one institution in SEB III's portfolio, this resulted in the rescheduling of 85% of the portfolio, which ultimately reduced cash inflows. A second lock-down in the beginning of 2021 further postponed the recovery of the economy. A restructuring agreement has pro-longed loan maturities for all lenders. There are ongoing discussions to sell this position.
- In Ecuador, one of SEB III's investees was facing decreasing liquidity levels under tightening market conditions. While the institution, at that point, was making repayments as planned, it struggled to raise local deposits or international funding to support its growth. In early 2020, it announced a merger with one of the largest banks in the country. However, liquidity levels were heavily impacted by the pandemic, and the bank later officially cancelled the merger, leaving it with no short-term options for a sale or merger. This position has been sold.

While these cases reflect the risks of investing in emerging and frontier markets, which were greatly exacerbated by the COVID-19 pandemic, we believe the fund's performance demonstrates that investments in these markets can be made in a financially and socially attractive way.

Performance comparison with other asset classes

To provide context, we compare the risk-return profile of the SEB Microfinance II Fund over the five-year period relative to asset classes that are traditionally regarded as mainstream, recognising however that microfinance is not marked to market. The funds' annualised volatility amounted to 6.2% while the risk adjusted return (Sharpe ratio) was 1.05 (see table 4).

Table 4: Returns, Volatility and Sharpe Ratio Compared to Other Asset Classes (SEK)

Index name	SEB Microfinance III – SEK (A/C Share Class)	JPMorgan Emerging Markets Local Currency Debt Fund	MSCI Frontier Emerging Markets Index	MSCI Emerging Markets Currency Index	Stockholm Interbank Offered Rates 3-Month
Asset class	Microfinance fully unhedged	Fixed Income	Equity	Emerging Currencies	Money Market
Index currency	SEK	USD converted to SEK	USD converted to SEK	USD converted to SEK	SEK
Annualised return	6.2%	2.5%	-1.4%	2%	-0.3%
Annualised volatility	6.2%	10.3%	16.8%	6.9%	0.1%
Sharpe Ratio	1.05	0.27	-0.06	0.33	0.00

³As per Symbiotics proprietary credit risk ratings. Refers to the credit quality of the microfinance institutions.

Social Performance

The SEB Microfinance Fund III channelled capital to markets and entrepreneurs where income levels and financial inclusion is low. It has provided funding to socially responsible microfinance institutions that aim to contribute to the financial security, employment opportunities and living standards of millions of entrepreneurs excluded from the mainstream financial system.

Quantifying social impact is challenging given that many exogenous factors affect end-beneficiaries' daily lives and socio-economic progress. However, there is a wealth of empirical evidence that suggests there is a positive, causal relationship between financial sector development and economic growth.⁴ In addition, recent research using household data indicates that low-income households benefit from access to financial services, and use these services frequently to manage their income and spending needs.⁵

Social practices

To make sure that we work with the institutions that contribute positively to sustainable development and social impact, each investee was assessed pre-investment against seven dimensions and 100 indicators of social responsibility. We also assess that it was consistent with other information on the institution such as the financial information. These seven dimensions are:

1. **Social governance:** looking at the social orientation of shareholders as well as the financial institution's stated and effective commitment to its social mission, its target market and development objectives/stakeholders' needs.
2. **Labour climate:** assessing policies regarding social responsibility to staff, looking at human resources policy, systems to monitor employee satisfaction and staff turnover rate, as a measure of staff satisfaction.
3. **Financial inclusion:** measuring whether the financial institution has an efficient and proactive strategy and good results in terms

of financial inclusion, as well as its ability to serve low-income and excluded clients, especially those located in areas where no other financial services are provided.

4. **Client protection:** looking at whether clients are treated in a fair and transparent way if the negative impacts that affect them (notably over-indebtedness) are avoided as much as possible.
5. **Product quality:** looking at a financial institution's marketing strategy and activities, as well as the diversity and quality of its financial and non-financial products and services.
6. **Community engagement:** assessing the steps that the financial institution takes in implementing policies and actions aimed at supporting community development at large, and the social impacts of such steps on the community.
7. **Environmental policy:** whether the financial institution has any policies and initiatives in place to mitigate environmental impacts, not only of its internal activities but also, and above all, of its financed enterprises.



