

March 2019

SEB Microfinance Fund I Final report

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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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Production: SEB Investment Management AB
Photos: Symbiotics, Unsplash.com
Printing: Elanders
SEWM0042 2019.03



Introduction

The SEB Microfinance Fund I was invested from July 2013 to August 2018. During this period the Fund's total return was 52.9% with an annualised volatility of 7.7%. The capital was invested in 27 emerging and frontier markets where income levels are low, reaching out to 6.1 million entrepreneurs, of which more than half were women. Microfinance offers investors a double bottom line return, by being both socially transformative and offering an attractive financial return.

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 I. It also provides illustrative cases and rationale for investors on their contribution to building inclusive and sustainable financial markets in growing emerging and frontier economies.

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

About SEB & Microfinance

Microfinance is today the most established asset class within the field of impact investments, with its success founded on the ability to offer investors both an attractive financial return and contribute to socio-economic 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. SEB is today one of the largest microfinance investment managers in Europe, having launched six microfinance funds since 2013, at a total value of more than SEK 7 billion, reaching more than 23 million entrepreneurs in over 40 developing countries.

About Symbiotics

Symbiotics provides investment advisory services to SEB with regards to investments into 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. Since 2004, Symbiotics has structured nearly 3,300 investment transactions in more than 350 microfinance institutions across 80 emerging and frontier markets.



SEB Microfinance Funds & the SDGs

The SEB Microfinance Funds contribute to financial inclusion and provide small business finance, supporting economic growth and the achievement of a broad set of the UN Sustainable Development Goals.

» **1.7 billion** adults remain unbanked. «

The World Bank estimates that 1.7 billion adults still lack access to formal financial institutions and the International Finance Corporation (IFC) estimates that 40% of formal Micro-, Small and Medium Enterprises (MSMEs) in developing economies have unmet financing needs. This translates to an annual financing gap of USD 5.2 trillion for micro enterprises and MSMEs in these markets¹. Closing this gap through financial inclusion and small business finance enables several of the UN Sustainable Development Goals as outlined below.

Financial Inclusion and the Sustainable Development Goals² (SDGs)



SDG 1 – No poverty

Financial inclusion provides low income households with services they need to make investments and manage unexpected expenses.

SDG 2 – Zero hunger

Access to credit and insurance enables farmers to increase crop yields and strengthen food security.

SDG 4 – Quality education

Savings and education-linked financial products help families invest in learning opportunities.

SDG 5 – Gender equality

Financial inclusion of women can create gender equality by giving them greater control over their finances.

SDG 7 – Affordable clean energy

Availability of financial products that provide access to solar energy can increase productivity and quality of life.

SDG 8 – Decent work and economic growth

Access to financial products enables growth of micro and small to medium enterprises and fosters job creation and economic development.

SDG 10 – Reduced inequalities

Access to financial services can curb income inequality, increasing economic opportunities and well-being over time.

¹ International Finance Corporation, MSME Finance Gap, 2017

² CGAP, Achieving the Sustainable Development Goals: The Role of Financial Inclusion, 2016

Microfinance client stories

Read our client stories on pages 5, 8, 9, 17 and 19.

Name: **R.D. Ramyalatha**

Country: **Sri Lanka**

Location: **Rajagiriya**

Loan amount from microfinance institution (USD): **220-660**

In order to pursue her ambition of starting her own brush manufacturing business, Ms. Ramyalatha applied for a loan from an investee microfinance institution in 2009. With diligence and hard work, she was able to complete three loan cycles within three years which allowed her to expand operations. She was later able to purchase a machine which has helped bring a better finish to her products and enhance their quality. In 2013, Mrs. Ramyalatha also applied for a lease facility to purchase a 2-wheel tractor for her business. Access to this financing has helped her to grow from a micro-entrepreneur into a small enterprise with 14 employees under her management.

Business:
**Brush
manufacturer**



Investment strategy

The investment strategy of the SEB Microfinance Fund I was to enable institutional investors to channel capital to markets and clients where it otherwise doesn't flow.

The value chain; linking capital markets to where it is needed

The SEB Microfinance Fund I pooled institutional capital and lent directly to financial intermediaries, or microfinance institutions, in emerging and frontier markets. In other words, 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 (figure 1).

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

Creating financial and social value at the base of the pyramid

The strategy of the SEB Microfinance Fund I was to capture the financial and social value creation from financial intermediaries active at the base of the pyramid³ in emerging and frontier markets. The investment universe for the fund included tier 1, 2 & 3 institutions⁴ (figure 2). These microfinance institutions include microfinance banks, non-bank financial institutions (NBFIs), cooperatives and non-governmental organisations (NGOs). Each type of microfinance institution offers its contribution towards financial inclusion. NGOs usually target entrepreneurs with tiny microcredits whereas banks provide larger loans, usually to bigger but underserved SMEs, commonly known as the "missing-middle".

