SEB Microfinance Fund II

Final report

December 2019

SEB

Contents

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

SEB Microfinance Fund II was invested from June 2014 to June 2019. During this period the Fund's total return was 49.7% with an annual volatility of 7%. The capital was invested in 32 emerging and frontier markets, and reached 6.6 million entrepreneurs, of which more than half were women. Microfinance offers investors a double bottom line return, by being socially transformative and offering an attractive financial return.

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 II. 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 SEB Investment Management in collaboration with Symbiotics.

About SEB & Microfinance

Microfinance is today the most established asset class in the field of impact investments, with its success founded on the ability to offer investors an attractive financial return and the opportunity to contribute to socio-economic 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. The fund enabled institutional investors to channel capital to low- and middle-income entrepreneurs in emerging and frontier markets. Additionally, SEB was the second bank in Europe to offer microfinance funds in local currency, unhedged, aimed at institutional investors. Today SEB is one of the largest microfinance investment managers in Europe. SEB has launched seven microfinance funds since 2013, at a total value of close to SEK 9 billion. These funds have reached more than 25 million entrepreneurs in 59 developing countries.

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 3,700 investment transactions in 425 financial institutions across 83 emerging and frontier markets.

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

Microfinance has been explicitly mentioned by the United Nations as an enabler to achieving the Sustainable Development Goals (UN SGDs). The SEB Microfinance Fund II contributed to the goals through investments made in emerging and frontier markets.

In its role as a microfinance fund primarily targeting financial inclusion, SEB II directly addressed SDGs 1) no poverty, 5) gender equality, 8) decent work and economic growth, and 10) reduced inequalities.

In addition, by investing in financial intermediaries with a wide range of socially and environmentally responsible products, SEB II contributed to several other SDGs, including access to clean water and sanitation, access to affordable and clean energy, and combating climate change, among others.

This report describes SEB II's contributions to the SDGs via case studies that highlight the activities and products of microfinance institutions.

Source: Symbiotics

Financial Inclusion and the Sustainable Development Goals (SDGs)

SUSTAINABLE DEVELOPMENT GOALS

SDGs directly addressed

1 NO POVERTY

SDG 1 – No poverty
Ensuring low-income individuals' access to financial services, including microfinance and savings products, as well as job opportunities.

8 DECENT WORK AND ECONOMIC GROWTH

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

5 GENDER EQUALITY

SDG 5 – Gender equality
Empowering women by providing them with equal access to economic resources and opportunities.

10 REDUCED INEQUALITIES

SDG 10 – Reduced inequalities
Sustaining income growth at the bottom of the pyramid, while ensuring equal opportunities and incomes irrespective of age, gender, origin, religion or other status.

SDGs indirectly addressed

2 ZERO HUNGER

SDGs indirectly addressed
SDG 2 – Zero hunger
Increasing the output and efficiency of small-scale food producers and processors, to expand access to affordable food.

7 AFFORDABLE AND CLEAN ENERGY

SDG 7 – Affordable clean energy
Facilitating access to affordable and reliable energy, including through renewable energy products such as solar, wind, hydro, biogas.

3 GOOD HEALTH AND WELL-BEING

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

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

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.

4 QUALITY EDUCATION

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

13 CLIMATE ACTION

SDG 13 – Climate action
Combating climate change and mitigating the impact of natural disasters, particularly through the financing and teaching of resilient and adaptive practicesthrough renewable energy products such as solar, wind, hydro, biogas.

6 CLEAN WATER AND SANITATION

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.

Microfinance client stories

Read our client stories on pages 5, 8, 9, and 17

Business:
Trade

1 NO POVERTY 5 GENDER EQUALITY

Name: **Romilah**
Country: **Indonesia**
Location: **Kampung Besar, Tangerang**

Romilah lives in Kampung Besar, Tangerang. Romilah has a tiny stall next to her house where she sells vegetables, food items like "gado-gado" (Indonesian salad with peanut sauce), spices and ice cubes. Her husband sometimes helps out in the stall. When Romilah used to sell fried food when she first became a client at MBK in 2004. Over the years, her collaboration with MBK has enabled Romilah to diversify her product offering and improve the structure of her house by adding bricks and tiled floors to the original bamboo structure. In her 11 years as a customer of MBK she has never defaulted on a payment. Additionally, Romilah is now the breadwinner in the family since her husband does not have a regular income. Although MFI's group loan meetings take place far from her home, she is happy to remain an MBK client and already looks forward to taking a new loan and starting her next long-awaited project: opening a rice shop for the local community.

Business:
Agriculture

1 NO POVERTY 5 GENDER EQUALITY

Name: **Nagarathna**
Country: **India**
Location: **Naharu Doddi**
Loan amount from microfinance institution (USD): **670**

Nagarathna lives in the rural village of Naharu Doddi, in the southwest province of Karnataka, about 75 kilometres away from the city of Bangalore. She used to work at a government-owned hostel as a cook and domestic help, earning about USD 115 per month. However, delays in salary payments were common and the lack of stable cash flows affected her household negatively. She decided to seek a more stable source of income and became involved in the sericulture industry, raising silkworms and selling the cocoons to the local government-run silk cooperative. Thanks to an initial loan from Grameen Koota of USD 365 with a 2-year tenor limit, Nagarathna could purchase eight silkworm-rearing wooden beds, silkworm eggs and mulberry leaves to start her new business. She now earns USD 170 per month and can send her two children to school. This increased revenue has also enabled her to start a dairy business that provides an additional USD 145 in monthly income. She has taken a second loan from Grameen Koota, USD 670 six-month loan, to purchase some cows, and is considering a larger loan to expand the dairy business with the help of her husband, Mahadeva.

Investment strategy

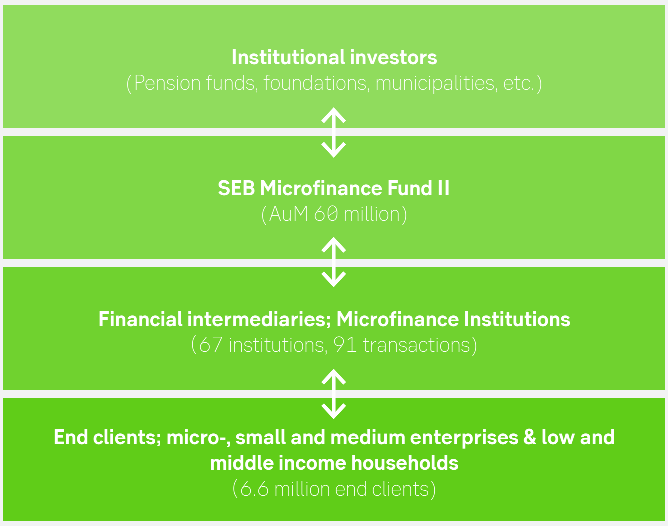
SEB Microfinance Fund II's investment strategy was to enable institutional investors to channel capital to markets and clients where it otherwise does not flow.

The value chain; linking capital markets to underserved areas

The SEB Microfinance Fund II pooled institutional capital and lent directly to financial intermediaries or microfinance institutions, in emerging and frontier markets. Thus the fund enabled institutional investors to channel capital to markets where it otherwise doesn't flow. 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. Small enterprises employ up to 50 people and medium enterprises employ up to 250 people. SEB Microfinance Fund II's strategy was to capture financial and social value creation from financial intermediaries active at the base of the pyramid in emerging and frontier markets.

