SIFEM
SWISS INVESTMENT FUND
FOR EMERGING MARKETS

DEVELOPMENT IMPACT REPORT 2017

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Dear Readers,

More than ever, the creation of broad-based economic opportunities is the key driver of inclusive growth, which is at the heart of the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015. The private sector has a crucial role to play in this agenda, as private businesses account for the majority of jobs created in developing and emerging markets. This is where access to finance comes into the picture, the lack of which is consistently identified by private companies, especially small- and medium-sized enterprises (SMEs), as one of the main obstacles to growth. Since 2005, SIFEM, as the Swiss Development Finance Institution, has been working with a number of financial intermediaries to provide financing to SMEs and other fast-growing companies, which is instrumental in strengthening local entrepreneurship, supporting and creating jobs, and generating income and taxes.

Using concrete examples, this report provides a snapshot of how SIFEM's investments in developing and emerging countries contribute to sustainable development impact.

Firstly, an overview of SIFEM's contribution to more & better jobs, which is one of the top priorities of Switzerland's economic cooperation: together with other co-investors, SIFEM has helped to create and support more than 650,000 jobs since 2005.

In a special chapter, this report explores the important role of financial intermediaries in providing financial inclusion. Access to responsibly-delivered financial products and services, including transactions, payments, savings, credit and insurance, according to their need, is essential for both individuals and businesses to participate in society and unlock further opportunities. This is a pressing challenge: around 1.7 billion people have no access to a bank account globally, in particular the poor and other vulnerable groups of the population in developing and emerging countries. SIFEM plays a niche role in this field, with 17% of its active portfolio in financially inclusive investments. This special chapter highlights the importance of fostering responsible financial inclusion by paying attention to the protection of clients, in order to avoid critical situations such as over-indebtedness. This aspect is also underlined by Professor Annette Krauss from the University of Zürich, in an interview featured in the same chapter. Her main message is that financial inclusion is a useful starting point for poverty alleviation.

Finally, case studies of two SIFEM portfolio companies in Cambodia demonstrate their different but complementary contributions to financial inclusion and the preliminary impact this can have on the lives of not only the borrowers, but also their families.

The results presented in this report show the effectiveness of SIFEM's approach to development: it facilitates the emergence of enterprises that combine financial success with sustainable economic and social benefits for the whole community. Since 2005, SIFEM has invested a total of approximately USD 899 million in 124 projects. In the reporting year of 2017, nine new investments totalling USD 87.4 million were made.

On a more personal note, I was very pleased to be appointed Chairman of the SIFEM Board in May 2018. My priority in this role is to guarantee continuity in management and the pursuit of the strategic objectives defined by the Federal Council for the period 2018-2020, which also include specific development impact targets. I very much hope that the evidence and analysis presented in this report will shine a light on the achievements of SIFEM on the ground, as well as contribute to the ongoing reflections on Swiss development policy priorities in an uncertain global environment.

Jörg Frieden
Chairman of the Board of SIFEM


Baristar
Ms. Sreyka

SIFEM

WHAT IS SIFEM

The Swiss Investment Fund for Emerging Markets (SIFEM) is the Swiss development finance institution. It is owned by the Swiss Government and is an integral part of the instruments of economic development cooperation. SIFEM is specialized in providing long-term financing to small and medium-sized enterprises and other fast-growing companies in developing and emerging countries, focusing on the priority countries of Switzerland's development cooperation. This helps to create and secure more and better jobs and reduce poverty while also contributing towards the integration of these countries into the global economic system.

WHAT IS THE ROLE OF A DEVELOPMENT FINANCE INSTITUTION (DFI)?

DFIs are government-backed institutions that provide finance to private sector companies in developing and emerging countries. They have a double mandate to generate development impact as well as financial profitability. Indeed, only profitable companies will be able to generate lasting development effects on people and society. As a complement to traditional aid and public-sector loans, DFIs are one of the key channels for development finance from donor countries to beneficiary countries.

DFIs can help sustainably shape the private sector in developing countries, where companies tend to have insufficient or inadequate access to finance, and as a result are hampered in their growth, technological innovation and job creation.

DFIs also have a key demonstration effect for private investment flows. Compared to the majority of private investors which only operate in developed markets, DFIs have a higher risk tolerance, a longer-term investment horizon and a successful track-record in difficult markets. DFIs will typically remain invested in projects for an extended period of five to 10 years, or even longer. At the end of the investment period, the proceeds of the investment including the profits are then reinjected in other investments.

HOW DOES SIFEM WORK?

SIFEM provides mostly long-term financing to small and medium-sized enterprises (SMEs) as well as other fast-growing companies in developing and emerging countries by investing in local or regional risk capital funds, or by providing credit lines to local banks and other financial institutions, often in collaboration with other Development Finance Institutions and private investors. Investing through local funds and financial institutions is in general a more efficient solution than providing direct support to individual SMEs. This investment strategy contributes to strengthening the local financial and capital markets in developing and emerging countries, which are important development facilitators.

SIFEM is working together with fund managers and financial institutions not only to deliver relevant financing solutions, but also to add value to local businesses. In fact, SIFEM's role goes beyond the provision of long-term finance: for example, it seeks to strengthen the capacity of local fund managers or financial institutions to manage

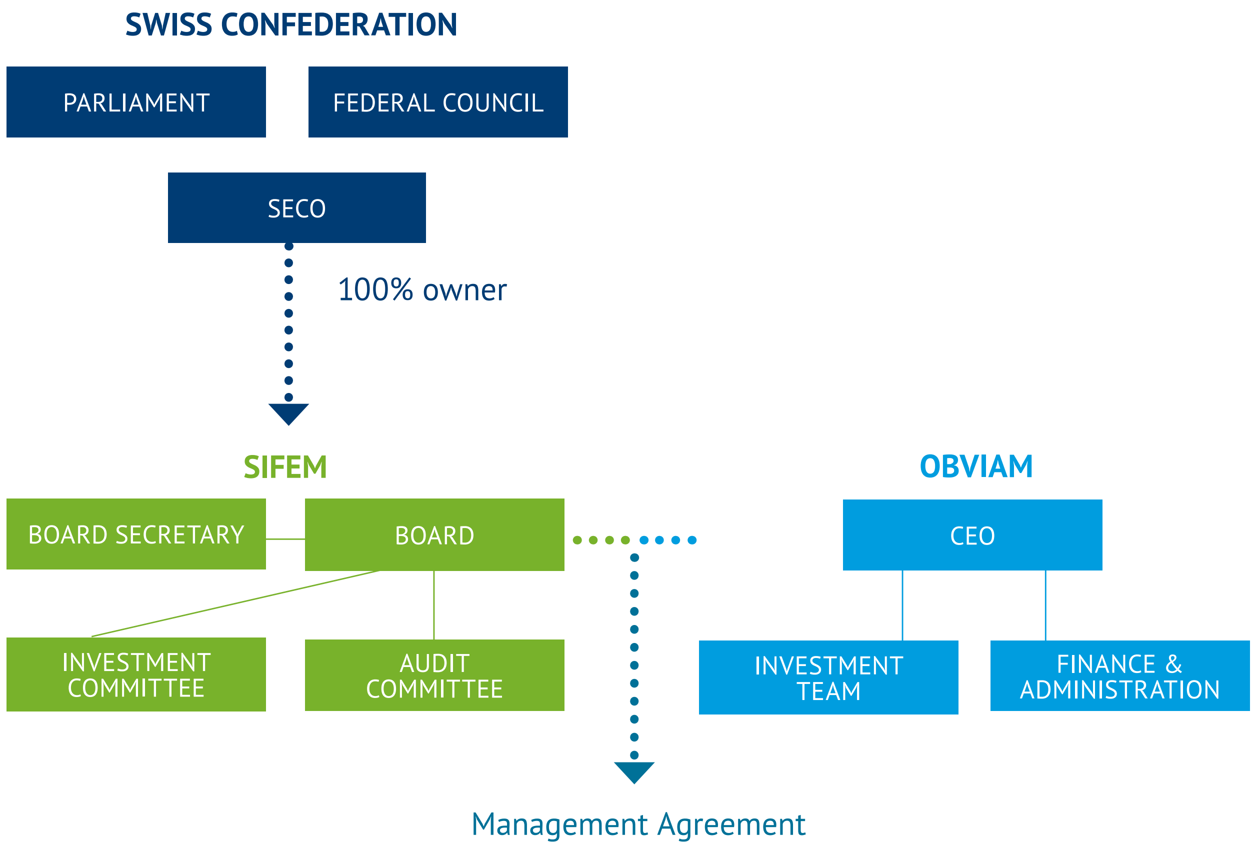
environmental, social and governance risks at the level of their underlying portfolios. This is especially important when considering investing in high-risk companies from a social or environmental perspective such as those operating in the infrastructure, forestry, construction, heavy industry sector etc. SIFEM needs to make sure that the risks are not only understood but also appropriately addressed.