⁴Ogden, Timothy. (2019). What is the impact of investing in financial systems? Practical thinking on investing for development. London: CDC Group. Retrieved from: <https://www.cdcgroup.com/en/news-insight/insight/articles/the-impact-of-investing-in-financial-systems-reviewing-the-evidence/>

⁵ Ibid

Social outreach

In the remaining part of this report we describe the “the social outreach” of the SEB Microfinance Fund III to understand which markets and type of end-clients have been reached by the investments in the fund.

Market outreach – reaching underserved economies

The SEB Microfinance Fund III has channelled capital towards countries where income levels and financial inclusion are low and has done so in local currency for 79% of investments. On average, the fund invested in countries where 51% of the adult population had an account at a financial institution, which is significantly lower than both the world average (66%) and the average for low- and middle-income countries (60%).⁶

Furthermore, the GDP per capita in those countries (USD 4,992) is lower than the world average (USD 10,768) and in line with the average for all low- and middle-income countries worldwide (USD 4,673).

End-client outreach – serving a diverse set of end clients

The fund originated USD 236 million in financing to microfinance institutions, those institutions reached 11.7 million entrepreneurs with different characteristics as shown in Figure 9.

Figure 7: Banking penetration (average 5 years)

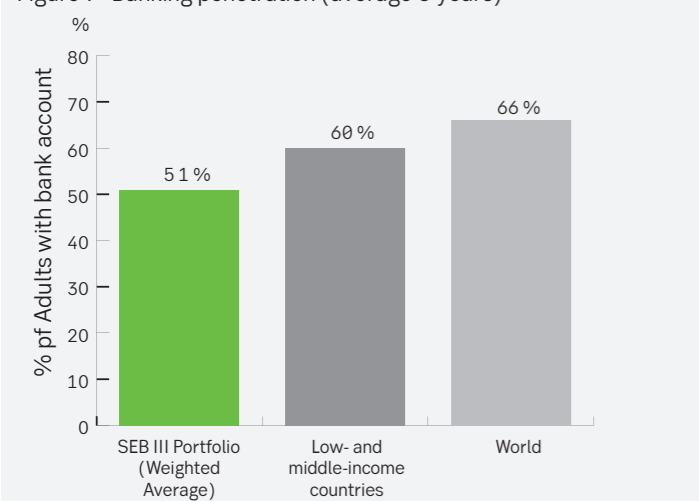


Figure 8: GDP per capita. Current USD (average 5 years)