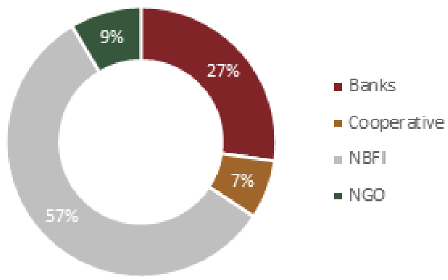
Figure 1: SEB Microfinance Fund II investment value chain.



Creating financial and social value at the base of the pyramid

SEB Microfinance Fund II's investment universe included financial institutions of all sizes, ranging from institutions with total assets of USD 10 million to those exceeding USD 1 billion. These institutions include banks, non-bank financial institutions (NBFIs), cooperatives and NGOs. Each type of microfinance institution offers its contribution towards financial inclusion. NGOs usually target entrepreneurs with very small microcredits whereas banks provide larger loans, usually to bigger but underserved SMEs. This is commonly known as the missing middle.

Figure 3: Type of financial institutions, 5-year average (% portfolio)



More than 50% of the fund's portfolio outstanding at the end of each year was allocated to NBFIs. (57% of total origination). Generally, NBFIs cannot rely on deposits to fund their growth, and are largely dependent on specialised lenders such as SEB Microfinance Fund II. They have therefore been the ones attracting the most transformational foreign private sector capital.

The total number of borrowers financed by the institutions grew by 50%, reaching a larger number of borrowers than ever before.

The MSME financing gap

Micro, small and medium enterprises (MSMEs) play a major role in most economies, particularly in emerging and frontier markets. They are a key driver of economic development, job creation and innovation.[1] Small businesses create 9 out of 10 new jobs worldwide. Approximately 3.3 million new jobs are needed every month in emerging markets from now to 2030 to absorb the growing workforce.

However, access to finance is a major barrier for MSMEs to invest, grow and create jobs. Because small businesses are perceived as riskier than larger firms their access to financing from the traditional banking sector remains limited. The International Finance Corporation (IFC) estimates the MSME finance gap to be USD 5.2 trillion, with another USD 2.9 trillion of potential demand if the informal sector is included. [2]

Private capital is clearly needed to close this financing gap and to enable this underserved segment to invest, grow and develop employment opportunities. For financial institutions, 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 peers who do not offer products to this segment. [3]

[1]SME Finance Forum
[2]International Finance Corporation (2017). MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets.

Going local currency, unhedged in emerging and frontier markets

SEB Microfinance Fund II's strategy deliberately chose to provide unhedged debt financing to microfinance institutions in their domestic currencies. There are two key reasons for this:

1. Ethical: removing the currency risk from microfinance institutions
Domestic microfinance institutions in emerging and frontier markets need local currency funding. When lending in hard currency, the foreign exchange risk is passed to the investee microfinance institutions or the end client.

» There is a **need for borrowing in local currency.** «

The investee microfinance institutions with significant hard currency liabilities experience a mismatch between their assets in local currency and their liabilities in hard currency. In many of these countries, the local solution for managing currency risk can be complicated, expensive or simply not available.

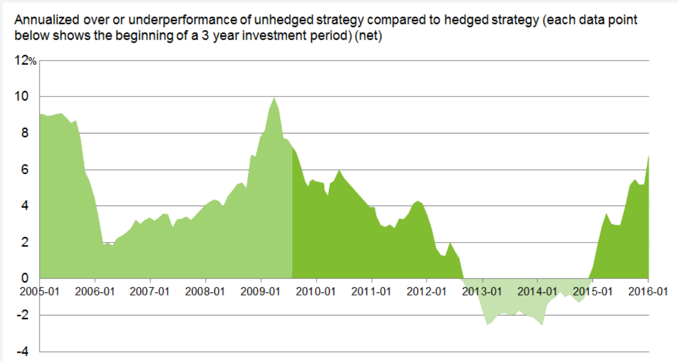
By lending in local currency, SEB Microfinance Fund II meets the borrowing needs of domestic investee microfinance institutions, improves their credit quality, and moves the local currency risk from the investee to the fund. That currency risk has been managed by a diversified portfolio throughout the life of the fund as well as receiving a premium on the interest on the loans (as explained herewith). The fund had a USD exposure because some of the targeted countries are dollarised.

» There is a **local currency premium** for investors. «

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

Symbiotics has calculated that the effect of higher net yields adjusted for currency movements over a 10-year period is positive 75% of the time, compared to a portfolio of loans in the same currencies hedged back into USD.[4] 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 4: 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)

[4] Symbiotics, *Going Unhedged in Frontier Markets*, September 2017

Microfinance client stories

Read our client stories on pages 5, 8, 9, and 17

Business:
Production

8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Institution: **RoCredit**
Country: **Romania**
Loan amount from microfinance institution (USD): **600**

Ascensia Mob, a wooden furniture parts company, was created by four local businessmen from Maramures County in northern Romania in 2009. The company grew quickly, earning a name for itself among international furniture producers. Requiring equipment to finish its products, Ascensia Mob turned to RoCredit for funding, as banks and leasing companies were not willing to provide funds for second-hand equipment. Thanks to a first-round loan from RoCredit, Ascensia Mob began supplying Aramis Invest, the largest Eastern Europe IKEA producer, with wooden couch legs. RoCredit's promissory note discounting facility (launched as a pilot product with Ascensia Mob) subsequently enabled the furniture company to increase its turnover, in a period of only six months, from 19,290 lei (USD 5,500) to 359,744 lei (USD 111,000). Ascensia Mob currently has 37 employees, 10 products, and over 1 million lei (USD 250,000) in total assets. It is now sourcing wooden parts to three of IKEA's furniture producers: Habufa, Clockwork, and Aramis Invest.

Business:
Grocery store and agriculture

1 NO POVERTY
5 GENDER EQUALITY

Name: **Khatung Toria**
Country: **Georgia**
Location: **Tsalenjikha**
Loan amount from microfinance institution (USD): **3,400**

Khatung Toria lives in the rural area of Tsalenjikha in western Georgia, 330 kilometres away from the capital of Tbilisi. Her husband is a carpenter. With the two oldest children at university and the youngest having started school one year ago, she decided to open a grocery store to earn additional income. Her small shop is also a good opportunity to sell some of the products she grows at home such as hazelnuts, as well as foods made from the family's own livestock. The family has over 900 hazelnut trees and 18 cows and, thanks to her shop, she is able to sell milk and sausages produced directly. She also sells staples such as flour, local fruits, cereals, onions and potatoes. Recently, she borrowed 10,000 Georgian Lari (USD 3,400) from Lazika to invest in additional products. Her shop is relatively small and she stocks merchandise from external providers in the warehouse next door, and stores her harvest of hazelnuts and her homemade meat products in the family's barn.

Name: **Jazzia Tissia**
Country: **Tunisia**
Location: **Medenine**
Loan amount from microfinance institution (USD): **700**

Business:
Traditional hand weaving

Jazzia Tissia is a 62-year-old widow. Shortly after getting married she moved to Medenine, the largest city in the south-east, to be close to her husband's family. When he unexpectedly died three years later, Jazzia Tissia had to support her family by teaching artisanal cooking classes using local products. Her passion for creating art and preserving her culture led to a new business idea: traditional hand weaving, a craft passed down from her ancestors. Tissia found out about Enda Tamweel (ENDA) through a group of women in her community. In 2012, she took her first loan of 400 dinars (USD 250) from ENDA's local branch in Medenine to help develop her new business. Following timely repayment, she eventually took out five consecutive loans from ENDA - her latest loan at 1,400 dinars (USD 700) was nearly three times as large as her first loan. Her creations are unique artworks that showcase the traditional colours and patterns of Southern Tunisia. Additionally, her work contributes to the recent resurgence of traditional crafts in Tunisia in the face of strong competition from cheaper foreign goods that have flooded the market.