At the operational level, SIFEM's modus operandi is similar to the way other bilateral development cooperation actors implement their projects: most traditional development cooperation projects financed by Switzerland are implemented by local partners or local teams of professional development organizations (NGOs, foundations, multilateral and UN agencies). In the case of SIFEM, those local partners are fund managers or local financial institutions such as SME banks or microfinance institutions.

IN WHICH COUNTRIES IS SIFEM ACTIVE?

SIFEM closely follows the geographical priorities of Switzerland's development cooperation but also requires some flexibility to diversify its portfolio risks. In 2014–2017, around two-thirds of SIFEM's investments targeted Swiss priority countries for development cooperation (State Secretariat for Economic Affairs, SECO and Swiss Agency for Development and Cooperation, SDC), thereby complementing the offering of both SECO and SDC via their respective programs. Complementarity is expressed in particular in relation to private sector promotion measures, which improve financial market infrastructure and the business environment in the target countries.

CORPORATE GOVERNANCE



SWISS CONFEDERATION

SIFEM AG is a private limited company, the shares of which are 100 per cent owned by the Swiss Confederation. The shareholder rights are exercised by the Federal Council. It defines SIFEM's strategic objectives usually for a four-year period. Acting on behalf of the Swiss Government, the State Secretariat for Economic Affairs (SECO) is responsible for the control and oversight of SIFEM. SECO conducts regular controlling and portfolio review meetings with the SIFEM Board and Obviam. An oversight concept and supervisory framework ensure that SIFEM is investing in line with its remit.

SIFEM

The Board of SIFEM is responsible for investment decisions and other executive management tasks. As per its Organisational Regulations, the Board has delegated certain responsibilities to two committees: the Investment Committee and the Audit Committee. Investment and divestment decisions are delegated to the Investment Committee. The Audit Committee validates valuations of SIFEM investments, reviews SIFEM's financial accounts and related matters, and liaises with the auditor. SIFEM does not have any employees beside the part-time Board secretary.

OBVIAM

The management of SIFEM's investment portfolio and its day-to-day operations have been delegated to Obviam, an independent company specialized in impact investments in developing countries and emerging markets. This facilitates the raising of third-party capital by Obviam, thus fulfilling SIFEM's objective of mobilising private investments into target countries, while shielding SIFEM and the Swiss Government from liability risks.

SIFEM BOARD MEMBERS (AS OF 2018)

Jörg Frieden
Chairman of the Board, Chairman of the Investment Committee, since May 2018

Jörg Frieden was employed at the Federal Department of Foreign Affairs (FDFA) from 1986 to 2018. He worked as a coordinator in Mozambique, advisor for the World Bank in Washington, and Head of the Eastern and Southern Africa Section in Bern. Between 1999 and 2003, his professional career took a sidestep to the Federal Office for Refugees where he held the position of Deputy Director. In 2003, he returned to the Swiss Agency for Development and Cooperation (SDC) where he took up the position of Resident Director of Development Programmes in Nepal. From 2008 to 2010, he took up the position of Deputy Director of the SDC and headed the Global Cooperation Department. He was also an advisor to and representative of Federal Councillor Calmy-Rey in the UN Commission on Sustainable Development. From 2011 to 2016, Jörg Frieden was Executive Director of Switzerland at the World Bank Group, specifically at the International Finance Corporation (IFC) whose operations reflect those of SIFEM, and then Swiss Ambassador to Nepal until 2018.

Susanne Grossmann
Vice-Chairman of the Board, since 2014, Member of the Investment Committee, since 2011

Susanne Grossmann has been active in private sector finance in emerging markets and developing economies since 1999. From 2007–2014 she was Managing Partner at BTS Investment Advisors, a private equity fund advisor for investments in non-listed Indian small- and mid-sized companies. Today Ms. Grossmann manages Dalyan Foundation, a charitable foundation supporting women and children in India and Turkey. Since 2014, she also advises the SECO Start-Up Fund.

Regine Aeppli
Member of the Board, since 2017

Regine Aeppli was a partner in a law firm dealing with family law, state and administrative law from 1986 to 2003. In addition to her work as a lawyer, she was politically active as a representative of the Social Democratic Party of Switzerland. From 1987 to 1996, she was a member of the Zurich cantonal council, and from 1995 to 2003, she was elected at the Swiss Parliament National Council chamber. In 2003, she was elected at the cantonal government of the Canton of Zurich where she headed the Education Directorate until her departure in 2015. Today, among other things, she is a member of the Board of Trustees of Kulturama. Regine Aeppli studied law at the University of Zurich where she obtained her diploma.

Julia Balandina Jaquier
Member of the Investment Committee, since 2011, Chair of the Audit Committee, since 2014

Dr. Julia Balandina Jaquier has 25 years of investment and strategic consulting experience, the last 14 of which are focused on impact investing. She started her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment Group, where she managed the AIG's European direct private equity business. In 2010, she founded an independent impact investment consultancy and has since served as a trusted adviser to major private, institutional and sovereign investors. Julia is a Senior Fellow and Advisory Board Member of the Center for Sustainable Finance and Private Wealth (CSP) at the University of Zurich, where she leads the NextGen Impact Accelerator. Julia is the author of two books on impact investing and has lectured at St. Gallen University, IMD, Harvard and CEIBS.

SIFEM BOARD MEMBERS (AS OF 2018)

Geoff Burns
Member of the Investment Committee, Member of the Audit Committee, since 2014

Geoff Burns has over 30 years of experience in private equity. He has his own private equity advisory business specifically to address the challenges facing DFIs in this sector. He has provided advice on all aspects of investing to a number of bi-and multilateral DFIs, including the Asian Development Bank, FMO, CDC, Norfund, among others.

Kathryn Imboden
Member of the Investment Committee, since 2014

Kathryn Imboden is a Policy Advisor for the Consultative Group to Assist the Poor (CGAP), a research and policy platform on financial inclusion housed at the World Bank. Following nearly twenty years with the Swiss Agency for Development and Cooperation (SDC), she held financial sector policy related positions at Women's World Banking, United Nations Capital Development Fund, and the Aga Khan Foundation, before joining CGAP in 2007.

Angela de Wolff
Member of the Investment Committee, since 2017

Angela de Wolff has been active in the financial sector for 23 years, with a focus on responsible investment since 2001. She began her career as a consultant with Andersen Consulting and then held various positions in private banks. Among other positions, she has led the sustainability team at Lombard Odier bank. In 2007, she capitalized on her experience to create Conser, an independent firm specialized in responsible investment. She is the co-founder of Sustainable Finance Geneva, a non-profit association which aims to promote responsibility and sustainability in finance. She is Vice-President of the platform Swiss Sustainable Finance, and also sits on the Board of Directors of Banque Cantonale de Genève (BCGE) and the Audemars-Watkins foundation in Geneva. Ms. de Wolff obtained a Master in economics from Lausanne University in 1989. She became a Certified European Financial Analyst (CEFA) in 2000.

