SEB Microfinance Fund V, SEK

Closing Performance Report

December 2022

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Introduction

The SEB Microfinance Fund V (SEB V) was invested from May 2017 to May 2022. During this period the Fund's annualized return was 5.8% with an annual volatility of 6.5%. The capital was invested in 45 emerging and frontier markets, with 116 institutions reaching out to 14.3 million entrepreneurs, of which around half were women. Microfinance offers investors a double bottom line return, by being both socially transformative and offering an attractive financial return.

Fund Key Facts & Figures

Launch date	31 May 2017
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 171.6 million
Number of transactions	193
Number of financial institutions	116
Number of countries	45
Number of borrowers reached by financial institutions	14.3 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 SEB Microfinance Fund V. It also provides illustrative cases and describes how investors contribute to building inclusive and sustainable financial markets in growing, emerging and frontier economies. This report was prepared by Tameo Impact Fund Solutions in collaboration with SEB Investment Management and Symbiotics.

About SEB & Microfinance

Microfinance is the most established asset class within the field of impact investments, offering investors both an attractive financial return and the opportunity to contribute to socioeconomic development for a population usually excluded from the financial system.

SEB was a pioneer among Swedish banks in 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) aimed at institutional investors.

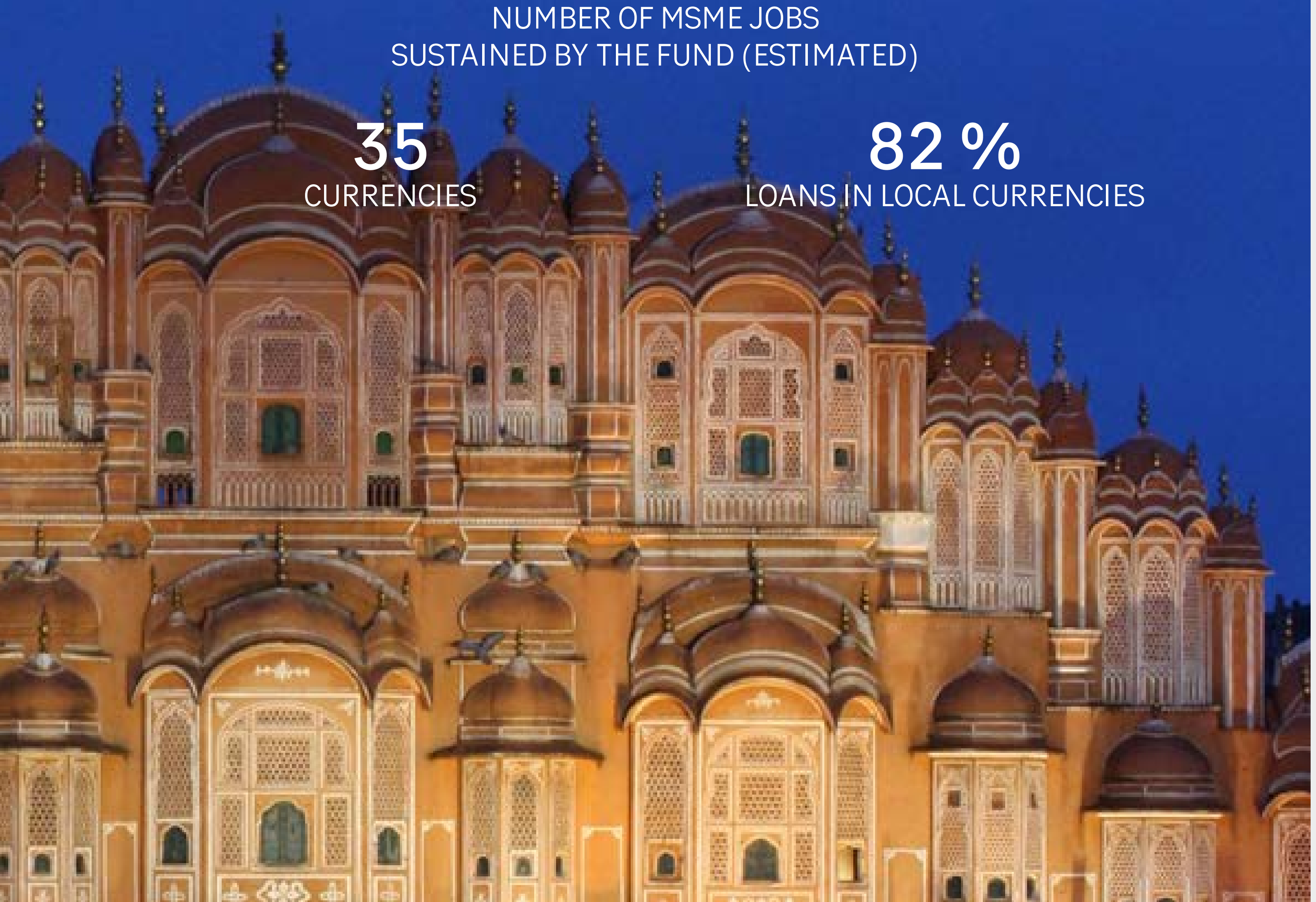
The Sustainable Finance Disclosure Regulation (SFDR) was introduced in 2019 as part of the European Commission's Sustainable Finance agenda to increase transparency in the financial market through harmonized rules addressing sustainability risks integration and disclosure of overall sustainability-related information for financial products. As per Article 9 of the SFDR, the SEB Microfinance Fund V has sustainable investment objectives, including a focus on business and projects targeting low- and middle-income households, and MSMEs at the base of the pyramid, referred to as microfinance. Through this, the fund aims to address part of the global challenges represented by a selected set of targeted Sustainable Development Goals (SDGs). In the same context, the fund integrates principal adverse sustainability impacts in the investment decision-making process through the exclusion of companies active in sectors doing significant harm to ESG factors. A comprehensive ESG assessment and periodic monitoring at different stages of the investment is conducted. Sustainability risks that can affect the value of the investments are partly integrated into such a process.

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 Amsterdam, Cape Town, New Delhi, London, Mexico City, Paris, Singapore, Yerevan, and Zurich. Since 2004, Symbiotics has structured nearly 7,000 investment transactions in over 500 financial institutions across 94 emerging and frontier markets.

About Tameo

Tameo Impact Fund Solutions is a Swiss impact investing specialist serving the financial industry with independent expert solutions. Tameo guides investment funds, managers and investors through the entire impact investing journey. It offers the most comprehensive online database of impact funds, customized analyses and independent valuations. Through its research and advisory services, Tameo empowers clients to move to best-in-class impact measurement and management. Through this report, Tameo assesses the impact performance of the SEB Microfinance Life Fund as an independent third party, verifying the data collected and analysing it at a portfolio level.