Business:
Hardware store and construction supply warehouse

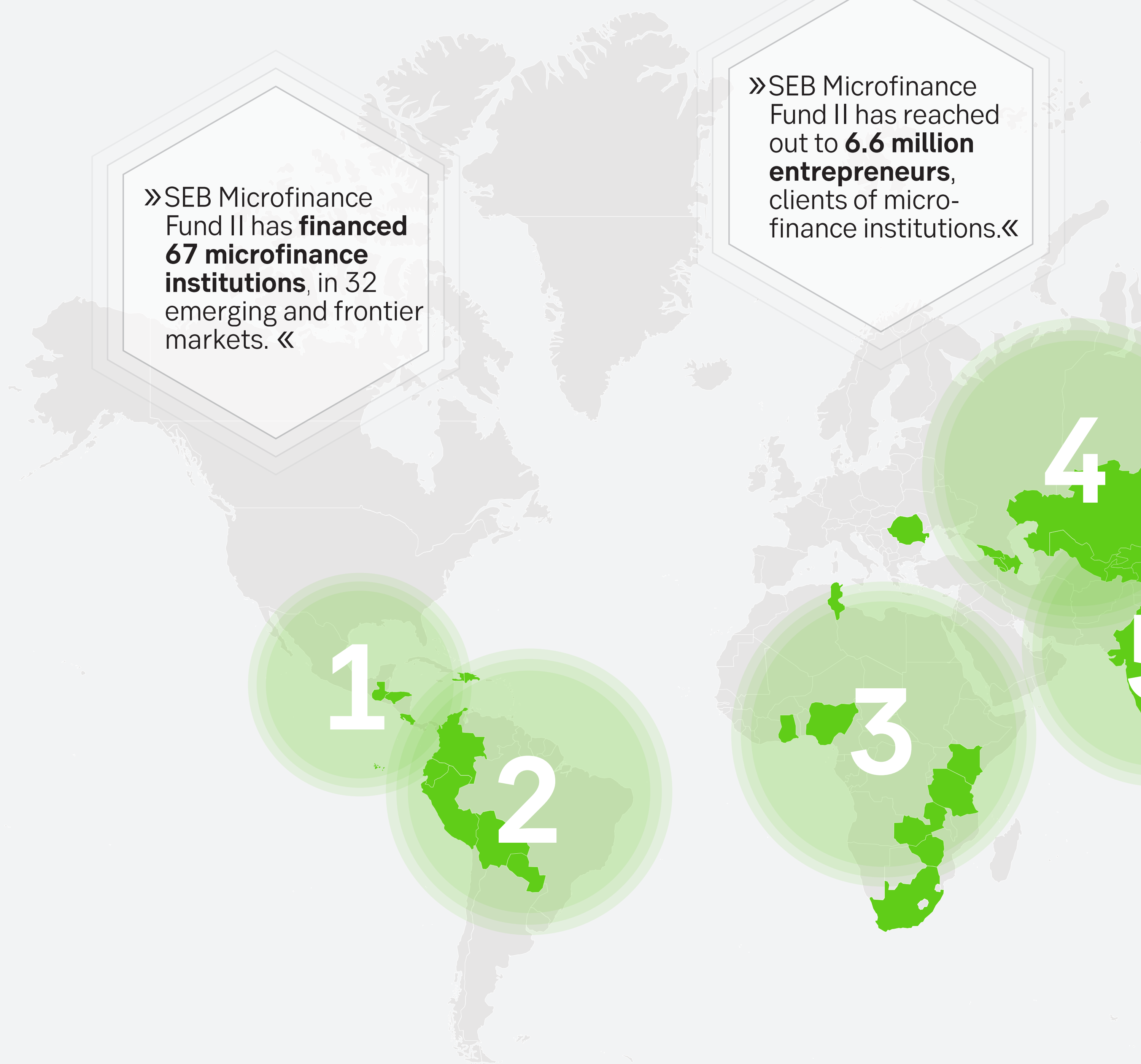
Name: **Dominga Colmán**
Country: **Paraguay**
Location: **Itá**
Loan amount from microfinance institution (USD): **6,000**

Dominga Colmán lives in Itá, a town 45 minutes south of the capital, Asunción. Her husband works as a bus driver and is therefore away from home for long periods of time. Eighteen years ago, Colmán decided to start her own business to contribute to the household income. With support from her family, she opened a small hardware store that has steadily grown. Colmán realised that purchasing higher volumes of stock would allow for better purchasing conditions and she applied for a long-term loan with Vision Banco, USD 6,000 with a tenor of 30 months. She used this loan to increase her stock of products. Colmán currently employs two people and her business now includes a construction supply warehouse. She is considering a new loan to build a larger facility which she would own, rather than continuing to rent as today. She hopes the business will eventually allow her family to reduce their dependence on her husband's income.

Portfolio investments

» SEB Microfinance Fund II has **financed 67 microfinance institutions**, in 32 emerging and frontier markets. «

» SEB Microfinance Fund II has reached out to **6.6 million entrepreneurs**, clients of micro-finance institutions. «



1. Central America
Amount disbursed: **USD 11.5m**
Number of transactions: **8**
Number of countries: **4**
Numer of investees: **7**
Number of active borrowers: **90,954**

2. South America
Amount disbursed: **USD 29.4m**
Number of transactions: **23**
Number of countries: **5**
Numer of investees: **16**
Number of active borrowers: **861,004**

3. Sub-Saharan Africa and MENA
Amount disbursed: **USD 16.2m**
Number of transactions: **13**
Number of countries: **8**
Numer of investees: **9**
Number of active borrowers: **353,207**

4. Central Asia & the Caucasus
Amount disbursed: **USD 28.1m**
Number of transactions: **19**
Number of countries: **8**
Numer of investees: **17**
Number of active borrowers: **549,988**

» SEB Microfinance Fund I has **originated USD 120 million** in financing to micro-finance institutions. «