HOW DOES SIFEM MAKE A DIFFERENCE?

SIFEM'S DEVELOPMENT CONTRIBUTION

SIFEM is an impact investor, as all SIFEM investments are made with the intent to generate a measurable development impact, based on specific indicators and corresponding targets in developing and emerging countries, including job creation, skills development, tax payments, financial sector deepening and diversification, and implementation of international best practice environmental, social and governance standards.

SIFEM's main development effects are reported to Parliament as contributions to the target outcomes ("Wirkungsziele") of Switzerland's economic development cooperation framework. SIFEM is relying on a result measurement system in line with the practice of other Development Finance Institutions, allowing for the monitoring and aggregation of results at the portfolio level. This framework is fully in line with the 2030 Agenda for Sustainable Development adopted by the United Nations in 2015 featuring 17 specific goals (Sustainable Development Goals – SDGs). These goals put great emphasis on a development model where the private and public sectors have complementary roles in supporting sustainable growth and improving lives.

The result measurement framework used by SIFEM is composed of three different levels: First, an internal rating tool (SIFEM GPR) originally developed by the German Development Finance Institution (DEG), is used to appraise investments and track their development performance over time. In order to do this, a benchmark is established prior to investment to reflect the expected development effects. Second, a number of indicators are collected for each investment to measure development effects, which can be aggregated at the portfolio level and reported to Parliament. These indicators are harmonized, to the extent possible, with other Development Finance Institutions and with the standardized metrics developed by the impact investing community. Third, case studies are conducted on an annual basis to take a closer look at the effects and value-add of SIFEM's investments in specific contexts.[1]

SIFEM'S RESULT MEASUREMENT FRAMEWORK

INTERNAL RATING TOOL	DEVELOPMENT METRICS	CASE STUDIES
SIFEM GPR System providing an assessement of the development performance during the whole investment period	Development indicators (employment, training, tax payments, financing volume, climate change mitigation, access to healthcare etc.)	2-4 case studies per year

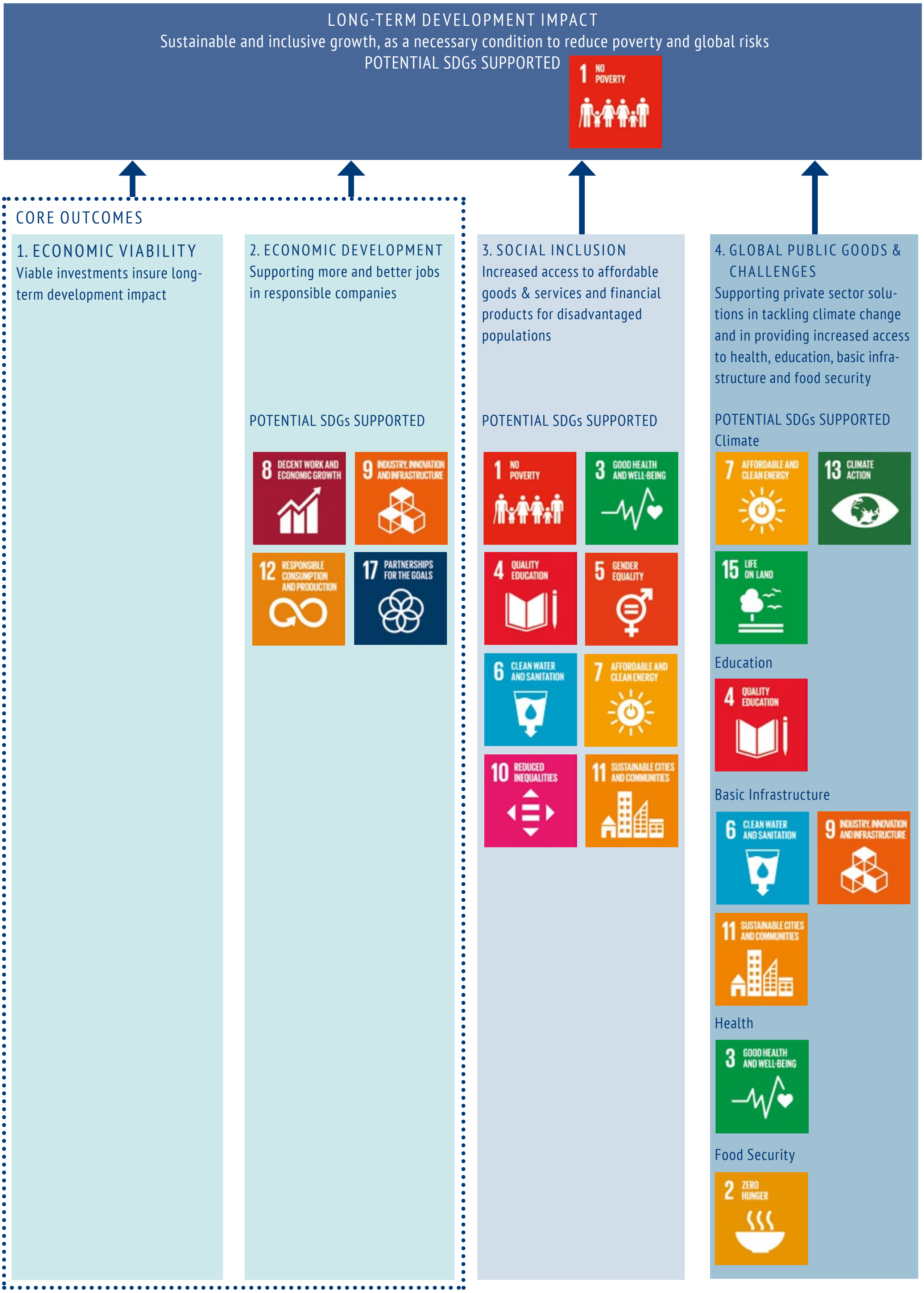
As part of a new "Impact Policy" developed in 2017 which is used since January 2018, SIFEM commits to maximize the development effects throughout the whole investment cycle, from investment analysis, investment decision-making, to investment management and monitoring. For this purpose, SIFEM analyses and monitors the contribution of its investments to four broad development pillars, which are fully in line with the 2030 Agenda for Sustainable Development and with the strategic objectives assigned to SIFEM by the Swiss Government for the period 2018-2020.

The Impact Policy requires that every SIFEM investment contributes at least to the first two outcomes (Economic viability and Economic development), which are at the core of SIFEM's interventions. Furthermore, some SIFEM investments may also contribute to additional development effects captured by outcome 3 (Social Inclusion) and 4 (Global Public Goods & Challenges), depending on the characteristics of the investment: for instance, a sector-specific investment fund targeting education or health will also contribute to outcome 4, while an investment in a financial institution fostering the financial inclusion of low-income clients will also contribute to outcome 3[2].
The above-mentioned results measurement framework is used to track SIFEM's contribution to these different outcomes.