The fund's "sweet spot" was on tier 2 institutions, in large part NBFIs, which have offered more attractive yields, but also shorter maturities than tier 1 institutions. In most cases, NBFIs cannot rely on savings to fund their growth, thus largely depend on specialized lenders and have been the ones attracting the most transformational foreign private sector capital. More than 50% of the Fund's portfolio outstanding at the end of each year was allocated to NBFIs.

Figure 1: SEB Microfinance Fund I investment value chain.

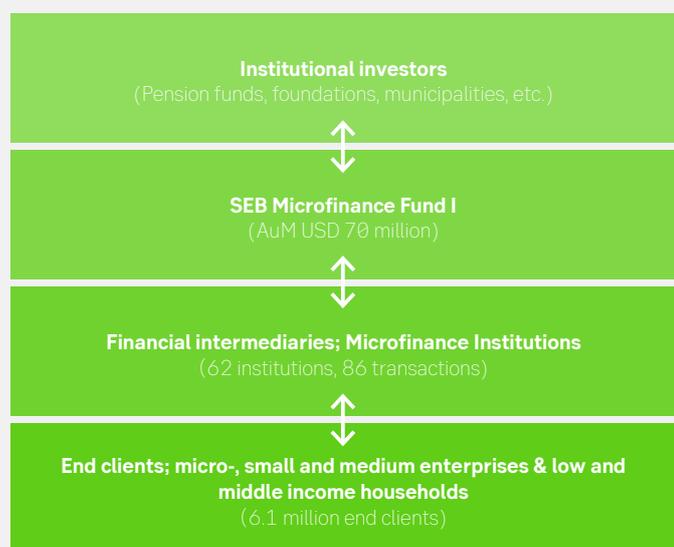
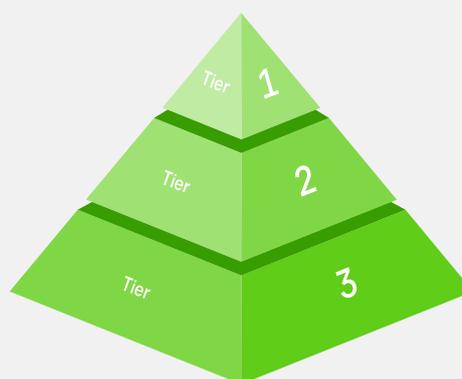


Figure 2: Market access through microfinance institutions.



- Tier 1**
Financial intermediaries with total assets above USD 100 million. They are likely to be specialised banks or downscaling banks with strong commitment to financial inclusion and microfinance.
- Tier 2**
Financial intermediaries with total assets between USD 10–100 million. They are likely to be non-bank financial institutions (NBFIs), and are often regulated as specialised financial institutions with a more limited product offer compared to banks.
- Tier 3**
Financial intermediaries with total assets below USD 10 million. They are likely to be NGOs and credit cooperatives, in some cases non-profit entities and fund growth through grants or membership contributions.

³Refers to the poorest and underserved socio-economic group – in excess of about four billion people

⁴Symbiotics, Microfinance Investments, 2012

Going local currency, unhedged in emerging and frontier markets

The strategy of the SEB Microfinance Fund I deliberately chose 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

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.

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

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 I 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 the loans, as explained herewith. With that said, the fund also had a USD exposure due to the fact that some of the targeted countries are 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 (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 has calculated in figure 3 that over a 10-year period the effect of higher net yields adjusted for currency movements is positive 75% of the time, compared to a portfolio of loans in the same currencies hedged back into USD⁹. 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 3: Net yield of a basket of unhedged local currencies compared to hedged.



* To produce this chart, a basket of 26 equally weighted domestic currencies were used

⁹Symbiotics, Going Unhedged in Frontier Markets, September 2017

Microfinance client stories

Read our client stories on pages 5, 8, 9, 17 and 19.

Name: **Ainura Dyikanbaeva**

Country: **Kyrgyzstan**

Location: **Chui province, Alamedin district**

Loan amount from microfinance institution (USD): **243**

Ainura Dyikanbaeva is 41 years old, married and a mother of two sons. In 2009 she received a loan from an investee microfinance institution in Kyrgyzstan. Thanks to that first loan, Ainura and her husband were able to open their small farm. In parallel to her farming business, Ainura is also involved in crop cultivation in her garden. This has enabled Ainura and her husband to buy land and build a house.

Business:
**Farm owner and
crop cultivation**



Name: **Marie Njengue**
 Country: **Cameroun**
 Location: **Yaoundé**
 Loan amount from microfinance institution (USD): **93–1,900**

Marie Njengue is 50 years old and has seven children, a few grand-children and three other persons for whom she is a caretaker. As a result of joining a women's group, she became a microfinance client in 1999. The loan allowed her to increase her food stocks and pay back her loan. Step by step, Marie succeeded in obtaining larger loans, which she always managed to pay back on time. This helped her to diversify her product range and to switch from the status of retailer to wholesaler. Furthermore, Marie was able to pay for her childrens' education and cover her family's living costs.