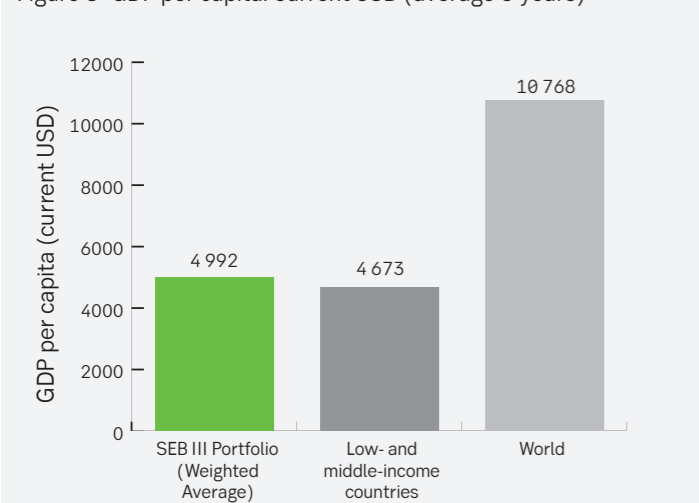
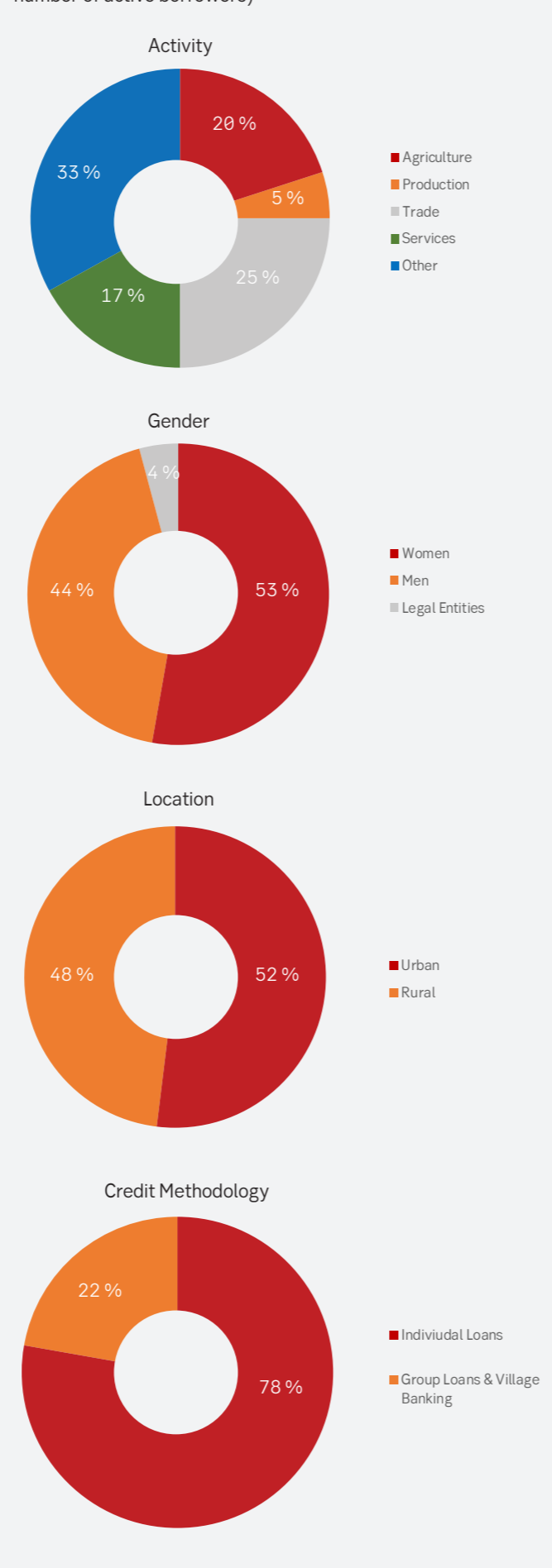


Figure 9: Fund end-clients' characteristics (5-year average, % of number of active borrowers)



The gender financing gap

Gender equality and empowering women is key to achieving the 2030 SDGs. This includes women's ability to participate equally in existing markets, access to and control over productive resources and decent work.⁷ When more women work, economies grow, and productivity is boosted.⁸ Moreover empowering women with access to financial services enhances the growth of their business and contributes to women's autonomy, the quality of life for the entire family and reduces vulnerability.⁹

By financing intermediaries with a strong focus on female clients, the SEB microfinance fund III contributed to gender equality and more specific bridging the gender financing gap. KWFT in Kenya is one institution out of many that actively work towards achieving gender equality-

Institution Profile: KWFT, Kenya

Kenya Women Microfinance Bank (KWFT) was founded in 1981 by a small group of women. It is today a leading microfinance bank, based in Nairobi. KWFT has been enabling thousands of low and middle-income families to improve their living standards with a diverse range of affordable loan products. It has a robust product and service offering that focuses on women entrepreneurs and farmers. In Kenya, many poor families spend a disproportionate amount of their earnings to obtain access to electricity and basic water and sanitation facilities. In effort to address this issue, KWFT provides six innovative and affordable loan products, financing: i. Energy-saving cooking stoves, ii. Solar lighting solutions, iii. Biogas digesters, iv. Connection to the electric grid, v. Water tanks, vi. Water purification systems. These products expand access to clean and reliable energy sources, as well as safe drinking water. KWFT counts the largest network of service points in the country and uses digital financial services such as mobile banking to reach a maximum number of clients.



Institution: Credo Bank

Credo is the leading MFI bank in Georgia and its mission is to provide sustainable financial services for micro, small and medium entrepreneurs. The majority of CREDO's clients are rural micro- entrepreneurs with an equal balance of men and women. To support its rural clients, it offers educational training to entrepreneurs involved in farming and tourism. KALO.GE is an educational agro-portal with articles, instructional videos, and farming calendar and there is a hotline available when agro-clients need advice on their farming activities (e.g. plant disease).