[1] http://sifem.ch/impact/case-studies/

[2] The full text of the SIFEM "Impact Policy" is available at http://sifem.ch/impact/impact-policy/

SIFEM'S DEVELOPMENT OUTCOMES AND THEIR LINKS TO THE SDGs



2017 DEVELOPMENT HIGHLIGHTS

EMPLOYMENT
650,000 JOBS SUPPORTED AND CREATED SINCE 2005 (TOGETHER WITH INVESTMENT PARTNERS)

GENDER
40% OF THE EMPLOYEES IN SIFEM PORTFOLIO COMPANIES ARE WOMEN (*)

TRAINING
80% OF SIFEM PORTFOLIO COMPANIES PROVIDE TRAINING TO THEIR EMPLOYEES (*)

DOMESTIC REVENUE MOBILISATION
USD 770 MILLION IN TAXES PAID BY UNDERLYING PORTFOLIO COMPANIES IN TOTAL (*)

CLIMATE CHANGE MITIGATION
3,330 GWH OF CLEAN ENERGY PRODUCED AND 4.4 MILLION TONS OF CO_2 EMISSIONS AVOIDED (TOGETHER WITH INVESTMENT PARTNERS) IN 2017

ACCESS TO FINANCE
3.6 MILLION MICRO LOANS, 71,000 SME LOANS AND 105,000 HOUSING LOANS OUTSTANDING AS OF END 2017 AT THE LEVEL OF SIFEM PARTNER INSTITUTIONS AND THEIR UNDERLYING PORTFOLIO COMPANIES (*)

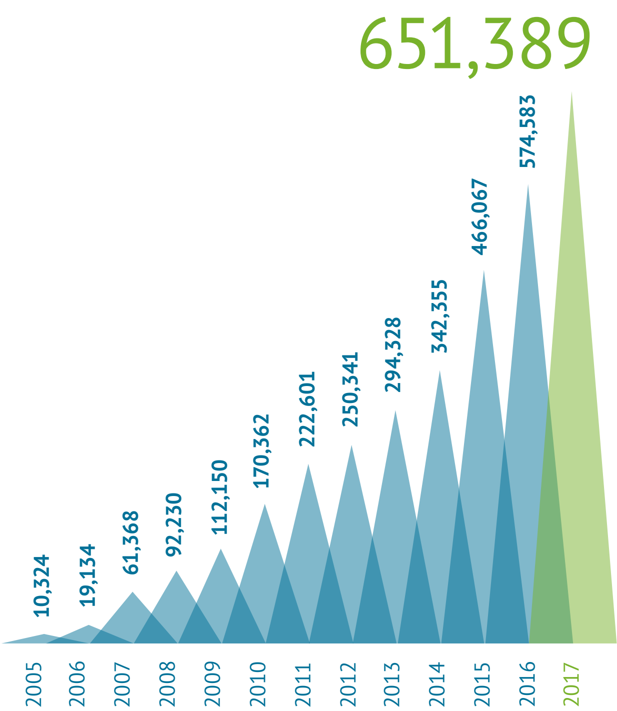
PRIVATE INVESTMENT MOBILISATION
USD 1 INVESTED BY SIFEM MOBILIZED APPROXIMATELY USD 9.1 OF PRIVATE INVESTMENT FOR THE 2014-2017 INVESTMENTS

* For post-2013 investments as of end 2017

SUPPORTING MORE AND BETTER JOBS

Jobs are the principle escape route out of poverty: jobs boost living standards, help to build self-esteem and social cohesion, and thus contribute to a country's economic and social development. The biggest challenge is the sheer number of jobs needed to cope with the socio-demographic developments in developing and emerging countries. Some 200 million people are currently unemployed, many of them young people, and it is estimated that by 2020, some 600 million jobs need to be created, mainly in Africa and Asia, largely driven by demographic trends, technological change and migration pressures. The second challenge is to ensure that those jobs also offer decent working conditions: they must comply with minimum local legal requirements and with the core labour standards of the International Labour Organization (ILO), e.g. the elimination of forced and compulsory labour or the abolition of child labour, and they must provide safe working environments and personal development opportunities for the employees. The prevalence of high informality in the job market of many developing and emerging countries is a vivid illustration of this challenge, as informal jobs elude any record and regulation and are often associated with poor working conditions and no protection of basic labour rights.

JOBS SUPPORTED BY SIFEM'S OVERALL PORTFOLIO SINCE INCEPTION



The private sector plays a critical role in job creation: more than 9 of out 10 jobs in developing countries are provided by the private sector. Yet, private companies typically face growth bottlenecks, the most important being the lack of access to finance, the lack of know-how, the lack of access to electricity and the prevalence of informality. Access to long-term funding is a necessary condition for sustainable business expansion, the creation of diversified job opportunities and ultimately, more inclusive growth and the reduction of inequalities.

SMEs are important for job creation but so are other fast-growing companies: SMEs represent on average about 66% of permanent, full-time employment in developing countries according to the World Bank[3]. However, they also tend to be more vulnerable and more likely to fail and disappear than larger firms. Larger firms usually provide better working conditions than smaller ones and tend to be more productive and innovative. It is estimated that about 70% of the companies in the SIFEM portfolio are SMEs.

SIFEM'S JOB CONTRIBUTION IN 2017

MORE JOBS

Together with its investment partners, SIFEM has created and supported more than 650,000 jobs as of year-end 2017 since 2005. The job distribution according to regions reflects largely the geographical distribution of the investment portfolio. About 70% of the jobs in the active SIFEM portfolio are located in the priority countries of Switzerland's development cooperation. Overall, employment in the SIFEM portfolio companies grew by 3% in 2016-2017. Although still positive, this is significantly less than in the previous years (2015-16: 13%): job growth has been declining in Africa and Latin America compared to previous years, mainly due to the restructuring of a few larger companies experiencing difficulties. This is part of the volatility which is to be expected on an annual basis.

Around 40% of the employees in SIFEM portfolio companies are women (including companies invested in between 2013 and 2017, and active as per year-end 2017), a share which has been increasing in the last years. The majority of women work in sectors such as health and education.

[3] IFC Jobs Study: Assessing private sector contributions to job creation and poverty reduction, Washington DC; January 2013.

BETTER JOBS

SIFEM captures the qualitative aspects of jobs in the following manner: on the one hand, SIFEM's financial institutions and fund managers commit to ensuring that their portfolio companies meet national labour and occupational health and safety legislation and will work over defined time frames to meet the ILO Core Standards, when national legislation is less ambitious than these Standards. On the other hand, SIFEM is monitoring the professional development of the staff of portfolio companies.

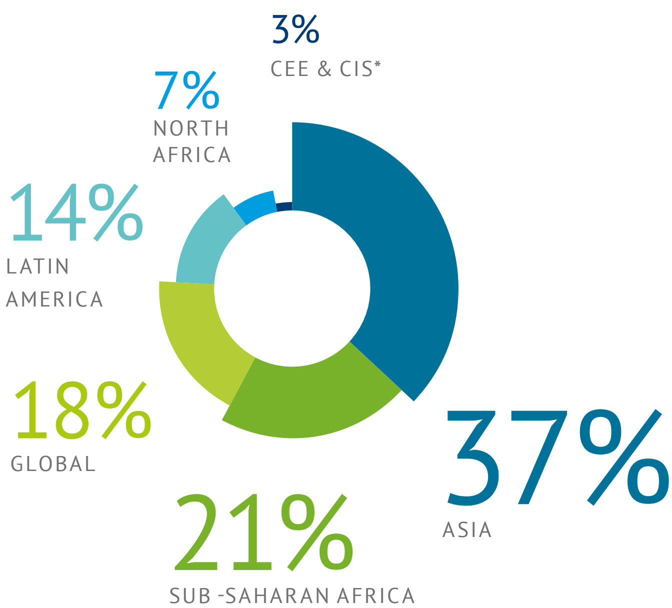
SIFEM's portfolio companies may experience challenges to comply with these different standards. For example, additional costs may be required to invest in the safety of their employees, or the companies must request their subcontractors to also comply with national labour standards.

SIFEM ensures that local partners anticipate or address these challenges together with the portfolio companies. This is part of a continuous process during the lifetime of an investment.

Regarding continuous improvements in staff development by the end of 2017, 84% of SIFEM's local fund managers provided training to their employees, and almost 60% of them also to outside stakeholders (e.g. providers, students etc.) often in cooperation with local universities and industry associations. In addition, 80% of the portfolio companies report that they have formal training in place for their employees.

In addition, 39 capacity building and training interventions have been provided in 2017 to portfolio companies, mainly in Asia and Latin America, by the Technical Assistance (TA) facility financed by SECO. These interventions concerned various areas, such as social & environmental impact management, business plan development, and financial management.