Business:
**Wholesaler of
 seasonal fruits
 and vegetables**



Business:
Goat raising

Name: **Chinamati Behera**
 Country: **India**
 Location: **Odisha**
 Loan amount from microfinance institution (USD): **182**

Chinamati Behera is a 35 year old widow living with her parents-in-law and son in a small village in Odisha, India. Her husband passed away in 2013 and she is the only earning person in her family. After the death of her husband her family faced severe financial problems. Chinamati therefore received a loan from an investee microfinance institution to purchase young goats, raise them and sell them to the local butcher. Chinamati now earns a fixed income and can afford to send her son to school.

Portfolio investments

»SEB Microfinance Fund I has **financed 62 microfinance institutions**, in 27 emerging and frontier markets.«

»SEB Microfinance Fund I has reached out to **6.1 million entrepreneurs**, clients of micro-finance institutions.«

1

2

3

4

1. Central America

Amount disbursed: **USD 11m**
 Number of transactions: **8**
 Number of countries: **4**
 Number of investees: **7**
 Number of active borrowers: **135,319**

2. South America

Amount disbursed: **USD 29.5m**
 Number of transactions: **25**
 Number of countries: **5**
 Number of investees: **18**
 Number of active borrowers: **1,972,290**

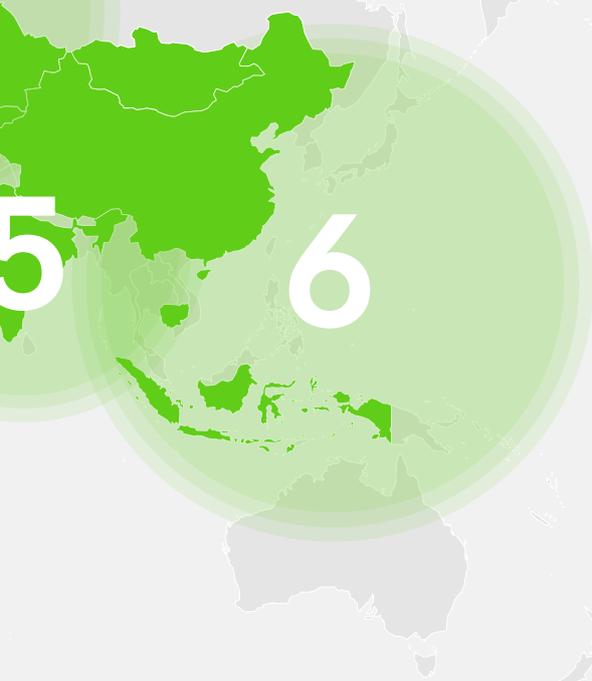
3. Sub-Saharan Africa

Amount disbursed: **USD 13.8m**
 Number of transactions: **12**
 Number of countries: **6**
 Number of investees: **9**
 Number of active borrowers: **348,092**

4. Central Asia & the Caucasus

Amount disbursed: **USD 27.2m**
 Number of transactions: **17**
 Number of countries: **6**
 Number of investees: **12**
 Number of active borrowers: **611,612**

» SEB Microfinance Fund I has **originated USD 116 million** in financing to micro-finance institutions. «



5. South Asia

Amount disbursed: **USD 8.8m**
 Number of transactions: **6**
 Number of countries: **2**
 Number of investees: **6**
 Number of active borrowers: **1,557,551**

6. East Asia & the Pacific

Amount disbursed: **USD 25.7m**
 Number of transactions: **18**
 Number of countries: **4**
 Number of investees: **10**
 Number of active borrowers: **1,508,994**