Rural financing gap

In emerging and frontier markets, urban residents are more likely to have an account at a financial institution than one living in rural areas.¹⁰ That said, people in rural areas still need financing for a number of purposes: to purchase agricultural inputs and equipment, maintain infrastructure, to contract labor for harvesting/planting, to transport goods to markets, to make/receive payments, to smooth income, to invest in education, housing, health and deal with emergencies. It is, however, more challenging for financial institutions to service these areas due to lower population densities, lack of infrastructure (internet connections, transport, electricity) and lower financing needs.¹¹

With close to half of end-clients being based in rural areas, the SEB Microfinance Fund III clearly contributes to providing equal access to financial services for rural and urban clients alike.

Credo in Georgia is an example of an institutions with a large rural clientele, they have served vulnerable entrepreneurs and small businesses since 1997.

⁶ The percentage of the population with an account at a financial institution is often used as a proxy for financial inclusion.

⁷UN Secretary General's High Level Panel on Women's Economic Empowerment Leave No One Behind: A Call to Action for Gender Equality and Women's Economic Empowerment.

⁸International Monetary Fund (2018). Pursuing Women's Economic Empowerment

⁹G20 Financial inclusion for women: A way forward. Retrieved from: https://www.g20-insights.org/policy_briefs/financial-inclusion-for-women-a-way-forward/

¹⁰ Account ownership is commonly used as a proxy for financial inclusion.

Source: Demirgüç-Kunt, A., Kalpper, L., Singer, D., Ansar, S., & Hess, J. (2018). The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: The World Bank. Retrieved from: <https://globalfindex.worldbank.org/>

¹¹ "Developing the rural economy through financial inclusion", ILO.

A diversified portfolio with end-clients involved in different sectors:

In terms of sectors of activity, end-borrowers were actively involved in small trading activities (25%), agriculture (20%) and services (17%). Other types of activities (33%) include transportation, construction, housing, renewable energy, and consumption.

AB Microfinance Bank in Nigeria is one investee with a large proportion of urban micro and small entrepreneurs involved in trade activities. The institution is continuously innovating to serve their clients more efficiently and offers free mobile banking services to its customers.

Institution: AB Microfinance Bank Nigeria

The majority of AB Microfinance Bank Nigeria's (ABN) clients are active in trade, mostly linked to agricultural products (such as corn, millet, peanuts, rice, taro and yams). Nigeria has recently experienced a consumer boom, which has increased local demand and MSME activity. A growing number of businesses are also specializing in services due to the development of the telecommunication sector. In fact, ABN was the first Nigerian bank to offer a free mobile banking service (myABmobile) to its clients, including a broad range of services such as account openings, transfers, bill payments, loan repayment reminders, airtime purchases and balance enquiries. ABN also provides its business clients with portable devices (myAB-POS), facilitating transactions with debit and credit cards.

ABN intends to serve unmet demand and become a leading enabler of financial inclusion. Moreover, the bank strives to empower active poor women, who, although driving the economy, are often excluded from upper scale financial institutions.



Micro-enterprises

Micro-enterprises are defined as companies with up to 5 employees but usually consists of self-employed individuals, many times women. Self-employment varies with the level of economic development; representing 76% in developing countries, 46% in emerging markets and 10% developed markets. Typical activities of micro-entrepreneurs are running food stands, small corner shops, cell phone top-up kiosks, small scale-farmers, two-wheeler taxis, tailors, furniture makings etc. Micro-enterprises often lack access to credit that is needed to invest in and manage their business and they are not as attractive for mainstream banks as they are perceived as high risk and costly to serve. The loans are often very small, and the clients are many times based in hard-to-reach rural locations. Enda is a microfinance institution targeting marginalised households in Tunisia.z

Institution: Enda

Enda Tamweel (ENDA) is the largest microfinance institution in Tunisia. ENDA aspires to contribute to the financial inclusion of marginalized households, including women and youth, through socially responsible microfinance. With the aim of serving remote clients in rural areas, ENDA is leveraging technology and has introduced innovative delivery channels, such as mobile vans that operate as fully functional branches. It has a country-wide presence via 80 branches offering different loan products specifically targeting e.g. agricultural and non-agricultural entrepreneurs, young people who wants to start a business. ENDA also provides financing for recycling and waste disposal businesses as well as installations of solar water pumps for irrigation, which includes a course on good irrigation practices. In addition, it offers life insurance products as well as vocational training for entrepreneurs.