Key achievements during the life of the Fund

USD 171.6m
AUM

45
COUNTRIES

116
INVESTEES

14.3 million
BORROWERS REACHED

49 %
FEMALE BORROWERS

47 %
BORROWERS IN RURAL AREAS

256,250
NUMBER OF MSME JOBS
SUSTAINED BY THE FUND (ESTIMATED)

35
CURRENCIES

82 %
LOANS IN LOCAL CURRENCIES

Microfinance client story

Inspirante, Pan Asia Bank, Sri Lanka

The story of "Inspirante" provides a good illustration of how SEB V contributes to SDG 2 (Zero Hunger) through one of its investees in Sri Lanka. Pan Asia Bank granted a green loan to the company in 2020 to support the development of a permaculture project.[1]

Institution: Pan Asia Bank

In early 2020, three young entrepreneurs joined forces to revive permaculture in Sri Lanka, launching Inspirante Private Limited. They started by growing and exporting habanero chilis but soon realized that substantial waste was generated through the process. Since they aimed to be a sustainable agricultural producer, they explored ways to reduce waste and water consumption. They started by focusing on composting, so they bought the necessary equipment to compost their waste.

They produced a worm compost and a soil conditioner made of rice husk biochar. They applied for the Sri Lanka Quality Standard certification and hope to be the first company of their kind to receive it. In the future, they would like to sell the surplus compost to the government, and thus contribute to the country's transition to a greener economy with no chemical fertilizers.

Inspirante has ambitious plans to grow and diversify the business. They received a Green Loan for LKR 38 million (USD 192,000) from Pan Asia Bank in April 2020 and used it to buy 18.5 acres of land in the Badulla district. They are using this land to cultivate tropical fruits, ginger, turmeric, and vanilla, as well as for beekeeping. Today, Inspirante employs 10 people and is considering recruiting another two employees, as well as four experts in tissue culture and microbiology. Also, they plan to build a plant nursery and open a training school in permaculture. Ultimately, they want to offer diplomas in permaculture, indigenous sustainable agriculture practices, and environmental conservation. The long-term plans of the company include generating power from solar panels and erecting wind turbines after studying wind patterns in the area. The whole system will be self-sufficient and will immensely contribute to minimizing their carbon footprint.

[1] "An agricultural system or method that seeks to integrate human activity with natural surroundings so as to create highly efficient self-sustaining ecosystems" (Merriam-Webster, n.d.)

SEB Microfinance Funds & the SDGs

The SEB Microfinance Fund V 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. As a microfinance fund primarily targeting financial inclusion, 49% of SEB V's portfolio directly addressed SDG 1 (No Poverty). In addition, 29% is invested in SME Finance, providing financial services to small- and medium businesses, and contributing 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), 18% of SEB V'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 V also contributed to SDG 2 (Zero Hunger), SDG 7 (Affordable and Clean Energy), SDG 4 (Quality Education) and SDG 11 (Sustainable Cities and Communities).

Source: Symbiotics

SDG Mapping

Theme	GOALS	How does SEB V contribute?	% of total origination
Microfinance	1 NO POVERTY	• Ensuring that low-income individuals have access to financial services, including microfinance and savings products.	49 %
Small business finance	8 DECENT WORK AND ECONOMIC GROWTH	• Strengthening the capacity of domestic financial institutions to expand access to banking and financial services for all. • Encouraging the growth of SMEs.	29 %
Microfinance	5 GENDER EQUALITY	• Providing women with equal access to economic resources and opportunities.	18 %
Other[2]	2, 7, 11	• Food and agriculture 2 %, Climate and energy 1 % and Housing and infrastructure 1 %	4 %
		Total	**100 %**

[2] SDG 2, 7 and 11.

Covid-19 and its impact on microfinance institutions and end-clients

The COVID-19 pandemic significantly affected public health and socioeconomic conditions on a global scale. The microfinance sector was no exception, with far-reaching effects throughout the entire value chain from microfinance institutions to end-borrowers.

To face the pandemic, countries were forced to introduce mobility restrictions throughout 2020 and 2021, which directly harmed the local workforce and strained their economic resilience. This is especially true for emerging countries, where the population is highly vulnerable to shocks, and in some cases already burdened by complex political and economic situations. Nevertheless, emerging economies progressively recovered at various paces, depending on their economic resilience and the evolution of the pandemic.

End-clients affected by COVID

The lockdowns imposed on local populations halted most economic activities, and hence their ability to generate an income and repay loans. The ensuing economic crisis has reversed two decades of continuous progress against global poverty, with evidence showing that poor and vulnerable people were heavily affected. As a response to these difficulties, many states introduced moratoriums to temporarily relieve end-clients from their obligations. By the end of 2021, emerging markets were recovering from the COVID crisis, and by 2022, demand for funding increased as clients began reinvesting in their businesses, a pattern typically seen after a crisis.

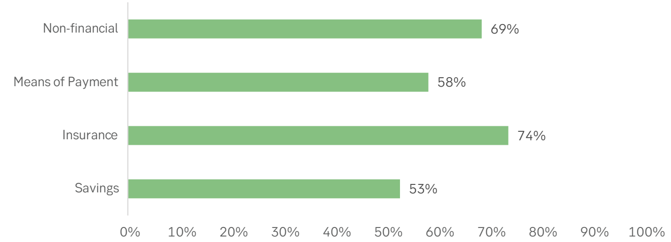
Financial institutions affected by COVID

The decrease in revenues of investees following the COVID outbreak was substantial, and many had to restructure their portfolio in response to payment moratoriums and lockdowns imposed by the government. Many institutions adopted a conservative approach by decreasing disbursements and lending only to existing clients. The largest lenders, including SEB, took a coordinated approach and supported institutions with financing during the imposed moratoriums to bridge the liquidity gap, which allowed most investees in the portfolio to ease the pressure on liquidity. This suggests that collaboration between investees, investors and governmental institutions helped to mitigate the impact of the pandemic on financial institutions. However, in politically unstable countries, such as Myanmar, Sri Lanka and Lebanon, the pandemic further deteriorated the socioeconomic situation.

A diverse set of financial services important during a crisis

The availability of credit and non-credit products, such as savings, insurance, payment, and non-financial products such as financial literacy and trainings, help clients better manage their cash-flows and deal with external shocks, such as a pandemic. Micro-savings allows low-income households to build savings in a secure place and earn an interest, while life-, health- and crop-insurance are other products that help manage shocks. On average, more than half of SEB Microfinance Fund V investees were providing savings, insurance, payment and non-financial products (Figure 1). 91% of investees were providing at least one of the non-credit products to their clients.

Figure 1: Financial security – non-credit product offering (5-year average)



Microfinance client story

Ratna Dewi, Bina Artha, Indonesia

Bina Artha is an example of an institution that was deeply affected by Covid-19 related restrictions in Indonesia. Ratna Dewi is one of the clients that struggled during the pandemic but managed to overcome the challenging period.