Figure 4: Country concentration

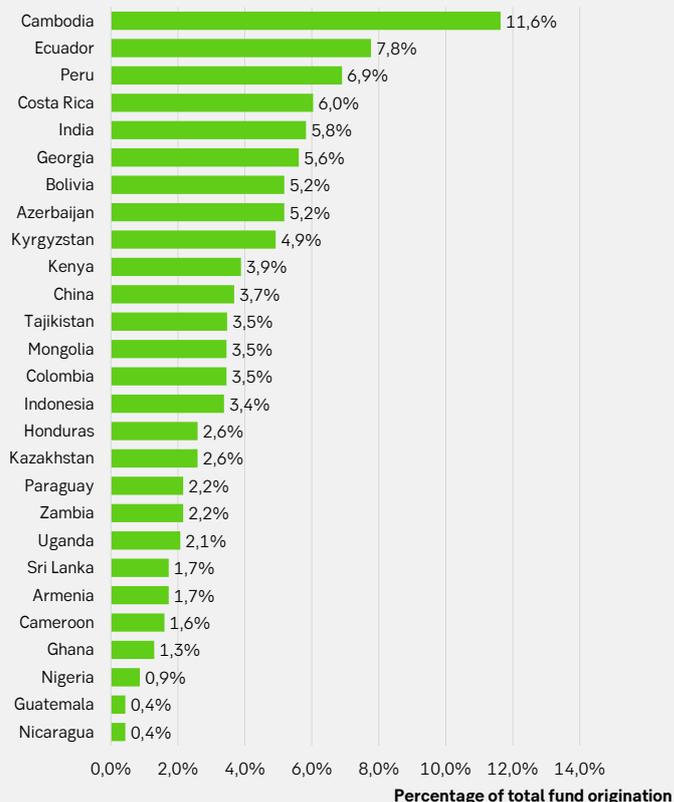


Figure 5: Currency concentration



Financial performance

The cumulative net returns of the SEB Microfinance Fund I to investors over the period July 2013 to August 2018 have amounted to 52.9% in SEK for the A share class and 47.3% in SEK for the B share class, implying annual returns of 8.9% and 8.1% respectively. This performance was above the targeted return.

Local currency yields and the currency effect

Two factors drove the fund's returns; the yields on the loans to the investee microfinance institutions and the currency effect as the loans are provided in local currency. The yield of the loans contributed to the majority of performance (i.e. 44% of the 52.9% total return). As currencies are difficult to predict, over this particular five year period it added to performance, contributing with just below 10% of the 52.9% total return. To some extent, this can be explained by the fact that the SEK has been weak against most other currencies.

While several currencies showed a positive performance, we also find that a number of currencies have moved in the opposite direction. In the cases where the currency contributed negatively to performance, this was compensated by the higher yields of the loans, making the combined return positive for all currencies.

When combining the currency and yield, the strongest performers were the investments in Nigerian Naira (NGN), Bolivian Boliviano (BOB) and Guatemalan Quetzal (GTQ). Albeit still positive, the Kazakhstani Tenge (KZT), Azerbaijani Manat (AZN) and the Georgian Lari (GEL) contributed the least to performance. On a weighted basis, the US Dollar (USD), the Cambodian Riel (KHR) and the Indian Rupee (INR) contributed most to performance.

Investing in quality microfinance institutions

As investing in quality microfinance institutions is essential to generate performance in a debt fund, over 90% of the total investment volume was invested in investment grade⁶ microfinance institutions.

Cumulative write-offs over the life of the fund amounted only to 1.9% of AUM (table 2). This amounts to an annual write-off rate of 0.4% over the life of the fund.

Table 2: SEB Microfinance Fund I write-offs (cumulating)

Write-offs	2013	2014	2015	2016	2017	2018
% of AuM (cumulating)	0.0%	0.0%	0.0%	0.1%	0.2%	1.9%
% of origination (cumulating)	0.0%	0.0%	0.0%	0.0%	0.2%	1.2%

The first loan write-down was made in 2016 for an investment in Azerbaijan, a country whose economy has been tightly linked to the drop in oil price and that was affected by the ensuing devaluation of the Azerbaijani Manat (AZN). In 2018, an investment in Honduras was written down due to fraud in combination with an ineffective legal system that made it difficult to replace the management when the fraud was discovered. A final write-down was made in 2018 as an investment in Cameroon experienced payment delays due to hard currency shortages prevailing in the country. While these write-offs reflect the risks of investing in emerging and frontier markets, we believe the fund's performance demonstrates that investments in these markets can be made in a financially and socially attractive way.

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

Figure 6: NAV SEB Microfinance Fund 1 - SEK (A/C share class)



Table 1: SEB Microfinance Fund I dividend payments

Share Class	2013	2014	2015	2016	2017	2018
A/D SEK	-	3.5%	5.0%	5.0%	10.0%	9.0%
B/D SEK	-	3.5%	5.0%	5.0%	10.0%	6.0%

⁶As per Symbiotics proprietary credit risk ratings. Refers to the credit quality of the microfinance institutions.

Market developments

The SEB Microfinance Fund I 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.

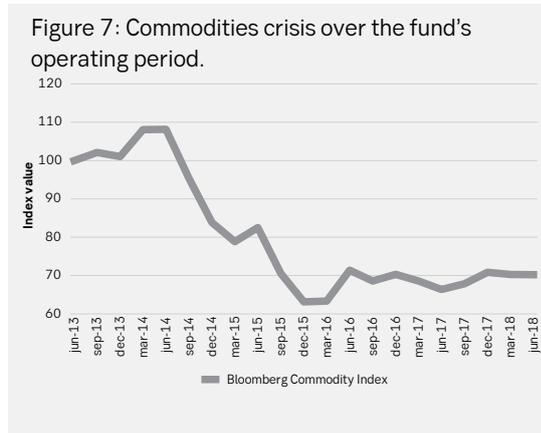
2014–2016 commodity markets crisis hits emerging markets

Between April 2014 and January 2016, commodities lost nearly half of their value as illustrated by the Bloomberg commodity index (figure 7). With oil and copper as two of the commodities that saw the largest decline, net exporter economies of these items were the most severely hit which led to currency devaluations and recessions. We witnessed impacts on the microfinance sector in Kazakhstan, Azerbaijan, Mongolia and Nigeria, expressed by a drop in portfolio quality. However, 2017 saw a rebound in commodity-exporting countries.