DISTRIBUTION OF JOBS SUPPORTED BY SIFEM'S OVERALL PORTFOLIO SINCE INCEPTION ACCORDING TO REGION (AS PER END OF 2017)



* Includes Southern & Eastern European countries as wells as Russia and Ukraine


VISITOR
访问者
CAUTION!
DO NOT LOAD OR TRANSPORT PACKAGE IF DAMAGED
76.4 CU.M.

FINANCIAL INCLUSION

FINANCIAL INCLUSION FOR SOCIAL INCLUSION: A KEY ENABLER TO REDUCE POVERTY

LEAVING NO ONE BEHIND

"Leaving no one behind" is the central aspiration that underlines the 17 Sustainable Development Goals (SDGs) adopted by the United Nations in 2015. At the core of this aspiration is the recognition that inequality within developing countries has increased over the last three decades, even if the income inequality between countries has slightly decreased. Another important recognition is that inequality does not only refer to differences in financial income between wealthier and poorer segments of the population, but also describes the fact that some socio-economic groups are deprived from participating in society at large. In other words, such groups suffer a lack of access to markets (land, housing, labour) and services (health, education, transport, water & sanitation, energy, information, financial services), and their voices are often not heard. Typically, those excluded groups form the poorest segments of the population. In this context, "leaving no one behind" aims to address this major challenge by fostering the participation in society of the poorest and most vulnerable, who are most likely to be locked into a poverty trap.

This is a very broad and ambitious development agenda, within which the financial sector plays an important role: one of the most critical preconditions for fostering social inclusion is that the poor and vulnerable groups of the population have effective access to financial products and services. In other words, financial inclusion.

For both individuals and businesses, having effective access to financial products and services—transactions, payments, savings, credit and insurance that meet their needs and are delivered in a responsible way—is essential to unlock opportunities and participate in society. Access via the formal financial system can result in reduced transaction costs and increased safety which is not necessarily the case with cash transactions or informal moneylenders which charge very high interest rates. Financial inclusion can also smooth their income streams across agricultural cycles and unexpected events, facilitate access to education and healthcare services, and protect against devastating financial losses via insurance products, so as to lessen the risk of falling back into absolute poverty.

In other words, more inclusive financial systems can be key enablers to reduce poverty and inequality by helping people invest in the future, and manage financial risks, as evidenced by a growing body of empirical research.[4]

[4] See for instance Aslan, G. Deléchat C., Newiak M, Yang F, "Inequality in Financial Inclusion and Income inequality", IMF Research Paper WP/17/236, November 2017; Demirguc-Kunt, A., Klapper L., Singer D., "Financial Inclusion and Inclusive Growth: a Review of Recent Empirical Evidence", Policy Research Working Paper #8040, The World Bank, April 2017.

RESPONSIBLE FINANCIAL INCLUSION REQUIRES ADEQUATE CONSUMER PROTECTION

There are also risks associated with financial inclusion, especially for poor and vulnerable segments of populations. In weakly regulated environments, where non-transparent practices can prevail, some institutions use predatory lending practices, such as opaque, excessively high-priced products at the expense of clients, who may find themselves pushed into over-indebtedness, repayment distress, or loss of savings or pledged assets.

Several crises tarnished the global microfinance sector in the last decade, illustrating the importance of developing a strong and responsive financial consumer protection framework that promotes trust and confidence in the financial system and significantly reduce the likelihood of consumer abuse. The crisis also revealed the importance of fostering adequate financial education to prospective clients, so that they can better understand the costs, benefits, and implications of the services offered.

Fortunately, the "responsible financial inclusion" landscape has progressed over the last 10 years. What constitutes smart and ethical business practices for financial service providers is better defined, and consumer protection regulatory frameworks have generally been strengthened.

At the global level, efforts have also been undertaken by the microfinance industry to agree on a set of "smart microfinance" core principles on client protection. The leading initiative in this area is the Smart Campaign, an industry-wide umbrella committed to embedding client protection practices into the institutional culture and operations of the financial inclusion industry[5]. To date, over 100 microfinance institutions, collectively serving more than 42 million people, have been evaluated for adherence to the Smart Campaign's consumer protection standards and certified by an independent, third party. In addition, the seven core Client Protection Principles (CPP) have been endorsed by more than 5,000 institutions, associations and organizations. Principles encompass appropriate product design and delivery; prevention of over-indebtedness; transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; and mechanisms for complaint resolution.

the smart campaign

[5] https://www.smartcampaign.org/

THE FINANCIAL INCLUSION CHALLENGE IN DEVELOPING COUNTRIES AND THE DIGITAL REVOLUTION

Around 1.7 billion people worldwide have no access to a bank account, especially in developing countries and emerging markets, with wide variation among individual economies. In Sub-Saharan Africa for instance, only 40% of all adults have an account, versus 55% in Latin America and 70% in South Asia. By contrast, Sub-Saharan Africa is the only region where the share of adults with a mobile money account exceeds 20% and in several Eastern African countries, the share of adults with a mobile money account even surpasses 50%.

Women constitute 56% of the unbanked. Poorer people also account for a disproportionate share of the unbanked: in most developing and emerging countries, more than half of unbanked adults come from the poorest 40% of households within their economy. The same pattern applies to households in rural areas. Young people also lag behind in terms of access to financial services.

The digital revolution offers new opportunities for financial inclusion, considering that two-thirds of unbanked adults have a mobile phone. Indeed, people need only an SMS-enabled phone and the business partner's phone number to safely send or receive money. Digital money transfers via an account are faster and relatively cheaper than transfers via traditional payment channels. People living in rural areas don't have to travel considerable distances to a bank branch, money transfer operator, or government office, or face waiting extensive time to receive a remittance. Digital payments are on the rise in developing countries and emerging markets: in Sub-Saharan Africa, 35% of adults have made or received digital payments in 2017, against 27% in 2014. In South Asia, almost 30% of adults reported digital payments in 2017 against 17% in 2014. Inclusive business models are also evolving to serve low-income individuals who are entrepreneurs and producers, employees and consumers. Disruptive innovations are breaking down barriers between the financial sector and other sectors, such as energy, agriculture, education, healthcare and housing, and are therefore an important driver of inclusive growth.

Source: Global Findex Database 2017: Measuring Financial Inclusion and the Fintech revolution, The World Bank, 2018.

1.7 BILLION
PEOPLE HAVE NO ACCESS TO A BANK ACCOUNT

56 %
OF THE UNBANKED ARE WOMEN

67%
OF UNBANKED ADULTS HAVE A MOBILE PHONE

HOW DOES SIFEM CONTRIBUTE TO FINANCIAL INCLUSION?

SIFEM's investment strategy contributes to strengthening local financial and capital markets in developing countries and emerging markets, which are important development facilitators. This strategy is geared primarily towards private equity fund investments targeting SMEs and other fast-growing companies, but also involves targeting financial institutions that are actively contributing to address the financial inclusion gap in developing countries and emerging markets. The role of Development Finance Institutions such as SIFEM is complementary and additional to private investors; indeed, several Swiss and international asset managers have been active in the financial inclusion space for many years, and SIFEM intervenes only when its support is needed. The investments made by SIFEM are also complementary to the programs and activities of the Swiss Agency for Development and Cooperation in the field of financial sector development (technical assistance, capacity building, grant financing, knowledge management).