Institution: Bina Artha

In Indonesia, rice served with fried or grilled catfish is a popular local dish eaten at home or sold by street food vendors. Given the ever-increasing demand, Ratna Dewi and her husband took this as a great business opportunity 12 years ago and established a small-scale catfish nursery in their front yard, with four ponds made from bamboo and plastics.

In 2016, Ratna became a client of Bina Artha and received her first loan of 3 million Rupiahs (approx. USD 210). It was a game-changer for the family business as they were able to build permanent ponds made of bricks that require less maintenance. Currently, she is paying off her fourth loan amounting to 7 million Rupiahs (approx. USD 480) and thanks to her good repayment record, she can make monthly installments instead of biweekly. The investments she has made has led to doubling the hatchling pond's capacity.

However, government-imposed restrictions during Covid-19 negatively impacted her business. Street food vendors were not allowed to operate, and catfish farmers stopped purchasing hatchlings from Ratna's nursery. She and her husband found alternative sources of income from rice planting and construction work, which enabled her to service the loan on time. Luckily, this year everything is getting back to normal, and the plan is to expand the business by having larger ponds to grow the catfish. Ratna also dreams of sending her teenage daughter to college in two years, which could be possible given her hard work.

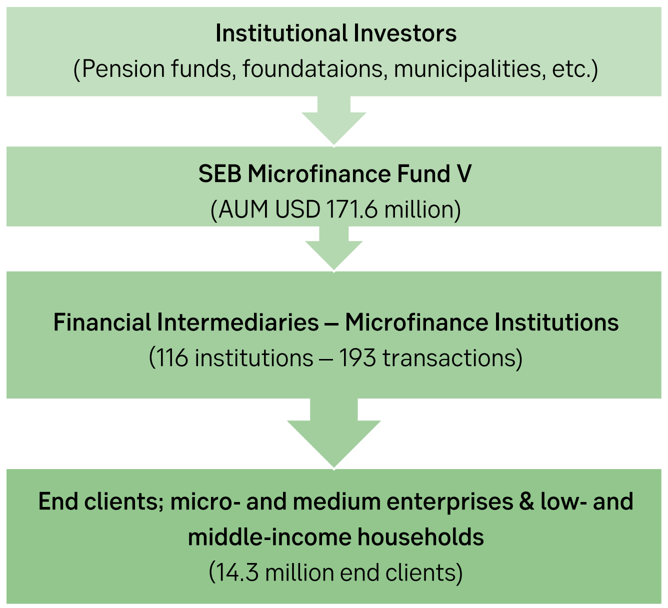
Investment Strategy

SEB Microfinance Fund V'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 V pooled institutional capital and lent directly to financial intermediaries, or microfinance institutions, 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 five people, whereas small enterprises employ up to 50 people and medium enterprises employ up to 250 people.

Figure 2: SEB Microfinance Fund V Investment Value Chain



SEB Microfinance Fund V'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.

The fund's focus was primarily on medium-sized institutions with total assets between USD 100 million and USD 1 billion, in which 65% of the portfolio was allocated.

Going local currency, unhedged in emerging and frontier markets

The strategy of the SEB Microfinance Fund V 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 from 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 investee microfinance institutions or the end-client.

The investee 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 V meets the borrowing needs of domestic investee 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 loans. With that said, the fund also had a USD exposure since 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 a 13-year period and found that unhedged strategies are more profitable overall. In fact, for 11.5 years out of the 13 years, going unhedged would have yielded additional profits for the investor. Investing in unhedged local currency also allows for a more diversified portfolio, as the fund can invest in more countries where currency risk solutions are not accessible.

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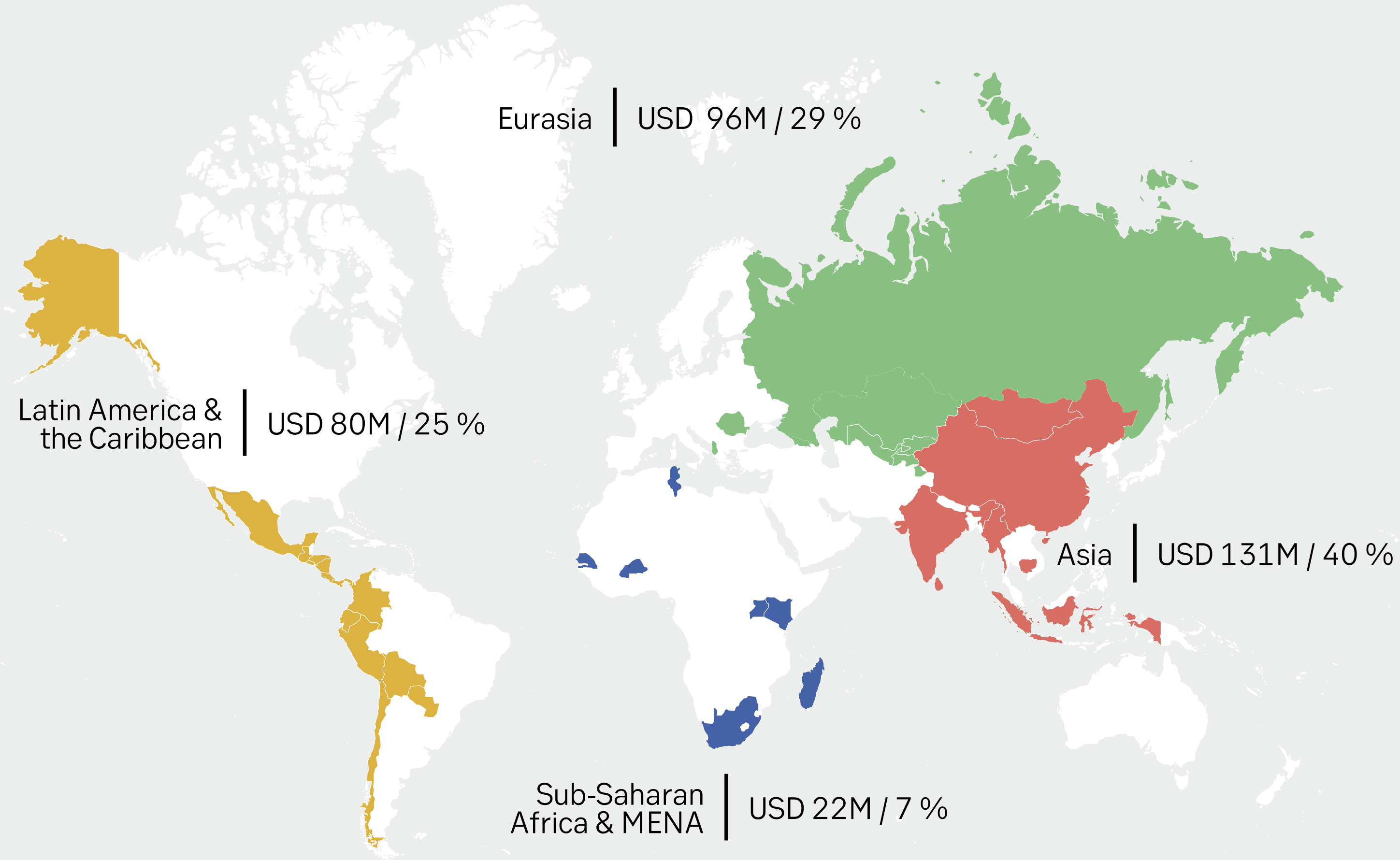
Portfolio Investments