Small and Medium-sized Enterprises (SMEs)

SMEs represent nine out of every 10 formal businesses, account for half of global gross domestic product (GDP), and provide 7 out of 10 jobs worldwide.¹² However, SMEs are considered riskier than larger firms, and therefore their access to finance from the traditional banks remains limited, particularly in emerging- and frontier markets. In 2017, the International Finance Corporation (IFC) estimated that approximately 9 million or 44% of all formal SMEs in developing countries are credit-constrained.¹³ The size of the financing gap is estimated to be USD 4.5 trillion, and is likely to be much higher if informal SMEs are taken into account.¹⁴ As a consequence, SMEs' growth and employment potential is inhibited.

From a financial institution's perspective, this financing gap presents a business opportunity. Research has demonstrated that banks in

developing countries with well-designed SME lending products are more profitable than their peers who do not offer products to this segment.¹⁵ Given the potential for positive social impact and financial performance, SEB III progressively grew its investments in SME finance over time, from 17% in 2015 to 21% in 2019.

Dr. Daraadori Tsolman from Mongolia is a good example of a SME client financed by Xac Leasing, one of SEB III investees. Her business has been able to grow thanks to the loans granted by the institution

The growth of her business has not only benefited her family but also her local community as her clinic offers services allowing her to establish more precise and faster diagnosis for children (Box 11).