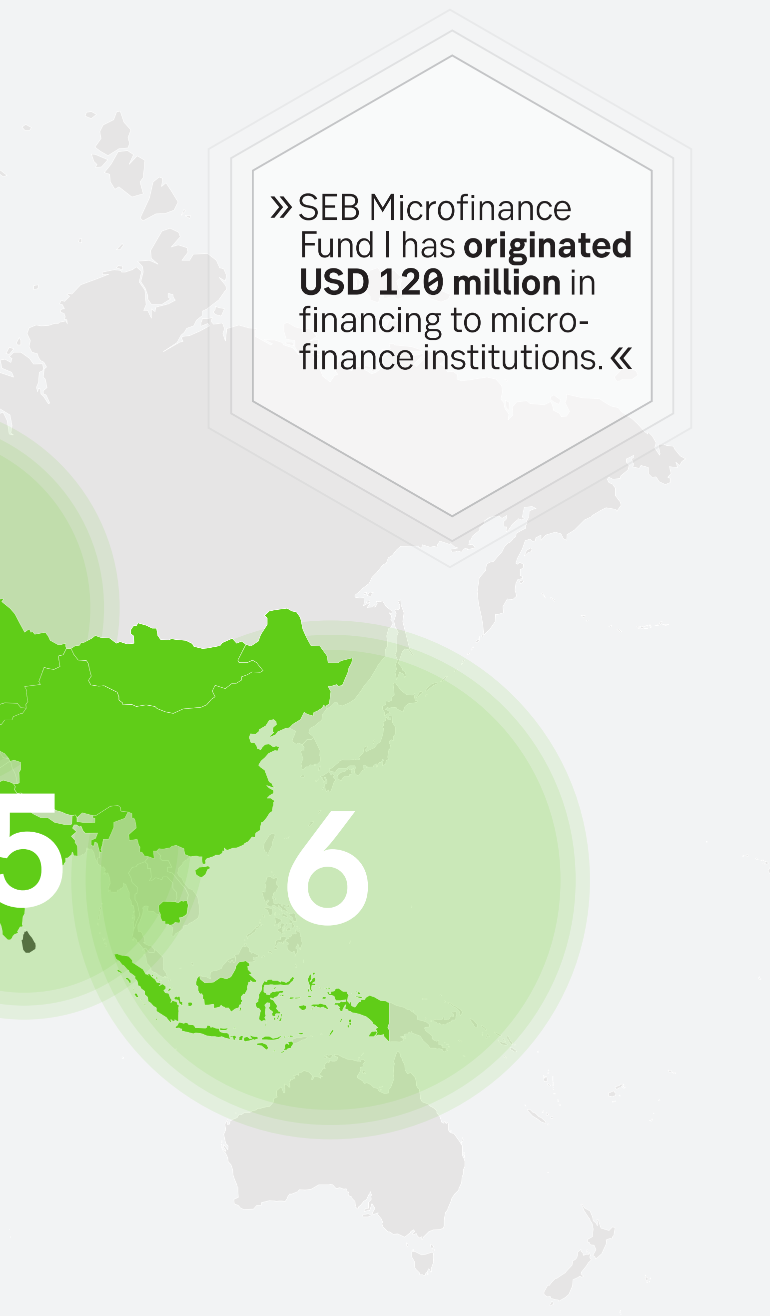


Figure 6: Country concentration

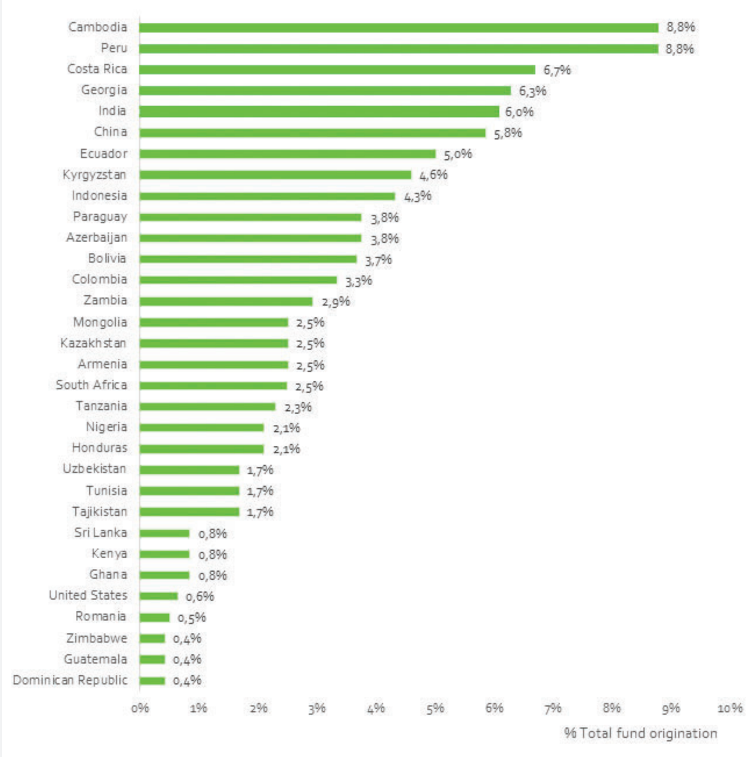
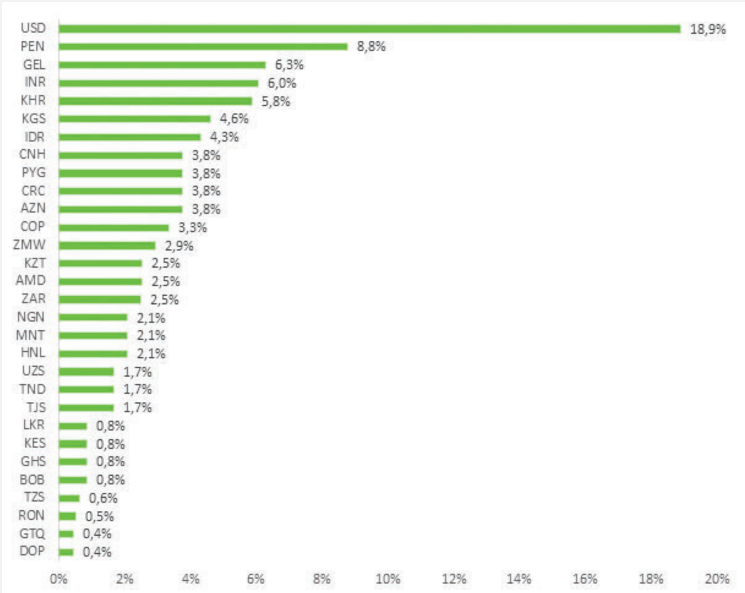


Figure 7: Currency concentration



*The exposure to United States refers to a loan to a holding company with operations in sub-Saharan Africa.

5. South Asia
Amount disbursed: **USD 8.2m**
Number of transactions: **8**
Number of countries: **2**
Numer of investees: **6**
Number of active borrowers: **2,949,918**

6. East Asia & the Pacific
Amount disbursed: **USD 25.7m**
Number of transactions: **19**
Number of countries: **4**
Numer of investees: **11**
Number of active borrowers: **1,848,316**

Financial performance

The cumulative net returns of the SEB Microfinance Fund II to investors over the period June 2014 to June 2019 have amounted to 49.7% in SEK for the A share class and 44.2% in SEK for the B share class, implying annual returns of 8.3% and 7.5% respectively.

»The SEB Microfinance Fund II **performed above the targeted return.**«

Local currency yields and the currency effect
As a fully unhedged fund, SEB Microfinance Fund II's returns were driven by both the yields on the loans to the investee microfinance institutions as well as the movements in foreign exchange rates over the life of the fund. The yield of the loans contributed to 99% of the fund's performance. Movements in foreign exchange rates are difficult to predict. Over this five-year period the currency basket contributed marginally to the performance of the fund.

Fifteen out of the thirty currencies in the portfolio performed positively over the life of the fund while the remaining currencies performed negatively. In all but three currencies, the yield of the loans compensated for the negative performance of the currencies.

When combining the currency and yield, the strongest performers were the investments in Costa Rican colon (CRC), Uzbekistani som (UZS), and Guatemalan quetzal (GTZ). On the other hand, the Nigerian naira (NGN), the Azerbaijani manat (AZN) and the Tunisian dinar detracted from the fund's performance.

Figure 8: NAV SEB Microfinance Fund II - SEK (A/C share class)

*Up until June 2019 when 97% of the capital was paid off. Due to work-out positions, the fund was formally closed in January 2020.

Table 1: SEB Microfinance Fund II dividend payments

Share class	2014	2015	2016	2017	2018	2019
A/D SEK	0.0%	4.2%	4.5%	5.8%	13.0%	4.6%
B/D SEK	0.0%	4.2%	4.5%	5.7%	10.0%	4.5%

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 volume was put into investment grade microfinance institutions.[5]

Cumulative write-offs over the life of the fund amounted to 0.9% of cumulative origination. This amounts to an annual write-off ratio of 0.4% over the life of the fund.

- The first case of a loan default took place in February 2016 with a microfinance institution in Tajikistan, which experienced an economic crisis in 2015. The Tajikistani somoni depreciated dramatically against the USD and there was a significant drop in remittances from Russia to Tajikistan. This had a substantial effect on customers' repayment capacity and market demand.
- In May 2016, another investment in Azerbaijan fell into default, primarily due to the steep depreciation of the Azerbaijani manat following the drop in oil prices in 2015.