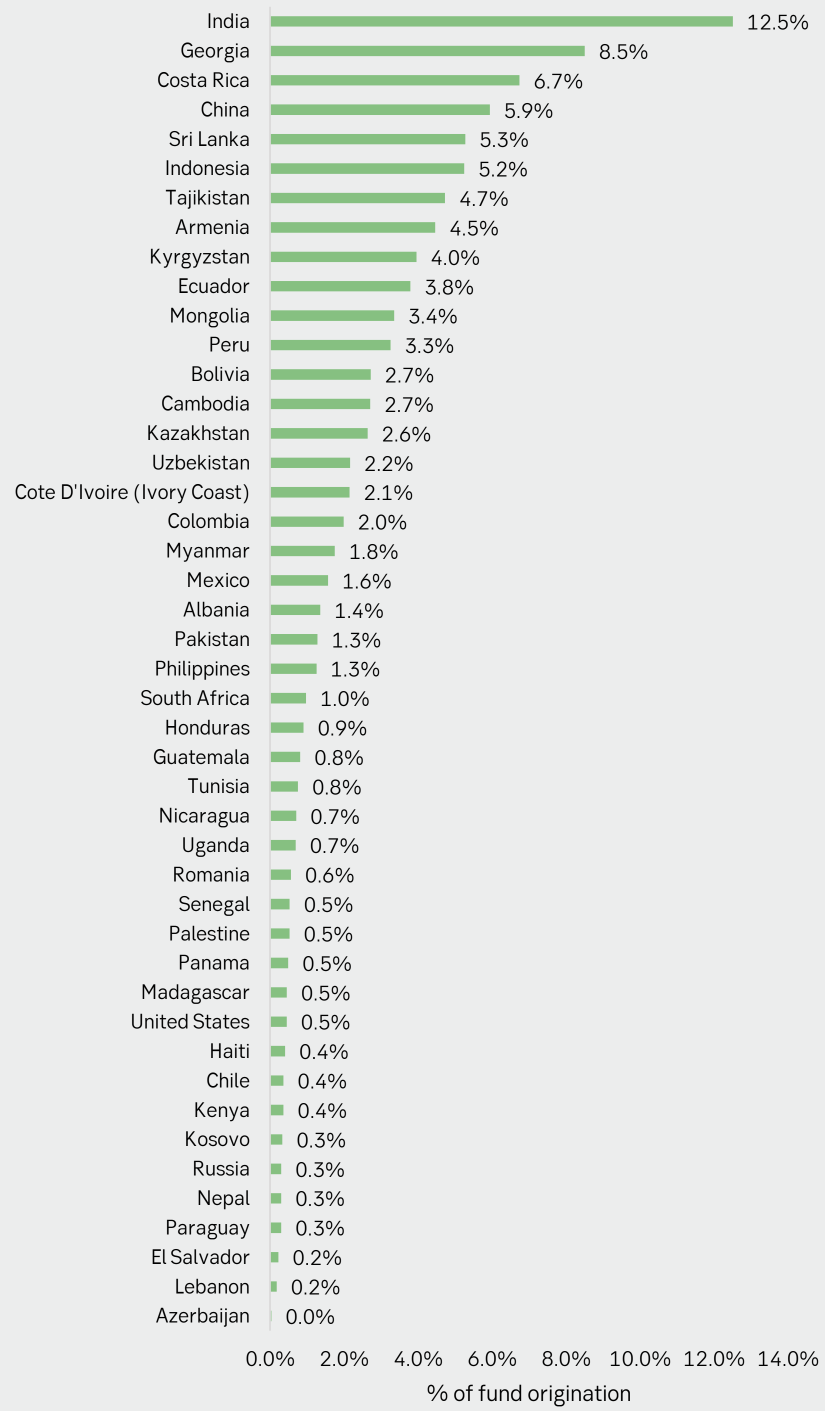
- SEB Microfinance Fund V **has financed 116 microfinance institutions,** in 45 emerging and frontier markets.
- SEB Microfinance Fund V has reached out **to 14.3 million entrepreneurs,** clients of micro-finance institutions.
- SEB Microfinance Fund V has **originated USD 331 million** in financing to microfinance institutions, through 193 transactions.



In terms of specific regions, SEB V invested the most capital in Asia (USD 131M), followed by Eurasia (USD 96M), Latin America and the Caribbean (USD 80M), Sub-Saharan Africa, and the Middle East and North Africa (USD 22M).[3]

[3] SEB V also made one indirect investment of USD 1.5 M in Greenlight Planet (GLP). GLP is domiciled in the United States and it designs, distributes, installs, and finances solar home energy products for people living without reliable energy access.