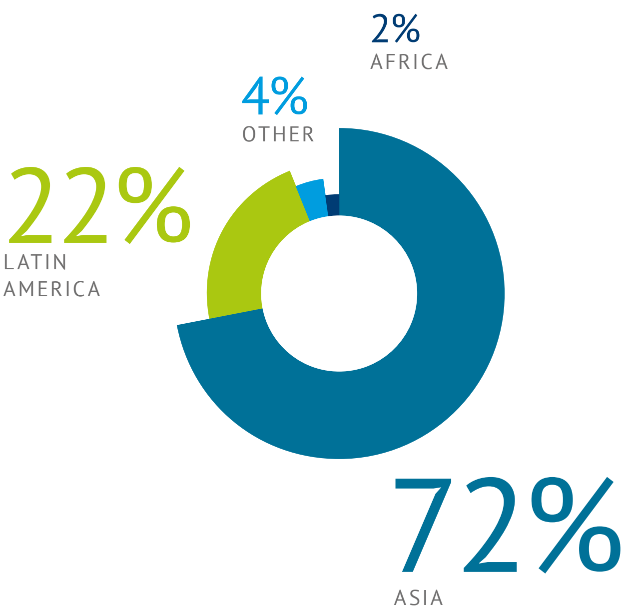
As of December 2017, SIFEM's active financial inclusion portfolio amounts to USD 44.2 million, or 17% of its total active commitments.[6] SIFEM has active investments in three microfinance funds and in three financial institutions that contribute to financial inclusion given their scope of activities or portfolio characteristics. In addition, other generalist funds in which SIFEM has invested, also address financial inclusion. Via these direct and indirect investments, a total of 125 underlying investees are active in the financial inclusion space, representing 25% of all active SIFEM investees.

As part of its responsible investment policy, SIFEM encourages the financial institutions it supports to endorse the Smart Campaign's Client Protection Principles[7].

SIFEM's financial inclusion portfolio in LDCs and other low-income countries represents 44% of the total, the remainder representing lower and upper middle-income countries. It is concentrated in Asia, and to a lesser extent in Latin America. The largest country exposure to financial inclusion is Cambodia.

Two of the financial inclusion funds also received technical assistance support through the Technical Assistance Facility administered by SECO for SIFEM's investments. Between 2014 and 2017, technical assistance was provided to 25 microfinance institutions in Latin America and covered a range of topics linked to financial, risk, and environmental and social management, as well as financial literacy, women's financial inclusion, and consumer protection.

SIFEM FINANCIAL INCLUSION EXPOSURE ACCORDING TO REGION (% INVESTED CAPITAL)



[6] SIFEM classifies its post-2013 investments as contributing to financial inclusion whenever they belong to the following categories:
1) Investments in microfinance funds which explicitly target excluded or underserved clients (i.e. micro and small businesses, women, or rural clients);
2) Loans provided to financial institutions where the volume of microloans as a ratio to the whole portfolio > 30%, or where the number of microloans as a ratio to the whole portfolio > 50%;
3) Individual fund investees which explicitly target excluded or underserved clients.

[7] http://www.sifem.ch/our-task/investing-responsibly/

MAIN FINANCIAL INCLUSION-RELATED DEVELOPMENT RESULTS TO DATE

SIFEM's financial inclusion portfolio is relatively young, i.e. most investments were made in the last four years; this makes it difficult to refer to long-term results. Some countries have also experienced difficulties, such as Azerbaijan, which have affected the performance and growth of some financial institutions. Therefore, results to date represent only a snapshot of the situation and are preliminary.

As of December 2017, 3.6 million microfinance loans were active for clients of SIFEM investees.[8] As a result, between 14 and 20 million of lives are being impacted[9]. In addition, more than 105,000 housing and home improvement loans were outstanding.

For the three microfinance funds in which SIFEM has active investments, the number of loans provided grew on average by 40% over the 2014-2017 period. This average growth of outstanding microfinance loans can be used as a rough proxy for new client outreach.

In terms of client profile, financial institutions report that from 50% to 80% of clients are women. Likewise, between 60% and 90% of clients are located in rural areas. Some institutions bundle financial products with education and technical assistance services for different types of clients, including women. A concrete illustration is the Social Investment Fund 5.0, a USD 50 million debt fund that provides loans to microfinance institutions, farmers' cooperatives, and other social enterprises in Latin America, where financial services are systematically coupled with training and technical assistance to clients. SIFEM invested USD 3 million in 2014 in this fund.

The clients served by the financial institutions with the support of SIFEM typically belong to the low-income segment of the population (the "bottom 40%"). Depending on the country context, these clients can be classified as moderately poor clients, that is, clients who are underprivileged but have the capacity to repay and demonstrate basic credit knowledge. These clients can therefore benefit from increased financial inclusion without falling into over-indebtedness.

Whether the (increased) financial inclusion has overall positively affected the lives of the clients cannot be confirmed definitively at this time, as it is still too early for such an assessment. Isolating the effect of a financial product on the income improvement or deterioration of the end-beneficiaries remains challenging. Some anecdotal evidence collected in Peru in the context of a client's survey showed that the majority of clients were still worried about their ability to pay for unexpected

[8] The average loan size was USD 1,700 per borrower.

[9] Estimate based on the assumption of 4-6 persons per households across the portfolio.

expenses and that it was too early to see concrete evidence of economic improvements. This tends to confirm that progress out of poverty takes time and that it is not a linear process.

LESSONS LEARNED & CHALLENGES

With 17% of its total active commitments contributing to financial inclusion, these investments represent a relatively small share of the portfolio. SIFEM is committed to continue investing in financially inclusive opportunities in the future, in line with its development mandate and market positioning vis-à-vis private investors. However, it is also important to recognize a number of existing challenges from a development perspective.

1. Interest rate cap. Consumer protection concerns have fostered a wider use of ceilings on lending rates (interest-rate caps), as a simple policy measure to protect consumers against predatory lending and over-indebtedness. Several countries belonging to the SIFEM investment universe have recently set ceilings on lending rates exclusively for loans provided by microfinance institutions. This is the case of Bangladesh, Cambodia, Honduras, and Myanmar. In Nicaragua, caps apply only to non-regulated MFIs. In many Sub-Saharan African countries, caps are broader in scope and affect the entire financial system[10]. For instance, Kenya introduced a new law on interest rate controls for all types of credit operations with the aim of reducing the cost of borrowing. In practice, hard caps on interest rates have tended to drive financial institutions away from making micro and small loans due the high cost of operations and monitoring expenses. These examples show that interest caps tend to drive the financial sector away from serving underserved market segments, which has the potential of weakening financial inclusion.

2. Financial sustainability of the financial institutions supported directly or indirectly by SIFEM is still challenging. Offering financial products and services to low-income clients is a costly business, which involves risks. Even for lending small amounts, institutions need to thoroughly assess the capacity to repay, and visit clients and their families regularly. To succeed, these institutions have to carefully manage their costs. If they don't, they will have to target less risky clients or disappear. The financial sustainability of these institutions is of paramount importance, as there can be no lasting development impact without financial sustainability.

3. Microfinance operations have attracted a large volume of subsidies and grants from various sources (donors, philanthropic organizations) in the last thirty years. Although the sector has become more commercial, the large availability of concessional funds in some regions, such as Sub-Saharan Africa, tends to distort prices, and hides the true cost of doing business in high risk environments. The extensive use of subsidies in the microfinance space has created some unnecessary market distortions (especially in Sub-Saharan Africa), which tends to exacerbate the financial sustainability challenge for microfinance institutions.

4. The implications of digital financial services for consumer protection is an emerging challenge. Compared with traditional approaches to retail financial service delivery, digital financial inclusion introduces new market participants and allocates roles and risks differently. The issue of data protection and privacy is a growing concern, especially in a very fast changing environment. SIFEM is increasingly looking into innovative digital finance investment opportunities linked to the financial inclusion agenda, but this requires careful assessments with open question marks on the consumer protection risks. A cautious portfolio building approach is therefore needed.

5. Assessing the impact of financial inclusion requires further efforts over the long term. While measuring progress in financial inclusion has gained momentum in the last decade, assessing the impact of increased financial inclusion on poverty alleviation and economic resilience remains a challenge. Further efforts to document progress are needed. SIFEM will continue to conduct case studies to learn from concrete examples and to strengthen its impact monitoring system.

[10] Ferrari, A., Masetti, O., Ren, J., "Interest Rate Caps – The Theory and the Practice", World Bank Policy Research Working Paper #8398, April 2018.