- In May 2017, an institution in Zimbabwe had difficulties with repayment due to deteriorating macroeconomic conditions. A large budget deficit 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, a microfinance institution in SEB II's portfolio was negatively affected by these developments.

- In July 2017 an institution in Ecuador defaulted after the discovery of fraud in asset quality valuation. The asset revaluation led to a rise in portfolio-at-risk and a decrease in the risk coverage. Consequently, the institution sold its portfolio to a local bank in Ecuador as part of the liquidation process.

By the close of the fund, 77% of the loans that defaulted had been recovered. While these write-offs are an indication of the risks related to investing in emerging and frontier markets, we believe the fund's performance demonstrates that it is possible to invest in these markets in a financially and socially attractive way.

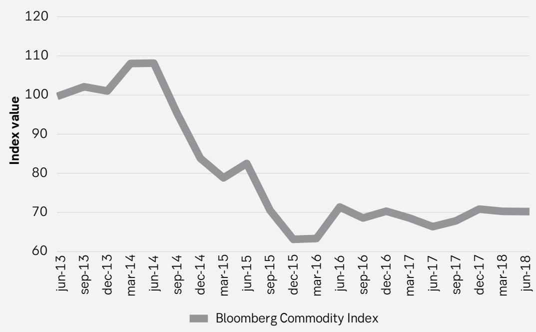
[5]As per Symbiotics proprietary credit risk ratings. Refers to the credit quality of the microfinance institutions.

Market developments

The SEB Microfinance Fund II operated in various market environments over the five-year period. Growth was strong and emerging markets attracted significant portfolio inflows over much of the period. However, a sharp decline in oil and commodity prices in 2014- 15 was particularly challenging, causing large devaluations in several currencies against the USD. In addition, national-level policies as well as natural disasters negatively affected some microfinance markets.

2014–2016 commodity markets crisis hits emerging markets
Commodities lost nearly half of their value in the period April 2014- January 2016, as illustrated by the Bloomberg commodity index (see figure 9). With oil and copper as two of the commodities with the largest decline, net exporter economies of these commodities were the most severely hit which led to currency devaluations and recessions. This impacted the microfinance sector in Kazakhstan, Azerbaijan, Mongolia and Nigeria with a drop in portfolio quality. However, 2017 saw a rebound in commodity-exporting countries.

Figure 9: Commodities crisis over the fund's operating period.



2016–2017 Micro and SME markets in Ecuador and India under pressure
A devastating earthquake in Northern Ecuador in April 2016 affected microfinance institutions operating in the region. However, most institutions have recovered, supported by international lenders and government initiatives.

The Indian Government announced in November 2016 that all 500 to 1,000-rupee bank notes, representing 85% of India's currency would immediately cease to be legal tender. This created a severe cash shortage, especially in the informal economy which microfinance institutions serve to a large extent. In addition, less than a year after the demonetisation, the Indian Government implemented the Goods and Services Tax (GST) reform in July 2017, a move that has been particularly disruptive for the lower segment of SMEs. Microfinance institutions witnessed a drop in their portfolio quality due to late repayments. However, most microfinance institutions were able to adjust their business models to this new reality and has recovered since.

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 7% while the risk adjusted return (Sharpe ratio) was 1.2 (see table 2).

Table 2: Returns, volatility & sharpe ratio compared to other asset classes (SEK)

Index name	SEB Microfinance Fund 2 - 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	Emerging markets local currency debt	Frontier/Emerging stocks	Emerging currencies	Cash
Index currency	SEK	USD converted to SEK	USD converted to SEK	USD converted to SEK	SEK
Annualized return	8.3%	6.5%	8.4%	7.2%	-0.07%
Annualized volatility	7.0%	9.5%	13.1%	7.6%	0.06%
Sharpe ratio	1.17	0.69	0.64	0.96	0.00

Social performance

SEB Microfinance Fund II channelled capital to markets and entrepreneurs where income levels and financial inclusion was low. It 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.

Social practices

Each investee was assessed pre-investment against seven dimensions and 100 indicators of social responsibility. This was done to gauge how likely it was for the microfinance institution to contribute to sustainable development and social impact. These seven dimensions are:

1. Financial inclusion: Ability of the institution to serve low-income and underserved clients.
2. Social governance: Social and development objectives of the institution's owners.
3. Client protection: Fair treatment of clients including efforts to prevent over-indebtedness of clients.
4. Product quality: Diversity and quality of financial and non-financial products and services.
5. Labour climate: Human capital development, employee satisfaction and staff turnover rates.
6. Community engagement: Community development support and impacts.
7. Environmental policy: Efforts to mitigate environmental impacts of financed enterprises.

Social performance drivers

Practices:
Select responsibie financial institutions.

Outreach:
Channel capital to where it is needed.

Impact:
Contribute to financial security, employment opportunities and living standards.

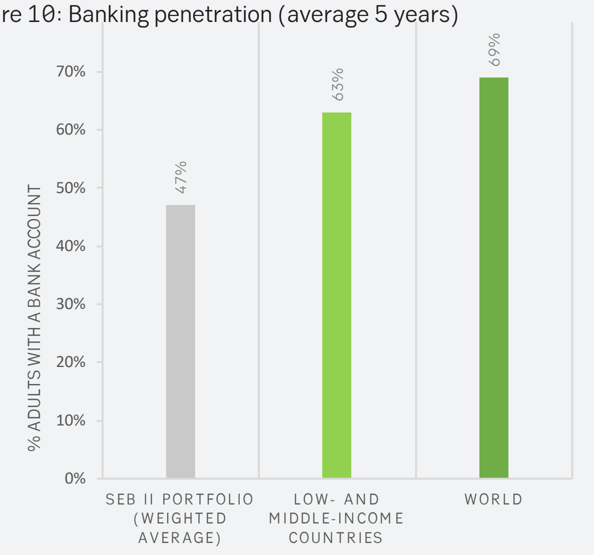
Social outreach: channeling capital where it is needed

SEB Microfinance Fund II's social outreach can be measured at the level of the markets in which the fund is invested and the end-clients reached through the fund.

Market outreach – reaching underserved economies

The SEB Microfinance Fund II has channelled capital to countries with low income levels and financial inclusion. On average, the fund invested in countries where 47% of the adult population had an account at a financial institution.[6] This is significantly lower than the world average of 69% and the 63% average for low and middle-income countries. Furthermore, the GDP per capita in those countries (USD 4,840) is lower than the world average (USD 10,660) and in line with the average for all low- and middle-income countries worldwide (USD 4,589). Kompanion Bank is an example of an institution operating in Kyrgyzstan, a country with a GDP per capita of USD 1 281 and a low level of banking penetration with 40% of adults having an account. Credit to the private sector stands at a low 23% of GDP and the spread between loans and deposits in the banking system is one of the highest in the world at 10%.[7]

Figure 10: Banking penetration (average 5 years)



Kompanion provides training to improve efficiency in the agricultural sector

Institution: **Kompanion Bank**
SEB II total origination**: USD 1 million**

Kompanion Bank's aims to provide inclusive and responsible financial services to entrepreneurs in the country.

Kompanion Bank started as an NGO in 2004 and converted into a bank in 2015. It remains focused on micro, small and medium sized enterprises. Its branches cover the entire country and the majority of its clients live in rural areas with around half of the clients active in the agriculture sector. The bank offers various loan and savings product tailored to the need of their clients. It also provides non-financial services to clients.