Figure 3: Country concentrations



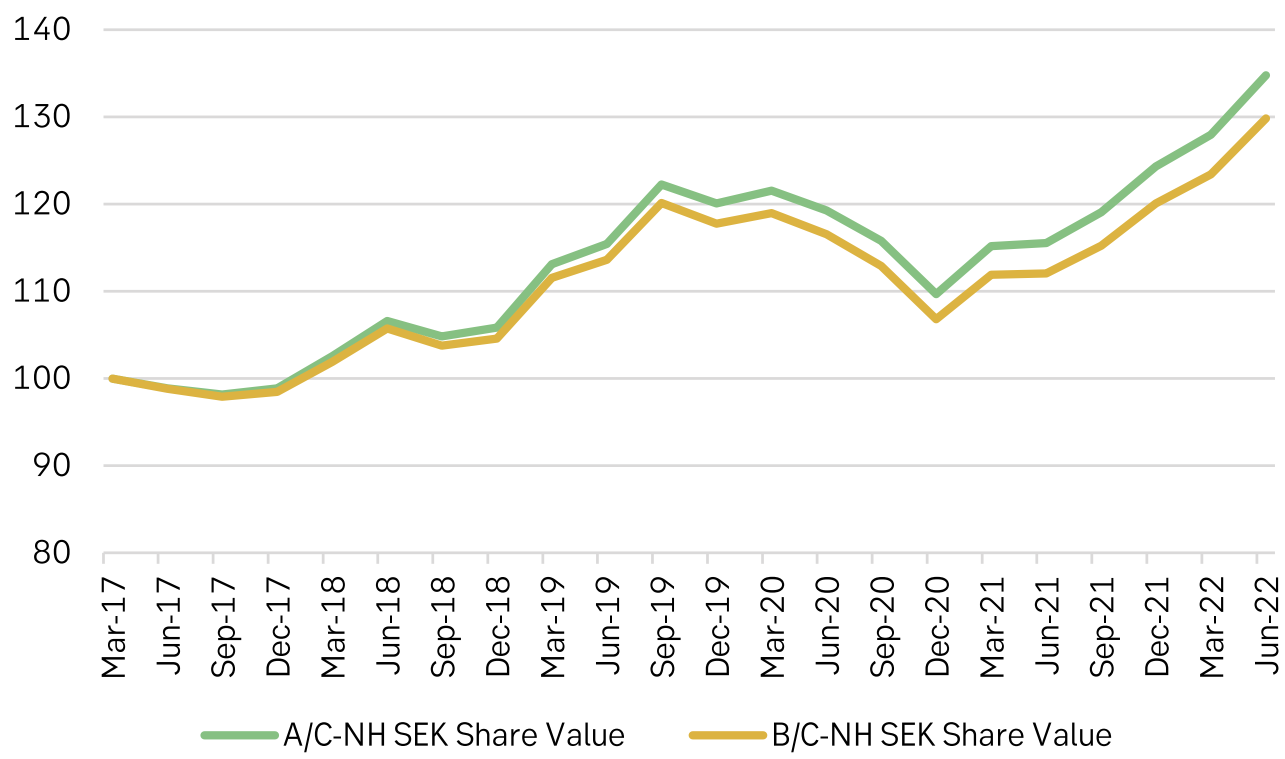
Financial Performance

While economic growth was strong and emerging markets attracted significant portfolio inflows leading up to 2020, the COVID-19 pandemic and then the war in Ukraine created challenging last years for the microfinance markets.

The cumulative net returns of the SEB Microfinance Fund V to investors over the period May 2016 to May 2022 have 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 5.8% and 5.1%, respectively.

Annual write-offs over the life of the fund amounted to only 0.3%[4]. We have not yet been able to close the fund as there are some workout positions remaining in the portfolio that we are working on resolving. If we would have to write-off 100% of these, which we do not consider likely, total write-offs would increase to 0.7 annually.

Figure 4: NAV SEB Microfinance Fund V - SEK



[4] The performance of the fund is calculated pro-rata until November 2022, date of the last repayment to investors as of December 2022. Note that there are some workout positions remaining. When resolved, annual write-offs might be a bit higher, which might have a small impact on the final returns.

Performance Comparison with Other Asset Classes

To provide context, we compare the risk-return profile of the SEB Microfinance V Fund over the five-year period relative to more mainstream asset classes.

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

Index name	SEB Microfinance Fund V (A/C Share Class)	JPMorgan Funds Emerging Markets Local Currency Debt	MSCI Frontier Emerging Markets Net Total Return Index	MSCI Emerging Markets Currency Index	Stockholm Interbank Offered Rates 3 Month
Asset class	Fixed income	Fixed income	Equity	Currency	Money market
Index currency	SEK	USD converted to SEK	USD converted to SEK	USD converted to SEK	SEK
Annualised return	5.8%	1.8%	1.7%	3.6%	-0.1%
Annualised volatility	6.5%	8.1%	16.6%	6.7%	0.1%
Annualised volatility	0.9	0.2	0.1	0.6	0.0
Sharpe ratio	1.0	0.0	-0.01	0.4	0.0

Institution profile

Baobab, Ivory Coast

In Sub-Saharan Africa, SEB Microfinance Fund V supports institutions like Baobab in Ivory Coast. Through its investment in Baobab, the fund provides financial products and services to micro entrepreneurs and SMEs .

Institution: Baobab Ivory Coast
SEB V loan amount: USD 7,100,000

Baobab Côte d'Ivoire is one of the nine affiliates of Baobab Group, eight of which are in Africa. It has the mission to provide financial services to micro entrepreneurs and SMEs that are precluded from the formal financial services system, offering loans, savings, insurance and mobile banking products. In a country with low access to finance for MSMEs, Baobab has digitalised many of its processes to be able to quickly serve its clients, something that is very value for clients.

The institution's products are competitive, serving both the lower and upper market with SME loans. Baobab is also targeting agricultural trade cooperatives with newly developed products.

Finally, Baobab CI offers a wide range of training modules to both junior and management staff.

Social Outreach

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

Market outreach – reaching underserved economies

The SEB Microfinance Fund V has channelled capital towards countries where income levels and financial inclusion are low. On average, the fund invested in countries where 59% of the adult population had an account at a financial institution, which is significantly lower than both the world average (67%) and the average for low- and middle-income countries (61%).

Furthermore, the GNI per capita in those countries (USD 5,164) is lower than the world average (USD 11,138), and in line with the average for all low- and middle-income countries worldwide (USD 4,821).

Figure 5: Banking penetration levels, 5-year average

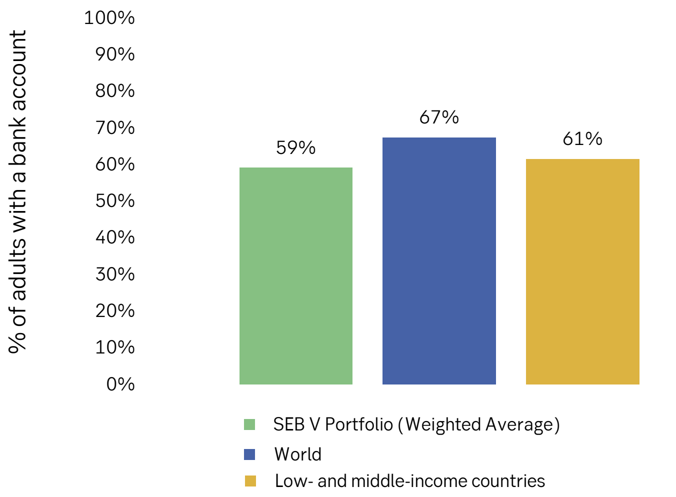
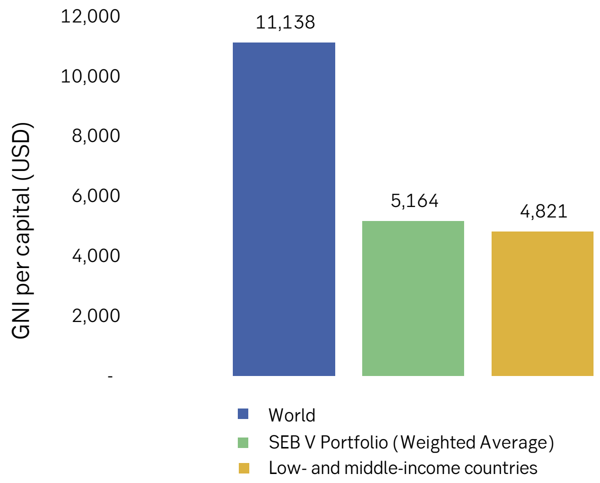