2016–2017 Micro and SME markets in Ecuador and India under pressure

In April 2016, a devastating earthquake in Northern Ecuador affected microfinance institutions operating in the region. However, most institutions have today recovered, supported by international lenders and government initiatives.

In November 2016, the Indian Government announced that all 500 and 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 demonetization, 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, with 2017 showing signs of recovery.



Performance comparison with other asset classes

To provide context, we compare the risk-return profile of the SEB Microfinance Fund I over the five-year period relative to more mainstream asset classes, although recognising that microfinance is not marked to market. The fund's annualised volatility amounted to just 7.7% while the risk adjusted return (sharpe ratio) was more attractive at 1.17 (table 3).

Table 3: Returns, volatility & sharpe ratio

Index name	SEB Microfinance Fund 1 - SEK	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	8.9%	3.6%	5.5%	6.1%	-0.02%
Annualized volatility	7.7%	9.4%	11.6%	7.5%	0.1%
Sharpe ratio	1.17	0.38	0.47	0.82	0.00

Social performance

The SEB Microfinance Fund I channeled 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.



Social performance drivers

Practices:

Select responsible financial institutions.

Outreach:

Channel capital to where it is needed.

Impact:

Contribute to financial security, employment opportunities and living standards.

Social practices; selecting responsible microfinance institutions

Each investee microfinance institution 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 include:

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.

Microfinance interest rates

Microfinance interest rates are typically higher than what we are used to in developed markets. As the private sector is an important contributor in addressing the MSME financing gap in emerging and frontier markets, only financially sustainable businesses will be able to attract this capital. Thus, microfinance institutions must cover their costs when pricing their products.

When analysing microfinance institutions, we look closely at their portfolio yield to understand why it is at a certain level. The portfolio yield reflects the interest rate that the micro entrepreneur pays and is a function of a few key factors: the operational costs for the microfinance institution related to providing the loan; the funding costs for the microfinance institution; and provision expenses for loan losses. It is however important to note that the level of operational costs and funding costs vary between countries and type of microfinance institution. The average portfolio yield of microfinance institutions in the fund was approximately 25%.

Microfinance uses a labour-intensive method of disbursing loans to micro entrepreneurs. Microfinance institutions often have many branches in the country with loan officers performing manual tasks and frequently visiting clients face to face in rural areas or villages. Microfinance institutions also perform credit assessments for small loans that require substantial involvement by the loan officer to judge the risk of each loan, and to handle frequent payments, in many cases in cash. This implies a more expensive setup than that of a commercial bank and that cost is built into the price of the loan. On average the costs for running such an operation make up over half of the portfolio yield.

Another key factor that is built into the price of the loan is the cost of financing the loans. Microfinance institutions raise capital from domestic and international lenders in order to lend that on to end micro entrepreneurs. Microfinance institutions pay commercial rates for borrowing, in countries where inflation, and thus interest rates, is often higher than what we see in developed markets, and can be in the double digits. On average, the funding costs represent about one third of the portfolio yield. In addition, microfinance institutions need to make provisions for non-performing loans. This provision expense typically represents a tenth of the portfolio yield.

Beyond that, in order for microfinance institutions to be financially sustainable in the long term and to attract investment, they need to generate a reasonable profit margin. On average, operating profit represents a tenth of the portfolio yield. We take a cautious approach when considering profitability and want to ensure that there is an appropriate balance between covering costs and profitability. We also consider who the shareholders of microfinance institutions are and their alignment with our social values. We typically look for shareholders that are development finance institutions and impact investors, with like-minded social values and a strong focus on client protection, which is a key factor in our assessment of each microfinance institution.



The Smart Campaign's Client Protection Principles

Having found its premises in 2008, the Smart Campaign is an industry-wide client protection initiative. The platform is a global effort, guided by microfinance leaders from around the world, to help the microfinance sector remain both socially focused and financially sound. [The Client Protection Principles](#) (CPPs) are the minimum standards that clients should expect to receive when doing business with a microfinance institution. Seven core principles are embodied in the CPPs:

1. Appropriate product design and delivery.
2. Prevention of over-indebtedness.
3. Transparency.
4. Responsible pricing.
5. Fair and respectful treatment of clients.
6. Privacy of client data.
7. Mechanisms for complaint resolution.

Microfinance institutions can either endorse the CPPs or apply to become CPP certified, demonstrating their adherence to the principles. Both routes enable them to build stronger, long-lasting relationships with clients, increase client retention and reduce financial risk. This in turn helps investors to confidently put their money towards a stronger, smarter and safer industry. The Smart Campaign Client Protection Principles were taken into consideration when assessing each institution in the SEB Microfinance Fund I.

Social outreach; channeling capital where it is needed

In order to understand how far and how deep towards the base of the pyramid population the Fund has managed to channel debt capital, we have measured this on market and end client levels.