EXTERNAL VIEW
FINANCIAL INCLUSION IS A VERY USEFUL STARTING POINT

INTERVIEW WITH DR. ANNETTE KRAUSS, DEPARTMENT OF BANKING AND FINANCE, UNIVERSITY OF ZÜRICH

SIFEM: WHAT IS THE ROLE OF FINANCIAL INCLUSION IN POVERTY ALLEVIATION AND DEVELOPMENT?

A. Krauss: Financial inclusion plays an important role as a starting point but it is not a silver bullet. I would describe it as a necessary yet not a sufficient condition for enabling people to get out of poverty. For poor or marginalized clients, having access to efficient and affordable financial services can help to smooth cash flows and bear unexpected expenditures, such as emergency relief, but also finance working capital or even investments in tiny businesses. This is valuable and useful. However, we also need to be realistic: the benefits of having access to financial services will highly depend on the surrounding economic environment and existing framework conditions. In a very difficult environment where there are limited opportunities for the poor, bad regulations and infrastructure, or red tape, the role of financial services will also be limited. Therefore, it is important not to look at financial inclusion in isolation from other factors which have an influence on poverty and economic development.

SIFEM: FINANCIAL INCLUSION AIMS AT INCREASING ACCESS TO FINANCIAL PRODUCTS AND SERVICES TO "EXCLUDED" SOCIO-ECONOMIC GROUPS, BUT WHO ARE WE TALKING ABOUT?

A. Krauss: When thinking about the typical clients of those microfinance institutions with which a Development Finance Institution could work, it is important to recognize that we are not talking about those living in extreme poverty. If you take 40% of the poorest people in a given country, the typical clients will be somewhere in this sub-group but not at the very bottom of the income distribution: this means that they have a source of income and therefore have demand for an account or the capacity to repay a loan, although they still belong to the low-income segment of the population. Other types of support and institutions are needed to address the needs of the very poorest people, i.e. aid programs, which often work in cooperation with NGOs.

SIFEM: WHERE DO YOU SEE THE ROLE OF A DEVELOPMENT FINANCE INSTITUTION SUCH AS SIFEM IN SUPPORTING FINANCIAL INCLUSION?

A.Krauss: The role of Development Finance Institutions is really to help building strong financial institutions which can function in a professional and responsible manner in the field of financial inclusion. Development Finance Institutions such as SIFEM should take additional risks in comparison to private providers, in line with their mission. For instance, providing loans to financial institutions for 3-5 years is a good starting point, but these loans should preferably be in local currency, so as to avoid passing the exchange rate risk to the clients.

SIFEM: THIS REPORT PRESENTS SOME PRELIMINARY RESULTS ON HOW FINANCIAL INCLUSION WORKS IN PRACTICE, BUT ALSO RECOGNIZES THAT IS STILL TOO EARLY TO SEE CONCRETE RESULTS. HOW DOES IT COMPARE WITH YOUR OWN FINDINGS?

A. Krauss: I believe it is not only a question of timing. It is important to acknowledge that measuring concrete results on how financial inclusion affects people's lives remains very challenging in practice, from a data collection and methodological perspective. In addition, there is often the perception that the improvements in the life of microfinance clients will follow a stable and linear path, which is usually not the case. Having access to savings, insurance, perhaps credit facilities, will often provide protection against downside risks. More research is certainly needed in documenting how people manage their finances with newly accessed financial services, in particular in the longer term, but I would remain cautious about what can be expected.

SIFEM: YOU STRESSED THE IMPORTANCE OF TARGETING THE APPROPRIATE SEGMENT OF THE MARKET. WHAT ABOUT CLIENT PROTECTION AND HOW TO AVOID OVER-INDEBTEDNESS?

A. Krauss: It is indeed a key concern for responsible financial inclusion. In the last 10 years, the microfinance industry has made huge progress by adopting client protection standards, culminating in the "Universal standards for social performance management". For many years, the industry has emphasized financial sustainability, but strong financial performance alone does not necessarily translate into benefits for clients. The trend towards better client protection is therefore positive. However, the implementation of these principles remains patchy, and this is where I would personally see a more active role of Development Finance Institutions and investment managers: they should continue to push for the adoption of such principles and make sure that such principles are enforced in the context of their investments or programs.

SIFEM: IS IT EASY FOR FINANCIAL INSTITUTIONS TO FIND THE INFORMATION REQUIRED FOR ASSESSING THE CREDITWORTHINESS OF POTENTIAL CLIENTS?

A. Krauss: Being able to rely on good credit information sharing systems such as a "credit bureau" is a necessary condition for sound financial inclusion on the credit side. This is not new but it remains as valid as ever. Financial institutions need to have access to information on potential borrowers in order to assess the risks of a newly granted loan. They would need to know whether clients already have other loans, or whether they have always repaid on time. The problem is that developing a "good" credit information sharing system is complex, and feeding it with good quality information is not so easy. In a research in which we investigated drivers of microfinance market development, we found that the role of credit information was particularly important for financial inclusion in countries where the microfinance market was at early stages. At higher levels of market development, a more refined institutional setting must be in place to help lenders deal with increasing levels of complexity, which could be due to multiple and cross-borrowing and could imply a risk of over-indebtedness[10].

SIFEM: THIS REPORT IDENTIFIES THE USE OF INTEREST RATE CAPS AS A CHALLENGE FOR FINANCIAL INCLUSION IN DEVELOPING AND EMERGING MARKETS. DO THEY FIT WITH YOUR OWN OBSERVATIONS?

A. Krauss: By and large, yes. I must admit that I was surprised to see that interest rate caps seem to be back in fashion in so many countries. Indeed, there have been plenty of examples showing that controlled interest rates have the tendency to encourage non-transparent pricing of financial products and services, which ultimately affects clients negatively. In other words, financial institutions tend to compensate interest rate caps with all sorts of fees and commissions that are not necessarily transparent. The negative impact of interest rate caps on the functioning of the financial sector is well documented, so it is surprising to see that policy makers have apparently not learned much from the past.

Dr. Annette Krauss is the Director of Teaching and Member of the Management Board of the Center for Sustainable Finance and Private Wealth, at the University of Zürich, Department of Banking and Finance. She has 14 years of experience in the microfinance industry, where she worked in funding agencies as well as applied research, teaching and executive training. She founded the Center for Microfinance which has become a constituting part of the Center for Sustainable Finance and Private Wealth.

[10] Krauss, A., Martínez, C., "What drives Financial Inclusion at the Bottom of the Pyramid?", University of Zürich, CMF Working Paper Series, N°02-2015, March 2015.

CASE STUDY

AMRET MICROFINANCE INSTITUTE: REACHING THE UNDERSERVED WITH FINANCIAL PRODUCTS AND SERVICES IN CAMBODIA

Amret Microfinance Institute is a Cambodian microfinance institution (MFI) providing innovative financial products and services to low-income clients based in rural areas. It started originally as a pilot credit project of a French NGO in 1991 and then obtained the first microfinance institution license in Cambodia in 2001, followed by the license to collect deposits in 2009. It is one of the largest MFIs operating in Cambodia, with 400,000 clients currently (both depositors and borrowers), and 156 branches located in all 25 provinces. SIFEM provided a USD 8.4 million loan to Amret in 2017, as part of a syndicated transaction led by the Dutch DFI, in order to allow Amret to expand further its financial inclusion agenda.

THE LOCAL CONTEXT

Cambodia is one of Southeast Asia's fastest growing economies, with an average growth rate of 7.6% in the past 20 years. Poverty has declined dramatically in the last 10 years, but the majority of families have escaped poverty only by a small margin, meaning that they are highly vulnerable to falling back into poverty.

MFIs have played a very important role in the rapid development of the financial sector, providing access to finance to a mostly rural population that would otherwise have to rely on unregulated private money lenders. As of 2017, more than 20% of the population has a formal financial account, either via a bank or microfinance institution, compared to 3.7% in 2011, according to the World Bank. This financial inclusion ratio could be as high as 50% according to national sources.