Figure 6: GNI per capita (USD), 5-year average



Institution profile

Finca Haiti, Haiti

Haiti, where 33% of the population has an account at a financial institution, and credit to private sector is equivalent to less than 9% of GDP, is a severely capital constraint country. SEB V is invested in institutions such as Finca Haiti. The institution provides highly needed financial solutions to women and rural clients in a very difficult environment

Institution: Finca Haiti
SEB V loan amount: USD 1,350,000

FINCA Haiti is one of the oldest affiliates of the FINCA network. Its aim is to alleviate poverty through lasting solutions that help people build assets, create jobs, and raise their standard of living. The financial institution targets women and rural clients with trade activities. Indeed, it continues to prioritize lending to women, who have proven to be more solvent and resilient through past crises. The average loan size is low, at around USD 150. It offers both group lending and individual loans to its clients.

Due to security issues in urban areas, FINCA Haiti is increasing its focus on the agriculture sector, which has proven to be resilient during crises. It is therefore expanding its geographical reach within the country and has revamped its agriculture loan, which addresses the transformation and distribution of food products. It is also testing a digital nano loan of under USD 10 for liquidity-tight clients. In terms of digital solutions, FINCA Haiti expanded the use of its eWallet, which represents 49% of all transactions. This proved to be particularly effective during recent lockdowns as payment rates did not fall. Finally, the institution has set a target to give annual training to all its full-time employees in 2021. It has adopted FINCA group's e-learning training modules, which are both affordable and scalable.

FINCA® Haïti S.A.

Social Performance

The SEB Microfinance Fund V channelled capital to markets and entrepreneurs where income levels and financial inclusion is low. It has provided funding to 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.[5] 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.[6]

Social Practices

Each investee was assessed pre-investment against seven dimensions and 100 indicators of social responsibility, in order to gauge the likelihood of the microfinance institution to contribute positively to sustainable development and social impact. 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. These indicators are linked to the Smart Campaign for Client Protection in Microfinance

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.

[5] Ogden, 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/*

[6] Ibid.

Institution profile

Share Guatemala, Guatemala

Share Guatemala is a good example of an investee supporting individuals at the bottom of the pyramid, with a focus on women (64% of clients) and rural areas (77% of clients).

Institution: Share Guatemala
SEB V loan: USD 2 million

Share Guatemala is an NGO founded in 1987 to offer health and nutrition programs for the poorest communities in the country. It has since then shifted towards a self-sustainable model focused on microfinance and is currently transforming into a cooperative to be able to offer savings and insurances to its clients.

Share specializes in the rural and multi-cultural areas where 21 languages are spoken, and a large proportion of indigenous people live. The MFI's low average loan size allows it to reach bottom-of-the-pyramid population in these areas.

Share lends to microbusinesses, farmers and for home improvement. Its multilingual staff also provides financial education to their clients. 45% of clients work within agriculture, where Share also offers technical assistance to increase crop yields and manage the impact of climate change.

Share has a policy of "environmental friendship" and is committed to reforestation, and soil and water conservation. The company is installing water and sewage services, fostering resilience in the face of climate change, and recycling, minimizing resource waste.

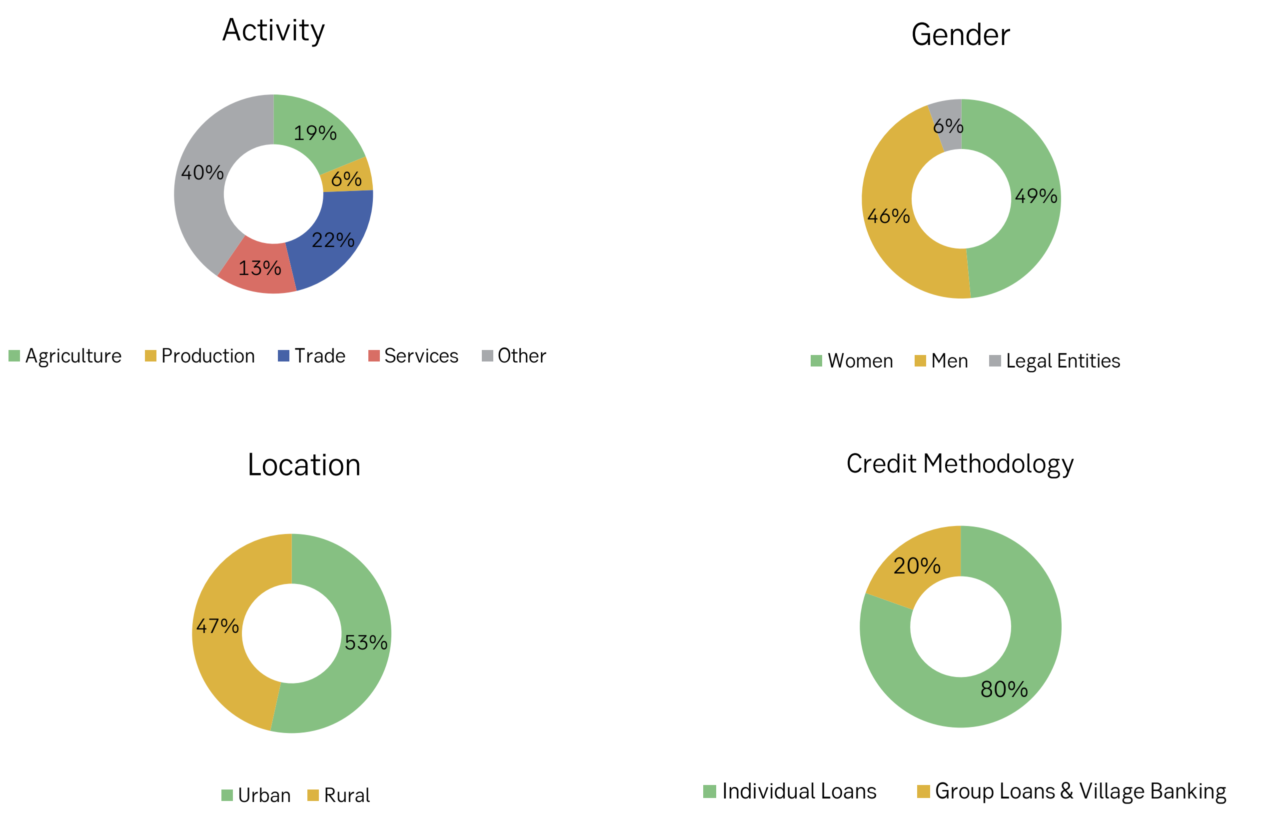
SHARE

End-client outreach

Serving a diverse set of end-clients

The fund originated USD 326 million in financing to microfinance institutions, reaching 8.7 million entrepreneurs with different characteristics as shown in Figure 7. SEB V served end-clients through individual loans (80%) and financed mostly women borrowers (49% vs 46% men), and urban businesses (53% vs 47% rural). In terms of sectors of activity the MSMEs financed, borrowers were actively involved in small trading activities (22%) and other types of activities (40%), including transportation, construction, housing, renewable energy, and consumption.