Market outreach – reaching underserved economies

The SEB Microfinance Fund I has channeled capital towards countries where income levels and financial inclusion are the lowest. On average, the fund invested in countries where only 39% of the adult population had an account at a financial institution (figure 8), compared to countries where access to bank accounts is higher (i.e. OECD member countries and globally). Furthermore, the GDP per capita in the countries where the fund invested is less than the OECD and world average.

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

The fund originated USD 116 million in financing to microfinance institutions, reaching 6.1 million entrepreneurs with different characteristics as shown in figure 9.

Figure 8: Banking penetration (average 5 years)

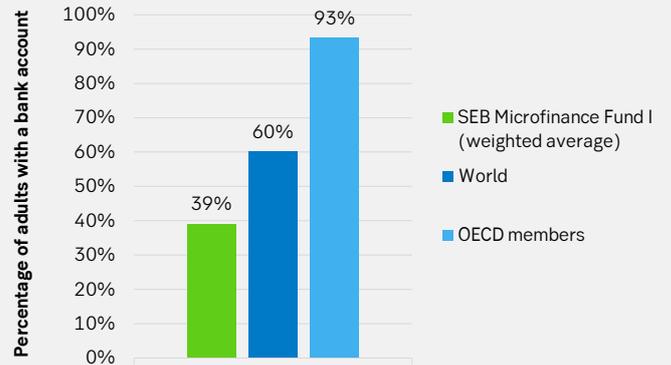
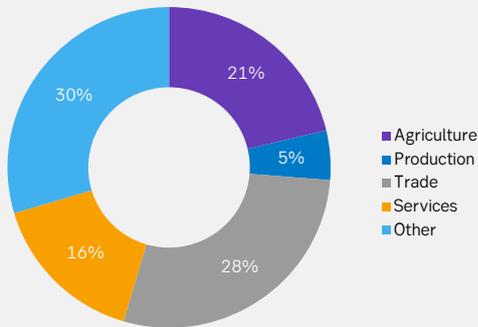
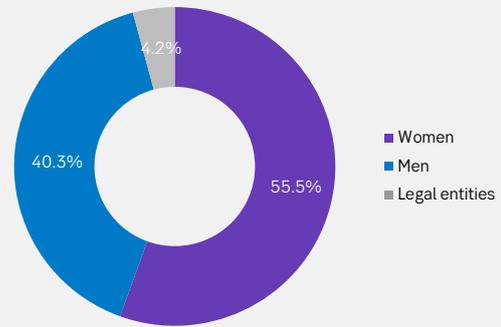


Figure 9: Fund end clients characteristics (average 5 Years, % of number of active borrowers)

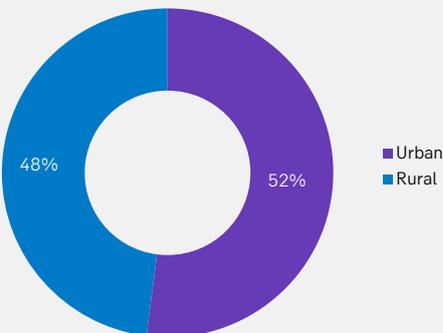
Activity



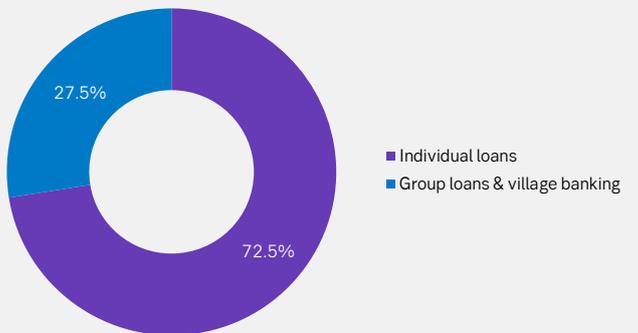
Gender



Location



Credit Methodology



Microfinance client stories

Read our client stories on pages 5, 8, 9, 17 and 19.

Name: **Miriam Luz Pacheco Quispe**

Country: **Peru**

Location: **Arequipa**

Loan amount from microfinance institution (USD): **1,707**

Miriam Luz Pacheco Quispe is a single mother of three children, two girls and one boy. She lives in the Province of Arequipa where she started her business in 2003, selling lettuce from a stall at a well-known market in the region. She works alone and without intermediaries, negotiating directly with local producers and wholesalers, in order to get better prices. Miriam has obtained several working capital loans from an investee microfinance institution. The loans have helped her acquire larger amounts of lettuce and increase her overall revenue through economies of scale. Thanks to this activity, Miriam has been able to generate a fixed income to support her children and improve their social and economic situation. This includes being able to pay for their health and school fees.



Business:
**Lettuce seller
(market)**



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

Quantifying the social impact of microfinance is challenging given that many exogenous factors affect end-clients' daily lives and socio-economic progress. In addition, given that the majority of microfinance loans have a short tenor, the rotation of clients can be high, making it difficult to follow the development of each client over the long-term.