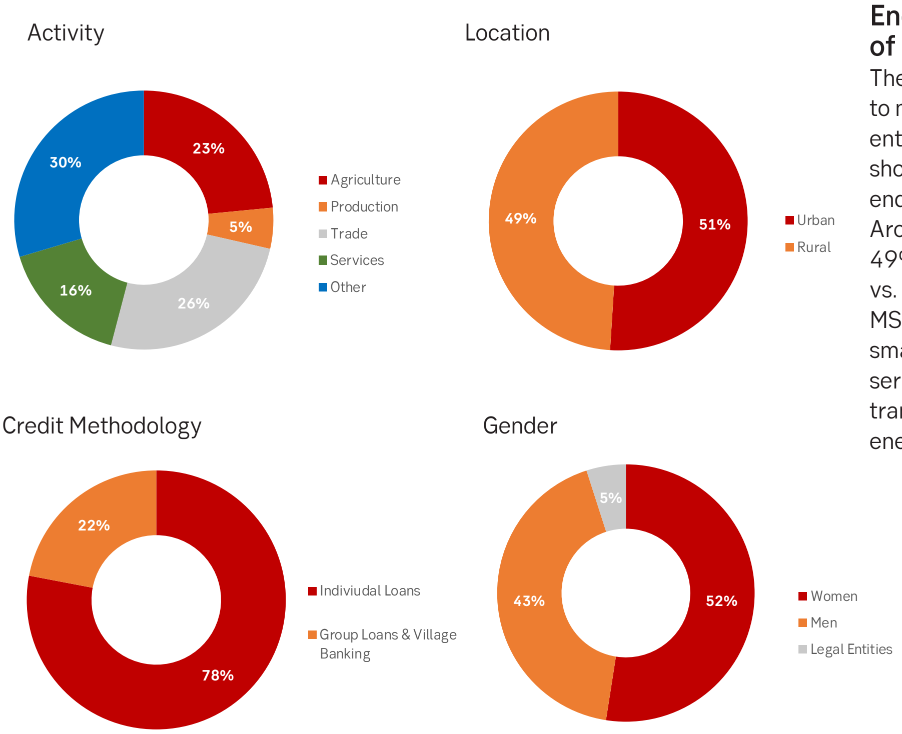
"We would like to have our clients developing together with us." - *Natalia Fefilova, Member of the Management Board.*

Around two thirds of the population live in rural areas, many of whom are small-scale farmers. To increase productivity and resilience among the farmers, Kompanion offers agro-trainings to clients and non-clients located in remote villages and from vulnerable communities. The bank has a team of 32 agronomists and veterinarians. Through an ethno-ecological approach, the training courses cover topics on agronomy and animal husbandry. The courses are tailored to the needs of the participants as well as to the seasonal demands of agricultural, and have proven to be useful to attendees, as reflected by increased household income. From 2010 to 2018 they provided more than 20.000 sessions, for approximately 46.000 clients in 1200 rural villages. They have also provided more than 270 courses in rural schools on financial literacy.

Employee story[8]: - Ashiraly Dzholdoshev, agronomist
"In 1978 I enrolled in the Scriabin Kyrgyz Agricultural Institute and received a degree in agronomy. I have worked at Kompanion Bank since February 2009. When we come to communities to conduct training and start talking about agronomy and livestock clients become so enthusiastic. Many farmers feel the need for consultations, almost everyone. I really like my work because I feel my involvement in the improvement of living conditions for those people for whom we hold our training. I think that my work at Kompanion Bank, at least locally, contributes to the preservation of the environment in the region: water, air and soil for future generations."

[6]Includes account at a financial institution or a mobile-money account. The percentage of adults with an account is often used as a proxy to financial inclusion.
[7]IMF 2019 Article IV consultation staff report
[8]Kompanion Bank; https://www.kompanion.kg/uploads/files/Брошюра_ОтделРазвития_ENG_web.pdf

Figure 12: Fund end-clients' characteristics (5-year average, % of number of active borrowers)



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

The fund originated USD 120 million in financing to microfinance institutions, reaching 6.6 million entrepreneurs with different characteristics, as shown in Figure 12. SEB Microfinance Fund II served end-clients through mainly individual loans (78%). Around half of end-clients were women (53%), while 49% of borrowers lived in rural areas (51% urban vs. 49% rural). In terms of sectors of activity of the MSMEs financed, borrowers were actively involved in small trading activities (25%), agriculture (23%) and services (16%). Other types of activities (30%) include transportation, construction, housing, renewable energy, and consuming goods of first necessity.

Microfinance client stories

Read our client stories on pages 5, 8, 9, and 17

Business:
Restaurant

Name: **Bolormaa Chulumbat**
Country: **Mongolia**
Location: **Ulaanbaatar**
Loan amount from microfinance institution (USD): **3,750**

Bolormaa Chulumbat, 27-years old, is a self-taught cook who is originally from the capital, Ulaanbaatar. She started a street stall in 2012 to sell her specialty dumplings, a Mongolian national dish. About three years ago, she found out she could apply for a loan from Transcapital when one of their loan officers ate at her stall. She never thought this would be possible, given her relative youth and lack of experience. Nevertheless, thanks to her first loan of 6.3 million Mongolian Tughrik (MNT) (USD 2,360), she was able to set up a food truck. Chulumbat later borrowed MNT 500,000 (USD 188) to protect her business against the rising price of meat by increasing her inventory of this vital ingredient. A third loan of MNT 1 million (USD 375) enabled her to purchase a television to keep clients at her restaurant entertained. She used her fourth and latest loan, 24-month MNT 10 million (USD 3,750) to acquire her current restaurant, Everyday Fresh. The restaurant is in a good location in the capital's shopping district and has the capacity to seat 50 people. She serves over 100 customers a day. Chulumbat has not borrowed from other institutions. She is satisfied with Transcapital's range of services and has a good working relationship with her loan officer. Chulumbat now has six employees and aims to expand her business in the food industry by opening additional restaurants.

» We have incorporated this project intending to **strengthen** our customer's **technological management skills** and **their businesses**. «

– Isabel Rueda, Development Services Manager

The gender financing gap

According to the 2017 Global Findex database, 67% of men, but only 59% of women in developing countries have an account at a financial institution, indicating a gender gap of 8 percentage points.[9] The gap grows to 28 percent when considering women living at less than USD 2 a day.

Access to a range of financial services enhances the contribution of women and facilitates the growth of women-led businesses. It also contributes to women's autonomy, allows for better use of their personal and household resources, and reduces the vulnerability of their households and businesses.[9]

By financing intermediaries with a strong focus on lending to female clients and enabling women through trainings and other non-financial services, SEB microfinance funds contribute to bridging the gender divide in the area of financial inclusion. There are many examples of financial institutions in the SEB Microfinance Fund II portfolio that actively work towards achieving gender equality such as Crecer in Bolivia.

Crecer empowering women through technology

Institution: **Crecer**
SEB II total origination**: USD 1 million**

Crecer is an institution whose mission is to empower and improve the quality of life of Bolivian women and their families. While the products and services offered are addressed to both men and women, 80% of Crecer's client base are women. Crecer fulfils its mission by coupling its financial products with business development services and health education.

Crecer's new project, "Mujeres Conectadas," aims to fulfil two main objectives. Firstly, the project aims to evolve from traditional training approaches and reach a greater audience through technology. Secondly, Crecer works with the private sector to provide training courses that enable women to enhance their business by using available technology. The themes covered in the training course range from development of basic technical skills and financial literacy to social media management and data protection.