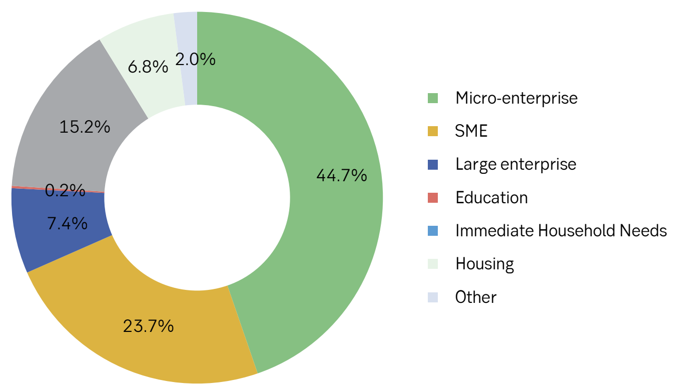
Figure 7: Fund end-clients' characteristics (5-year average, % of number of active borrowers)



MFIs meet several types of funding needs

While the fund has primarily channelled capital to micro-entrepreneurs and SME businesses, the investee microfinance institutions also offer household-related loan products with the aim to enable end-clients to raise their living standards. On average, 27% of the microfinance institutions' gross loan portfolio was allocated to household-related products such as education, immediate household needs and housing. Microenterprise and SME loan products accounted for 63% of investee microfinance institutions' loan books.

Figure 8: Proportion of credit products (5-year average, % investees gross loan portfolio)



Microfinance client story

Ricardo Sandoval, Banco Promerica, Costa Rica

In Costa Rica, the fund supports micro entrepreneurs such as Ricardo Sandoval, who, thanks to the loan provided by Banco Promerica, expanded his business and became a source of employment for people in his community.

Institution: Banco Promerica

Ricardo Sandoval is a Costa Rican visionary who, from a very young age, put a lot of effort into his education and personal development. During his childhood, he sold eggs in the neighbourhood to help his family. Later, he sold credit cards to pay for his college education and obtained a degree in Political Science.

Ricardo describes himself as a natural-born salesman. During the nineties, he met a friend who was selling fish, which made him discover the business. In 1994, he bought his first car with a loan from Banco Promerica and started selling fish. With no employees at that time, he went to the fish market early in the morning, then processed the fish, and later brought it to the sales point. As his business grew, he hired his first two employees and in 1998, and he opened a fish processing plant.

Microfinance client story

Pavan, Aye Finance, India

One example of microenterprises specialized in small trading activities is Pavan, a shoemaker in New Delhi. Pavan and his brother acquired a loan through Aye Finance in 2013 that allowed them to grow their business and hire more employees.

Institution: Aye Finance

Pavan and his brother run a shoe manufacturing business within the Karampura shoe cluster in New Delhi. The business was started by their father, and the brothers joined in 2010.

They manufacture women's shoes which they sell to wholesalers across the country. The factory is part of a large shoe cluster (over 5,000 small businesses) and all the raw material suppliers are in the area. They have hired one shoe designer, and the rest of the employees are workmen specialized in a certain step in the shoemaking process.

The brothers took their first loan from Aye Finance in 2013 (USD 7,000 working capital loan for 3 years). They used this loan to hire more people and expand their manufacturing business. They have subsequently taken two more loans from Aye for the same amount

With the loans, the brothers were able to increase the number of employees from eight people to 25 people. This has significantly improved their income and they now have the chance to buy their own house.

The gender financing gap

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

Besides the evident contribution to gender equality (SDG 5), increasing women's financial inclusion is associated with the achievement of poverty alleviation (SDG 1) and decent work and economic growth (SDG 8). This is clear, since poverty disproportionally affects more women than men, as per every 100 men living in poverty[7], there will be 122 women[8]. Similarly, the global labour force participation rate is 49% for women, contrasting with 75% for men[9]. These disparities result partly from social, economic, legal and regulatory barriers that constantly limit women's opportunities. Restricted mobility due to social norms, lack of assets for collateral, time constraints due to childcare, and lack of identifying documents are among some of the constricting factors[10]. Designing financial products and services with those barriers and their determinants in mind is one crucial way to contribute to women's empowerment.

Access to finance can potentially allow women to have greater control over their financial resources, enhance their bargaining power within their household and ultimately increase women's autonomy . In the same manner, targeted financial literacy training is fundamental for women to acquire the necessary skills and tools to take full advantage of financial products.

Saule is one of the many women acquiring loans to support their business through SEB V investees. Thanks to the loan, Saule could diversify her business activity and remains optimistic despite the hardship resulting from the pandemic, please read more on the next page.

[7] between the ages of 25 to 34 living with less than USD 1.90 per day

[8] *https://www.unwomen.org/en/news/in-focus/women-and-the-sdgs/sdg-1-no-poverty*

[9] World Employment and Social Outlook: Trends for Women 2017

[10] Holloway,K. et al. (2017). Empowerment through financial inclusion: A review of existing evidence and remaining knowledge gaps. IPA. Retrieved from: *https://www.poverty-action.org/sites/default/files/publications/Womens-Economic-Empowerment-Through-Financial-Inclusion.pdf*

Microfinance client story

Saule, KMF, Kazakhstan

Saule is one of the many women acquiring loans to support their business through SEB V investees. Thanks to the loan, Saule could diversify her business activity and remains optimistic despite the hardship resulting from the pandemic.

Institution: KMF

Saule Razakhova is a 49-year-old entrepreneur from Temirtau, Kazakhstan. Before starting her business, she worked as a librarian. In 1999, due to the difficult economic circumstances in Kazakhstan, she decided to start her own business selling children's clothes. She travelled abroad to find quality goods at an affordable price. She worked almost 15 years in a small shop in the Temirtau bazaar.

With the help of a loan from KMF in 2018, she moved her business to a shopping centre and expanded the variety of goods sold. She received a first loan of one million Tenge (USD 2,300). In 2021, she received a second loan of 1.5 million Tenge (USD 3,500) from KMF, enabling her to change her business orientation from kids' clothes to women's clothes and bags.

Saul describes her business as cyclic, with lower sales in January, February, and July, but her business allows her to support her family and pay for her children's education. The COVID-19 pandemic has affected people's purchasing power, and they now tend to buy cheaper goods. Despite this situation, she is optimistic regarding the future and has planned to keep expanding her business.