Nevertheless, we have identified impact proxy measures that would allow us to understand how the SEB Microfinance Fund I has influenced the following factors:

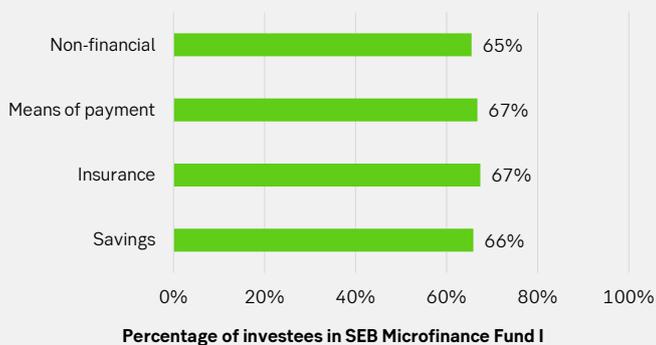
- The availability of non-credit products, like savings, insurance, payment, and non-financial products to help entrepreneurs better manage their economy.
- The employment sustained through microfinance as a key tool in bridging the financing gap for micro-, small and medium enterprises (MSMEs).
- The availability of financial products catering to households needs, such as goods of first necessity, education and housing.

Financial security; helping entrepreneurs better manage their economy



The availability of non-credit products, like savings, insurance, payment, and non-financial products (e.g. financial literacy and health workshops) provides entrepreneurs with the opportunity to better manage their cash-flows and deal with financial shocks to their businesses⁷. On average, two-thirds of the fund's investees provide savings, insurance, payment and non-financial products (figure 10).

Figure 10: Financial security – non credit offering (average 5 years)



An innovative and personalised approach towards poverty reduction

Fundación Paraguaya is a non-governmental organisation whose mission is to develop and implement practical, innovative and sustainable solutions which eliminate poverty and create decent living conditions for every family in Paraguay.

Fundación Paraguaya has been helping their group lending clients to self-assess their economic situation using a survey composed of 50 indicators grouped into six dimensions: Income & Employment; Health & Environment; Housing & Infrastructure; Education & Culture; Organization & Participation and Self-awareness & Motivation.



Clients assess the living situation of their families along these dimensions to define their poverty gap. Loan officers help clients to develop a working plan to close the gaps identified in the assessment, according to the clients' priorities and monitor the evolution of the indicators.

⁷Symbiotics, Managing & Measuring Social Performance – Insights on definitions, practices and solutions, September 2017

Microfinance client stories

Read our client stories on pages 5, 8, 9, 17 and 19.

Name: **Musharafa Usmanova**

Country: **Tajikistan**

Location: **Khujand**

Loan amount from microfinance institution (USD): **400**

Musharafa Usmanova used to sell tires in a small stall next to the southern road leading to Khujand, the second largest city in Tajikistan. Her stall did not generate enough business and her revenue was barely enough for her to purchase additional merchandise. In 2007, after receiving training from an investee microfinance institution on the benefits of a micro loan and her obligations, as a borrower she received her first group loan and assistance from loan officers on how to improve her business.

Musharafa was able to expand her business and move into a larger premise and she has now almost doubled her revenues. Musharafa plans to continue to expand her business and intends to use some of the profits in order to educate her 18-year old son.

Business:
Tire shop



» We estimate that the microfinance institutions in the fund have sustained **17.6 million jobs** over the five year period. «

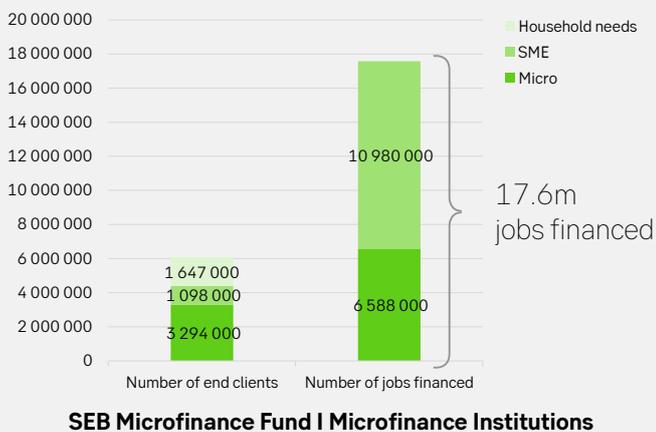
Employment and entrepreneurship; fostering growth and job creation



Micro-, small and medium enterprises (MSMEs) form the backbone of most world economies. They generally employ the majority of an economy’s workforce, acting as the main employer in the private sector. In light of a growing global workforce, the main hurdle for MSMEs to reach their full potential is a lack of access to finance. The latest data estimates MSMEs’ unmet financing demand at USD 5.2 trillion per year⁸.

Microfinance thus remains a key tool in bridging this financing gap 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 a SME employs on average 10 people, we estimate that the microfinance institutions in the fund have sustained 17.6 million jobs over the five year period (figure 11).