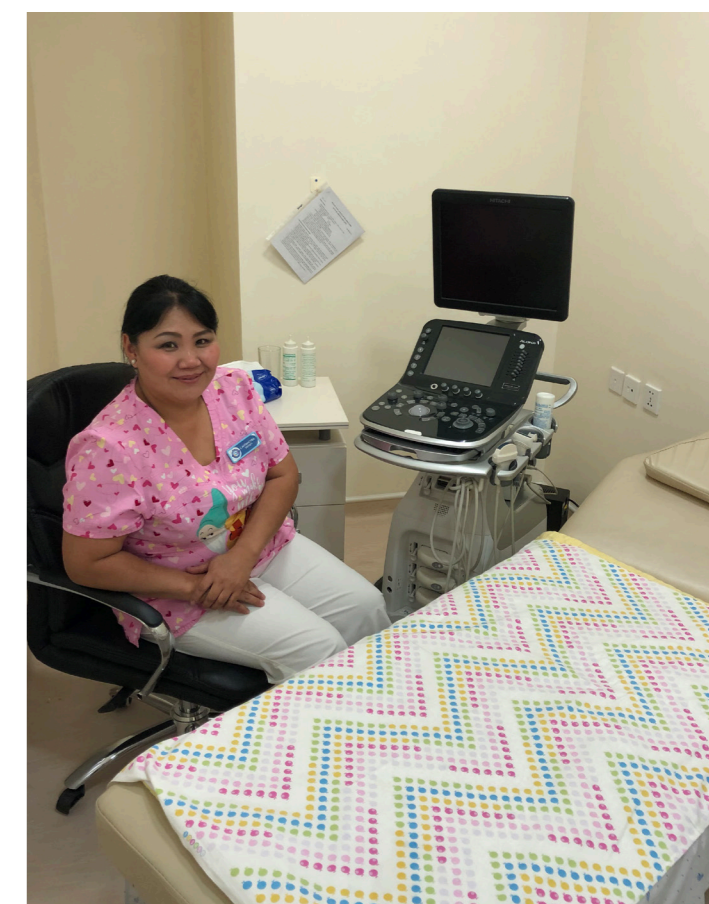
Microfinance client story



Contributing to the Development of Women-Owned Businesses in Mongolia

Name: - Dr. Daraadori Tsolman
Institution: Xac Leasing

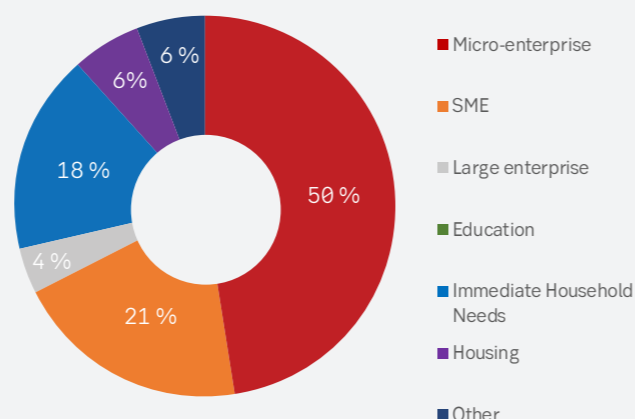
Dr. Daraadori Tsolman is a pediatric doctor from the Mongolian capital, Ulaanbaatar. After working in a public hospital for 23 years, she decided to open her own clinic in 2012 offering basic treatments for children, and pediatric emergencies. The clinic employs 48 people, of which 43 are women. She contacted Xac Leasing for the first time in 2015 and was able to contract a 110 million Mongolian Tugrik (USD 41,200) lease for two modern ultrasound machines. Today, the two new medical devices allow her team to diagnose children faster and more precisely, particularly for cases with tumors and appendicitis. Most importantly, they help detect any possible brain hemorrhage in newborn babies, and ultimately contribute to saving more children's lives. Dr. Tsolman is now considering applying for a second lease in the coming months to get two additional ultrasound machines. So far, she has hired three specialists to operate this equipment and is planning to hire a fourth one if her new lease goes through.



MFIs meet several type of funding needs:

The fund has primarily channelled capital to micro-enterprises (50%). That said, SMEs constitutes 21% of the end clients and immediate households need 18%. All these borrowers have their own characteristics, needs and challenges.

Figure 10: Proportion of Credit Products (5-Year Average, % Investees Gross Loan Portfolio)



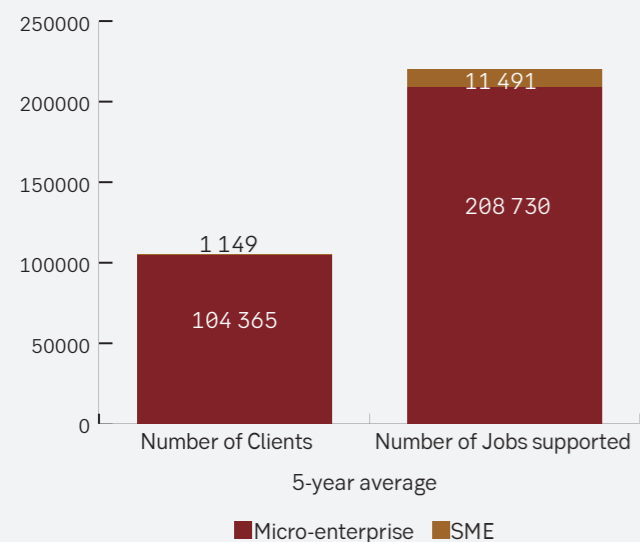
¹²SME Finance Forum. (n.d.). What We Do. Retrieved from <http://www.smefinanceforum.org/about/what-we-do>
¹³International Finance Corporation. (2017). MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets. Retrieved from <https://www.ifc.org/wps/wcm/connect/03522e90-a13d-4a02-87cd-9ee9a297b311/121264-WP-PUBLIC-MSMEReportFINAL.pdf?MOD=AJPERES&CVID=m5SwAQA>
¹⁴Ibid.
¹⁵Ibid.

Number of jobs sustained by MSMEs

MSMEs are key to fostering growth and job creation, and especially in emerging and frontier markets. While it is not possible to measure the exact number of jobs created by the fund, by assuming that a micro-enterprise employs on average two people and a SME employs on average 10 people, we estimated that SEB III has supported on average 104,365 Micro-enterprises and 1,149 SMEs, ultimately financing 220,221 jobs.