Rural financing gap

In emerging and frontier markets, urban residents are more likely to have an account at a financial institution than residents in rural areas. That said, people in rural areas still need financing for a number of purposes: to purchase agricultural inputs and equipment, maintain infrastructure, to contract labour for harvesting/planting, to transport goods to markets, to make/receive payments, to smooth income, to invest in education, housing, and 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.

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

Institution profile

ACBA, Armenia

ACBA in Armenia is one of the SEB V investees. The institution specializes in the agricultural sector and provides loans to Armenian farmers.

Institution: ACBA
SEB V loan amount: USD 5,500,000

ACBA Bank is the only cooperative bank in Armenia. Its mission is to be a reliable and stable financial partner for members of society. In 1995, ACBA was established as a credit cooperative with support from the European Commission. In 2017, it was transformed into a for-profit entity, while keeping the original shareholders. Thus, the bank belongs to over 800k farmers and is committed to developing agriculture in Armenia. It dominates the rural and agro-industry lending in Armenia as it is the leader in providing government subsidised agro-industry loans. It also has the advantage of offering tailored loan conditions that match the income schedules of farmers.

ACBA is not only limited to agro-industry loans, as one-third of its offering is consumer and housing products, with additional loans disbursed to the food processing, construction, and energy sectors. The institution has an excellent outreach, with a large branch infrastructure and deep coverage of rural areas. It continues to cater the underserved low-mid end of the market segment. Furthermore, ACBA is being innovative in green energy and agro-industry products. It offers agro-industry insurance, agro-industry tech and green loan financing, supported by technical assistance and specialised government funding.

Micro-enterprises

Microenterprises are defined as companies with up to five 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 could be running food stands, small corner shops, cell phone top-up kiosks, small-scale farmers, two-wheeler taxis, tailors, furniture makings, etc. Microenterprises 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.

Institution profile

MEGA

In Romania, Patria Credit is one of SEB V's investees that focuses on providing loans to Micro-enterprises, offering tailor-made products for small farmers in remote areas of the country.

Institution: Patria Credit
SEB V loan amount: USD 564,205

Patria Credit offers specialized financial services to small agro-industry farmers and small businesses with limited access to traditional banking products. Clients are family-owned businesses, mainly farmers. The loans are adapted to the agriculture cycle of the farmers and average loan size is USD 8,000.

Unlike similar institutions, Patria Credit concentrates on unregistered businesses operating only via a simple agro-industry producer license. With nearly one-third of Romanians being unbanked, the institution provides access to financial services in remote areas thanks to its nationwide coverage. To support such efforts, it created a mobile app and an online loan application service.

Patria Credit has implemented strong client protection practices to prevent over-indebtedness by analysing repayment capacity and enforcing parallel loan limits. Their loan rates are transparent and in line with peers (17.9% for Patria Credit vs. 18.5%, Feb-22). The institution even obtained the EU Code of Conduct certification in 2020.

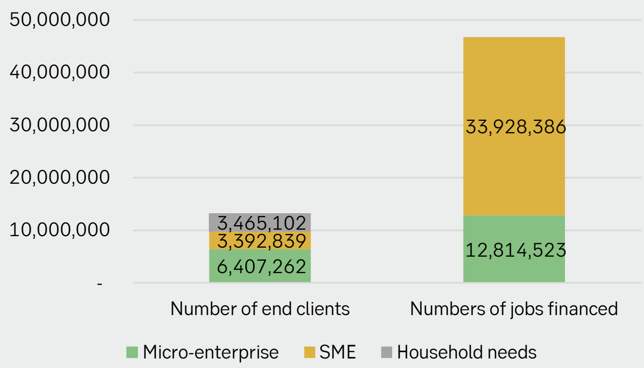
To further extend its community outreach, Patria Credit created a Foundation in 2022. It is in charge of developing community engagement, financing social projects and offering centralized technical assistance to clients. The Foundation has already started helping small rural producers enter supermarkets with better conditions and offers financial literacy services such as agro-industry and business training.

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. 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. 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. 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.

Figure 9: Number of jobs sustained over the five-year period



Microfinance remains a key tool in bridging the financing gap for MSMEs and fostering growth and job creation, namely in emerging and frontier markets. While it is difficult to measure the exact number of jobs created by the fund, by assuming that a micro-enterprise employs on average two people, and an SME employs on average 10 people, we estimate that the microfinance institutions in the fund have sustained around 250,000 jobs over the five-year period.

Microfinance client story

Fouzia Anwar, Damen, Pakistan

Fouzia Anwar, a Pakistani entrepreneur, is an example of an MSME that is supported by the fund. By acquiring a loan through Damen, a financial institution funded by SEB V, Fouzia could buy her own raw material to obtain a larger cut of what she produces. In turn, she increased the number of employees to 13 women.

Institution: Damen

Fouzia Anwar is running a successful business for children's readymade garments in Sharqpur city. Fouzia started teaching women in her community how to sew. She began to buy garments on a "Cut, Make, Trim" (CMT) basis for her patterns and designs. This business helped Fouzia to not only overcome her family's financial difficulties but also to build her confidence and entrepreneurial skills.

To grow her business, Fouzia bought two sewing machines and hired some of her students. She soon realized that if she could use her own raw materials, her income would increase. She heard about the financial services of Damen Support Programme (DSP) and was successfully granted a loan of PKR 30,000 (USD 187). She used her loan to buy fabrics to prepare garments at home along with the CMT garments. She reinvested her profits back into the business, helping it to grow.

Since then, Fouzia has taken five loans from Damen to expand her business. Today, she has a stitching unit with several machines, employing 13 women.

Appendix: Key Factors & Figures

Strategy

Fund Period	May 2017 – May 2022
AuM	USD 172 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 net yields	6 – 8%

Results

Total Net Returns, SEK	30.5%
Annualised Net Return, SEK	5.8%
Annualised write-offs (% AuM) [11]	0.3%
Number of transactions	193
Number of investee microfinance institutions	116
Number of countries	45
Percentage of women clients reached by investee microfinance institutions	49%
Number of jobs sustained by investee microfinance institutions	46.7 million

[11] There are some workout positions remaining. When resolved, annual write-offs might be a bit higher.

This is SEB

SEB is a leading Nordic 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 assist 3,100 large corporations and financial institutions, 292,000 small and medium-sized companies and 1.4 million private full-service customers with advice and financial solutions.

In Sweden and the Baltic countries, we offer comprehensive financial advice and a wide range of financial services.
In Denmark, Finland, Norway, Germany and the United Kingdom, we have a strong focus on a full-service offering to large corporate and institutional customers.

The international scope of the operations is reflected in SEB's presence in some 20 countries with 16,500 employees.

We have a long-term perspective in all of our operations and contribute to the development of markets and communities.

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