Figure 11: Jobs financed (5 year average of micro and SME products).



Hearing Impaired Turned Entrepreneur Generating Employment for Others

Annapurna Microfinance Pvt Ltd (AMPL) is the leading non-bank financial institution (NBFI) in the state of Odisha in India.



Saichandan Mohanty, is a hearing and speech impaired person living in a small village in Odisha. He took a training session on designing and making bamboo crafts and started a business. For two years, he produced decorative bamboo boxes, small containers and other gift items that he sold at tourist places and exhibitions.

In April 2013, Saichandan took a loan of INR 50,000 (USD 925) from AMPL in view of expanding his business and appointing new work staff to help him. The loan helped him to buy more resources and machines in order to increase production and business earnings. He currently generates a monthly profit and has hired five new employees who are also hearing and speech impaired.

⁸International Finance Corporation, MSME Finance Gap, 2017

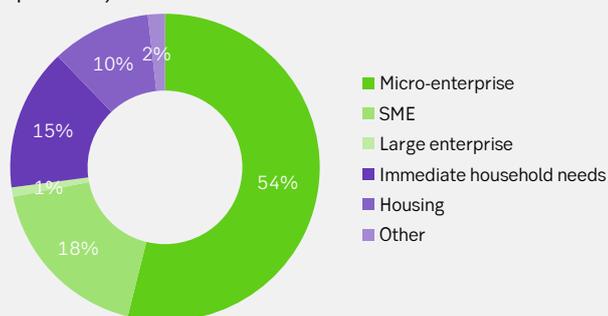
Living standards; financial products catering to household needs



Financial products catered to household needs are another way to assess the fund’s contribution to social impact⁹. For the end borrower, household needs not only relate to consuming goods of first necessity, but also includes commitments towards childrens’ education or housing improvements among others.

While the fund has primarily channeled 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 gross loan portfolio of the fund’s investee microfinance institutions is allocated to household-related products (Figure 12). Microenterprise and SME loan products account for the remaining 73% of investee microfinance institutions’ loan books.

Figure 12: Proportion of credit products towards household needs (average 5 years, % of SEB investee microfinance institutions’ gross loan portfolio).



SEB Microfinance Fund I

A Rural Family Benefitting from Affordable Solar Products

M-KOPA provides high quality, affordable energy to low-income households in Kenya, Tanzania and Uganda using micro-leases via mobile payments on a pay-as-you-go installment plan. Julia Njeri Mwangi and her family live in an area with few electricity connections located 20 km from Nairobi. Most of the family’s income comes from farming the plot of land next to their house.



Before becoming customers of M-KOPA Solar in late 2013, they used to spend about 50 US cents per day on kerosene to light their home and about 1 US dollar per week to charge their phones at a local shop. After subscribing to-KOPA Solar’s plan, they were able to significantly reduce these recurring costs and charge their phones directly at home. After fully paying for the kit, the family started a second plan to own an energy efficient cooking stove (“Jiko”), which has reduced their exposure to smoke and reduced their charcoal expenses.

⁹Symbiotics, Managing & Measuring Social Performance – Insights on definitions, practices and solutions, September 2017.

Appendix: SEB Microfinance Fund I key facts & figures

Strategy		Results	
Fund period	July 2013 – August 2018	Total Net Return	52.9%
AuM	USD 70 million (fund reference currency)	Annualised Net Return	8.9%
Term	5 years, closed-end	Annualised write-offs (% AuM)	0.4%
Objective	Pursue a double bottom line return, being both a socially transformative impact fund, and offering an attractive financial return	Number of transactions	86
Instruments	Fixed Income, senior debt, unsecured	Number of investee microfinance institutions	62
Currency of investment	Local currency, unhedged	Number of countries	27
Restrictions and limitations	General and geographical risk diversification	Number of clients reached by investee microfinance institutions	6.1 million borrowers
Targeted local currency annual net yields	6–8%	Percentage of women clients reached by investee microfinance institutions	56%
		Number of jobs sustained by investee microfinance institutions	17.6 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

2018



2013

¹⁰<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 2,300 large corporations, 700 financial institutions, 400,000 small and medium-sized companies and 4 million private individuals 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.

Head office

Postal address SEB, SE-106 40 Stockholm, Sweden
Visiting address Kungsträdgårdsgatan 8, Stockholm, Sweden
Telephone +46 771 62 10 00
+46 8 22 19 00 (management)

Contacts

Hans Ek
Head of Sustainability and Corporate Governance, SEB Investment Management AB
Telephone: +46 70 315 18 95
E-mail: hans.ek@seb.se

Frank Hojem
Head of Media Relations
Telephone: +46 70 763 99 47
E-mail: frank.hojem@seb.se

Håkan Brodin
Institutional Asset Management Sales
Telephone: +46 70 553 50 86
E-mail: hakan.brodin@seb.se

Skandinaviska Enskilda Banken AB's corporate registration number: 502032-9081

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