>> 220,221
Jobs Financed <<

Figure 11: End-clients and jobs supported by SEB III (5-year average)



Household needs 8%

Microfinance can help low-income households to get a more stable income flow. Households in the markets we invest in have the same type of need as we do but what differs is that their income tends to be more lumpy over the year. Financial products catered to household needs not only relate to consuming goods of first necessity and smoothing consumption but also includes housing improvements and commitments towards children's' education or among others. On average, 25% of the gross loan portfolio of the fund's investees was allocated to household-related products with the aim to enable end-clients to raise their living standards.

MFIs offer several financial products to increase financial security:

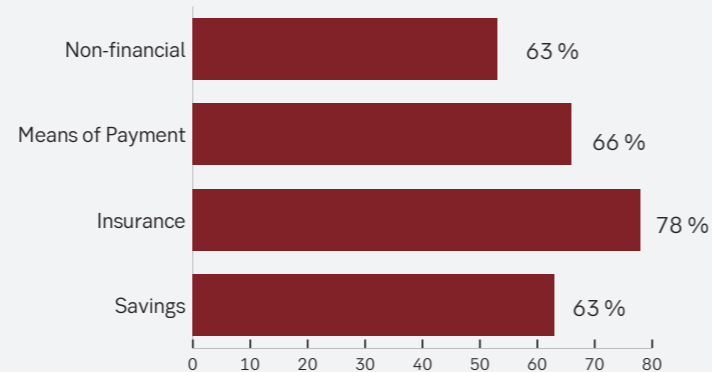
Microfinance helps families and businesses to prosper in good times and help them cope and rebuild at times of crisis. The availability of non-credit products, like savings, insurance, payment, and non-financial products like financial literacy and trainings, help clients better manage their cash-flows and deal with external shocks to their cash. Micro-savings can for example allow low-income households to build savings in a secure place and earn an interest while micro-insurance can offer life insurance, health insurance or insurance to farmers. More than half of SEB III investees were providing savings, insurance, payment and non-financial products (Figure 12) and 92% of investees were providing at least one of the non-credit products to their clients.

Institution: Faulu

Faulu, meaning 'succeed' in Swahili, was created in 1991 by Food for the Hungry International as a program providing credits to microentrepreneurs and low-income households in Mathare. Mathare is one of the largest and oldest informal settlements in the country, hosting Kenya's biggest slums. Faulu became the first Kenyan MFI to receive a deposit-taking license and it offers basic deposit and credit services, as well as a broad range of insurance products and investment solutions. Recognizing mobile banking's potential to include the poorest segments of the population, Faulu has integrated this technology into its product offering. For instance, in addition to accessing their account anywhere via SMS or using the Faulu mobile app, Faulu's clients can use M-Pesa, the most popular mobile payment operator in Kenya, to make deposits.



Figure 12: Financial Security - Non-Credit Product Offering (5-Year Average)



Appendix: SEB Microfinance Fund III key facts & figures

Strategy

Fund period	June 2015 – June 2020
AuM	USD 133 million
Term	5 years
Objective	Pursue a double bottom line return, being both a socially transformative impact fund, and offering an attractive financial return
Instruments	Fixed income, senior debt, unsecured
Currency of investment	Local currency, unhedged
Restrictions and limitations	General and geographical risk diversification
Targeted local currency annual yield	6-8% after fees

Results

Total Net Return	25.8%*
Annualised Net Return	6.2%*
Annualised write-offs (% AuM)	0.7%*
Number of transactions	125
Number of investee microfinance institutions	87
Number of countries	37
Percentage of women clients reached by investee microfinance institutions	53%
Number of borrowers reached by financial institutions	11.7 million

* Further write-downs may take place, negatively affecting the final net performance

Past performance is not indicative of future results, which may vary. The value of investments and the income derived from investments can go down as well as up. Future returns are not guaranteed and a loss of principal may occur.

This is SEB

SEB is a leading northern European financial services group with a strong belief that entrepreneurial minds and innovative companies are key in creating a better world. Our vision is to deliver world-class service to our customers. We take a long-term perspective and support our customers in good times and bad. In Sweden and the Baltic countries, SEB offers financial advice and a wide range of financial services. In Denmark, Finland, Norway, Germany and the United Kingdom, the bank's operations have a strong focus on corporate and investment banking based on a full-service offering to corporate and institutional clients. The international nature of SEB's business is reflected in our presence in more than 20 countries worldwide, with around 15,500 employees.

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