In addition to these services, Crecer has partnered with health centres and governmental bodies to offer preventive cervical cancer screenings to female customers and their communities. Through their specialised advisors, Crecer offers these services to women who normally do not have access to this type of medical examination. They have reached nearly 28% of the female population in the country that the state has not been able to reach.

[9] G20 Financial inclusion for women

» Our loan officers in smaller villages had **never used computers** or **smart phones**. We had to train them from the basics. «

– Sanjay Mahajan, CIO Satin

Rural financing gap

The rural-urban gap in financial inclusion is also well-documented in emerging markets, with urban residents being more likely to have an account at a financial institution.

People living in rural areas need financing for numerous reasons such as investing in agricultural supplies or equipment; maintaining infrastructure; contracting labour for planting or harvesting; transporting goods to markets; handling payments; investing in education, housing and health; and dealing with emergencies. However, it is more challenging for financial institutions to service rural areas due to lower population densities; lack of infrastructure such as internet connections, transport, electricity; and lower financing needs.[10]

SEB Microfinance Fund II clearly contributes to providing equal access to financial services for rural and urban clients alike, with nearly half of the fund's end-clients based in rural areas.

Satin in India is an example of an institution overcoming the challenges of providing last mile formal financing. Two thirds of India's population live in rural areas. There are roughly 650,000 villages in India and only about 10 percent of these have access to formal banking infrastructure or even bank branches.

Expanding outreach and improving banking services through digital transformation

Institution: **Satin Creditcare Network Limited**
SEB II total origination: **USD 2.6 million**

Satin is microfinance institution that aims to contribute to financial inclusion and improved living conditions across India through its products.

Satin serves more than 3 million women with 96% of clients living in rural areas. The average loan size is USD 226. Group loans is the main product but it is broadening its product offering to include, for example, loans for solar lamps and access to safe water and sanitation facilities. Moreover, customers can participate in training courses and workshops to improve their business practices.

Satin has more than 1000 branches in 23 of India's 29 states. In an effort to improve efficiency and expand its outreach, Satin has undergone a digital transformation. A new CIO joined in 2016. At that time, the institution did not have computers in the branches and all documentation including the loan amount collected was brought to a regional office which meant the loan process took 18-20 days. Satin decided to build an in-house IT system and today, the automation of know your customer routines, credit bureau checks, real time bank account verification and geolocation tagging has helped shrink the loan processing to three minutes. The customer's relevant documents are scanned via the tablets carried by branch staff and 90% of transactions have gone cashless. Satin has achieved significant reductions in operational costs since implementing this technology.

"Our loan officers in smaller villages had never used computers or smart phones. We had to train them from the basics. Training around 5000 people on the ground at the last mile wasn't all that easy. However, it was a great feeling for customers when we took technology to the last mile. To overcome the connectivity problems in rural areas, we built our technology in such a way that it works in an offline environment as well." - *Sanjay Mahajan, CIO Satin*

The government's efforts such as biometric identifications, a push to increase bank account ownership and an expanded mobile infrastructure enables companies to use digitalisation as a tool to expand outreach. This has allowed Satin to overcome some of the challenges of rural financing.

[10] International Labour Organisation, Developing the rural economy through financial inclusion.

Social impact: contributing to financial security, employment opportunities and living standards

Quantifying social impact is challenging given that many exogenous factors affect the daily lives of end-beneficiaries 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 and development. 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.[11]

The Consultative Group to Assist the Poor (CGAP) is an independent think tank dedicated to financial inclusion. It has defined two high-level outcomes of financial services directed to the base of the pyramid; capturing opportunities and build resilience.

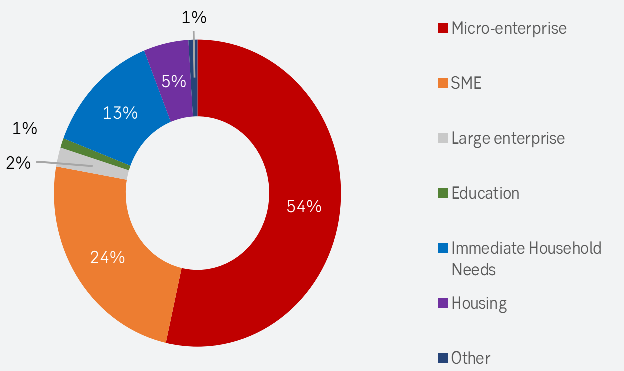
- **Capturing opportunity** refers to the ways financial services help people take advantage of opportunities in a broad sense, whether investing in a business, getting an education or receiving medical treatment.
- **Building resilience** refers to how financial services allow people to prepare for shocks, deal with them when they occur and recover afterwards.

These outcomes reinforce each other in a virtuous cycle: more of one leads to more of the other.

Taking this into consideration, we have identified impact proxy measures that would allow us to understand how SEB Microfinance Fund II has influenced the above outcomes through the following factors:

- Employment sustained via MSME finance
- Availability of financial products catering to households needs, such as goods of first necessity, education and housing
- Availability of non-credit products such as savings, insurance, payment, and non-financial products to help entrepreneurs better manage their economy.

Figure 13: Proportion of credit products to household needs (5-year average, % investees gross loan portfolio)



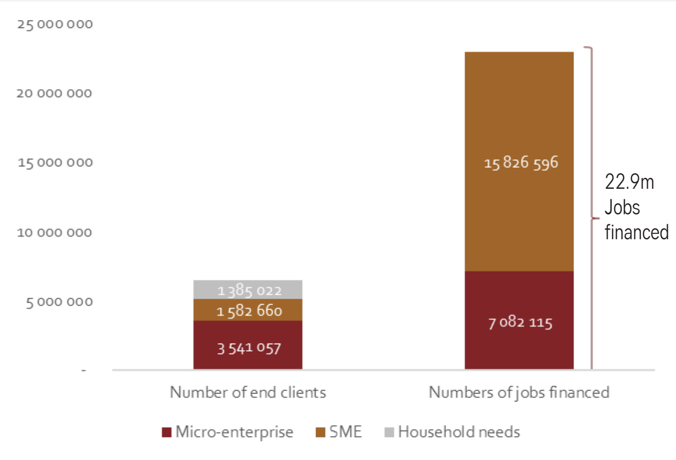
Capturing Opportunities

MSME loan products accounted for 78% of the loan books of the investees. The majority of the fund's investments were directed to microentrepreneurs. Additionally, SEB Microfinance Fund II grew its investments progressively in SME finance over time, from 16% in 2014 to 28% in 2018, providing 1.5 million SMEs with access to credit (see Figure 13).

Employment and entrepreneurship

Tracking the number of jobs created by the fund is challenging due to the difficulties in tracking the large client base over a longer period and separating the exogenous factors that can affect a business. Instead, we estimated the number of jobs sustained. By assuming that a micro-enterprise employs an average of two people and an SME employs an average of 10 people, we estimate that the microfinance institutions in the fund have sustained 22.9 million jobs over the five-year period (Figure 14).

Figure 14: Jobs financed (5-year average of micro and SME products)



Building resilience to be able to capture opportunities

Living standards:

Financial products that cater to household needs are another way of assessing the fund's social impact. For end borrowers, household needs relate to consuming goods of first necessity such as dealing with and recovering from a shock and smoothing an uneven income pattern, as well as investing in education for the children or improving housing.

While the fund has primarily channelled capital to micro-entrepreneurs and SME businesses, the investee microfinance institutions also offer household-related loan products that aim to enable end-clients to raise their living standards. On average, 21% of the gross loan portfolio of the fund's investee microfinance institutions is allocated to household-related products such as education, immediate household needs and housing.

MBK in Indonesia is an example of a financial institution that has diversified its loan products to allow its female entrepreneur clients to address daily challenges.

[11]Ogden, Timothy. (2019). What is the impact of investing in financial systems? Practical thinking on investing for development.

NO POVERTY
CLEAN WATER AND SANITATION

MBK improving living conditions with innovative products

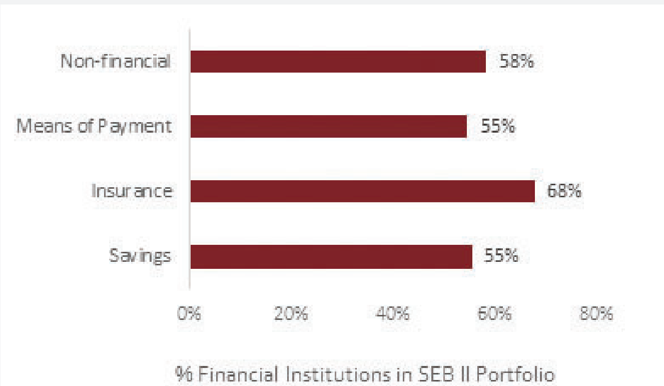
Institution: **Mitra Bisnis Keluarga Ventura – MBK**
SEB II total origination: **USD 3.4 million**

MBK is a microfinance institution in Indonesia whose mission is to provide access to formal and cost-effective working capital to low-income women who are financially excluded. MBK's products and services aim to reduce the vulnerability of low-income households, enhance their dignity and empower women.

MBK targets women in the lower 25% income bracket in Indonesia. To ensure they were providing relevant product and services, MBK appointed the College of Business and Economics at California State University to conduct two impact measurement surveys in 2005 and 2008. The survey of 488 individuals showed an increase of 22% in clients' average income. Moreover, the results also revealed a rise in the number of people above the poverty line, from 20% to 60%, and improved housing conditions between the programme's first and fifth cycle.

MBK's main product is working capital loans to female entrepreneurs. MBK also seeks to reduce household vulnerability through home improvement loans. The installation of an electrical box inside a customer's home is one example of the uses of this type of product. A second example is the installation of toilets with septic tanks. This can prevent environmental pollution as well as reducing related public health risks.

Figure 15: Financial security - non-credit product offering (5-year average)



Financial security; helping entrepreneurs better manage their economy

The availability of non-credit products such as savings, insurance, payment, and non-financial products (such as education and trainings) help clients better manage their cash-flows and deal with external shocks. As such, information on the investees' non-credit product offer helps visualize how the fund contributes to financial security for its target clientele. On average, more than half of SEB II investees were providing savings, insurance, payment and non-financial products (Figure 15). 88% of investees were providing at least one of the aforementioned non-credit products to their clients.

Contactar is another of the institutions in the SEB II microfinance fund portfolio that contributed to improving end-clients' financial security. Contactar, located in Colombia, has an innovative approach to combating climate change and its consequences on their customers' businesses. In addition to loans, Contactar provides training courses developed by specialists that help customers prepare to handle the effects of climate change as well as to grow sustainably.

INDUSTRY, INNOVATION AND INFRASTRUCTURE
CLIMATE ACTION

Building resilience to climate change

Institution: **Corporacion Narino Empresa y Futuro – Contactar**
SEB II total origination: **USD 4 million**

Contactar, in Colombia, works primarily with clients in rural areas. It provides loans that allow customers to acquire products and technologies aimed at improving their resilience to the negative effects of climate change. Through the loans provided by Contactar, customers can finance the purchase and installation of fixed and portable eco-efficient stoves, biodigesters and solar dryers.

Contactar has a team of 25 people working full-time in its Social and Environmental Development Management unit. The unit is comprised of professionals specialised in social and environmental performance. Depending on their area of expertise, each of the specialists develops topics that complement the financial literacy training courses such as good farming practices, livestock production, food handling, and health promotion,

Moreover, Contactar works with various stakeholders to offer green loans to customers in the areas most vulnerable to climate change.

Appendix: SEB Microfinance Fund I key facts & figures

Strategy

Fund period	June 2014 – June 2019
AuM	USD 60 million
Term	5 years, closed-end
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

Results

Total Net Return	49.7%
Annualised Net Return	8.3%
Annualised write-offs (% AuM)	0.4%
Number of transactions	91
Number of investee microfinance institutions	67
Number of countries	32
Percentage of women clients reached by investee microfinance institutions	53%
Number of borrowers reached by financial institutions	6.6 million
Number of jobs sustained by investee microfinance institutions	22.9 million

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.

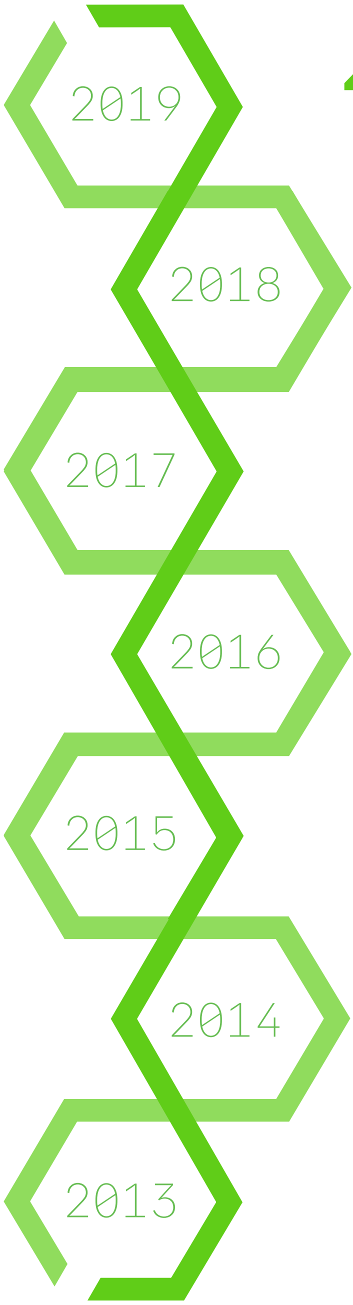
SEB Microfinance Funds milestones

2019

Launched Microfinance Fund VII

AUM reached almost 9bn

Reaches 25m enterpreneurs



Q2 Launch of SEB Microfinance Fund VI

Q2 SEB Microfinance Funds reach SEK 7 billion in AuM

Q4 Launch of SEB Impact Opportunity Fund

SEB Microfinance Funds reach over 23 million entrepreneurs

Q2 Launch of SEB Microfinance Fund V

Q2 The Swedish government highlights SEB's microfinance funds in their Report[12] to the UN Financing for Development Forum

Q4 SEB Microfinance Funds reach SEK 5 billion in AuM

SEB Microfinance funds reach over 15 million entrepreneurs

Q2 Launch of SEB Microfinance Fund IV

Q3 2016 First education finance investment

Q4 SEB Microfinance Funds reach SEK 4 billion in AuM

SEB Microfinance funds reach over 10 million entrepreneurs

Q2 Launch of SEB Microfinance Fund III

Q3 2015 First energy finance investment

Q4 SEB Microfinance Funds reach SEK 2 billion in AuM

SEB Microfinance funds reach over 5 million entrepreneurs

Q1 2014 First Leasing finance investment

Q2 Launch of SEB Microfinance Fund II

Q4 SEB Microfinance Funds reach SEK 1 billion in AuM

Q2 Launch of SEB Microfinance Fund I - first microfinance investment

Q4 First SME finance investment

Q4 First housing finance investment

2013

[12] https://www.government.se/reports/2017/05/towards-achieving-the-2030-agenda-and-the-sustainable-development-goals/

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 2,000 large corporations, 1,100 financial institutions, 272,000 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 15,000 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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