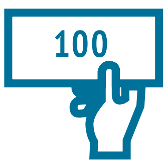
However, the exponential growth of microfinance in Cambodia created serious concerns in terms of financial stability as well as in terms of consumer protection. The development of a national credit bureau to centralize credit information has been a useful step in this respect. An interest rate cap of 18% was imposed on MFIs in April 2017 by Cambodian authorities to further prevent over-indebtedness.

AMRET'S CONTRIBUTION TO FINANCIAL INCLUSION

Amret is targeting clients who were previously underserved by the formal financial sector, primarily rural and low-income clients – the majority of which are women – as well as micro, small, and medium size business owners. 74% of Amret's total loans are classified as micro loans,

2017

YEAR OF INVESTMENT



$ 8.4 m

SIFEM INVESTMENT

CAMBODIA

72% of borrowers are women, and 91% of clients are located in rural areas. 88% of Amret's branches are located outside of Phnom Penh.

Amret has successfully developed a number of innovative financial products and services, which are delivered at the local level. For instance, Amret offers a Mobile Teller service, where Mobile Tellers travel by motorbike to villages on a regular basis to collect even very small deposit amounts from rural clients. This is particularly important for women, who may not be able to travel easily due to their work at home. In 2017, almost 20,000 clients actively used this service.

Amret also offers specific financial products and services for the agriculture industry. 30-40% of Amret's total loan portfolio is currently disbursed for agricultural purposes, including loans to support cropping, animal rearing, animal breeding, equipment and agricultural land, and agri-business. With approximately half of the population working in the agricultural sector, these types of specific loans are instrumental for the improved efficiency of the sector as a whole, as well as for improved agricultural capacity and living standards of the clients. Amret's offer includes repayment options based on the seasonal cycle, and doorstep services for loan repayment of farmers. More recently, Amret has begun to offer SME loans, bundled with specific assistance for formalizing a business.

FOSTERING RESPONSIBLE FINANCIAL INCLUSION

In line with responsible financial inclusion, Amret is committed to protecting clients against over-indebtedness via the delivery of suitable financial products and services, coupled with financial literacy education. In 2016, Amret became Client Protection Certified as part of the Smart Campaign, one of only 100 MFIs in the world to have obtained this, after an external evaluation certified that the principles are embedded into Amret's practices. Amret offers financial literacy training addressed primarily to clients who are entering the formal financial system for the first time. This training was provided to approximately 1,000 clients in 2017, with the objective of ensuring that clients had a clear purpose for their loan and clear repayment options.

NOT WITHOUT CHALLENGES

Since these loans are usually expensive to structure and monitor, the interest rate cap imposed on MFIs' operations in 2017 makes it difficult for Amret to offer these products in a cost-efficient manner. As a result, the share of agricultural loans in the portfolio has started to decline. Other microfinance institutions face the same challenge: how to reduce costs and increase the efficiency of lending operations in order to keep servicing their lower-income, more rural clients?

CLIENT INTERVIEW

Channy lives in a rural area of the Phnom Penh province together with her husband and their two children. A couple of years ago, her brother suggested that she contact Amret to present her business idea – to construct a small apartment building at the back of her property to rent rooms to garment workers who worked in the factories nearby. It was Channy's first experience with a formal financial institution – she had never taken a loan before – but her business was successful, and she has already paid off her loan to Amret. She has now taken a second loan with Amret to build and rent a warehouse in her village.

"It was my first experience to take a loan, but Amret explained the process clearly to me. I have repaid my first loan and I am now also able to save money for my family's future. My children will be able to attend university if they wish."

CASE STUDY
ICARE BENEFITS CAMBODIA: GETTING A FIRST EXPERIENCE OF FINANCIAL INCLUSION

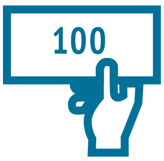
In 2015, SIFEM invested USD 4.2 million in the Cambodia-Laos-Myanmar Development Fund II, a private equity fund focusing on SMEs servicing local markets, including those targeting low-income clients. As of 2017, the Fund has invested in seven companies across the region, of which four are operating in Cambodia. One of these companies is iCare Benefits Cambodia, a local SME specializing in providing payment facilities to low-income clients working in garment factories.

THE LOCAL CONTEXT

Although Cambodia has made substantial progress with financial inclusion in the last ten years, as highlighted in the Amret case study, access to formal financial services is not yet a reality for a substantial portion of the Cambodian population. Many people have never been exposed to the notion of saving or borrowing money and remain "unbanked". Alternative borrowing options are limited: people can either resort to informal money lenders with predatory interest rates or use innovative financial services such as those offered by iCare.

2017

YEAR OF INVESTMENT
IN ICARE BENEFITS CAMBODIA



$ 4.2 m

SIFEM INVESTMENT IN THE CAMBODIA-LAOS-MYANMAR DEVELOPMENT FUND II

CAMBODIA

> "The majority of the iCare market has never had formal financial services offered to them before. We are reaching this untouched market with a hybrid model, something of a merge between e-commerce and microfinance."
>
> MOLIKA MEAS, ICARE CEO

ICARE'S CONTRIBUTION TO FINANCIAL INCLUSION

iCare is not a financial institution but rather a local SME selling affordable products and services (mostly home appliances, mobile phones and other electronics) to low-income clients with an innovative financing solution: products can be purchased at market prices on credit at 0% interest for a maximum loan time of 6 months. Items are delivered directly to clients within five days of purchase. iCare essentially works as a niche retailer targeting the employees of Cambodian garment factories with this credit payment facility. iCare's business model is based on gaining volume discounts from local suppliers. It can then use this profit margin to cover its costs, including the provision of interest-free loans for iCare clients, and grow the business further.

Concretely, iCare uses small sales points at the garment factories to present the list of available items, as well as the financial conditions to purchase them, to workers during the lunch breaks. Workers in the Cambodian garment sector typically belong to the low-income segment of the population, as they earn a minimum wage of USD 170 per month, with a sizable portion of this often being sent home to their families. Indeed, workers in this industry often move from extremely rural areas to take up employment far from a familiar environment.

iCare clients are permitted to purchase a product up to 1.8x of their monthly salary. The repayments are then taken directly out of their salary by the Human Resources (HR) department of the respective factories, to a maximum of 30% of their monthly salary. These firm limits ensure that no one is borrowing beyond his or her ability to repay and enable clients to repay their loan within a maximum of 6 months.

iCare currently works with 20 factories, and has more than 23,000 clients, with an average of 1,500-2,000 transactions every month. 82% of its clients are women. The majority of clients and their families are living in rural areas.

iCare offers its underserved target market the opportunity to participate in a first step of financial inclusion in an innovative way, since it allows its clients to have a short-term credit experience while ensuring strong client protection. In addition, facilitating access to products such as mobile phones can also pave the way for access of further financial services in the future. iCare plans to expand the products and services offered to essential healthcare products and medical services, educational products and possibly micro-insurance products, following the same model.

ENSURING CLIENT PROTECTION

As the majority of clients have not had access to formal financial services before, including purchase of a product with credit, iCare provides financial education workshops at the factories during the lunch breaks. During 2017, almost 6,000 workers participated in workshops given by iCare team members. In addition, the iCare team clearly explains the process to clients alongside the sale of each item. These inputs contribute to expanding the client's financial perspective, ensure the products purchased are affordable to the individual client, and protect against over-indebtedness.

"I don't have a lot of money, but through iCare I have been able to purchase a mattress and a phone. I bought through iCare because they don't charge interest, but their products are of good quality. I can repay the loan in smaller amounts every month instead of saving all of the money in advance."

SAVY, 36 YEARS OLD, ICARE CLIENT

"I come from a rural province in Cambodia, where my family and two children still live. I moved to Phnom Penh to work in a garment factory to earn money and provide for my children. Through iCare I bought a phone which I use to call my family."

SY, 28 YEARS OLD, ICARE CLIENT

PORTFOLIO

NEW INVESTMENTS

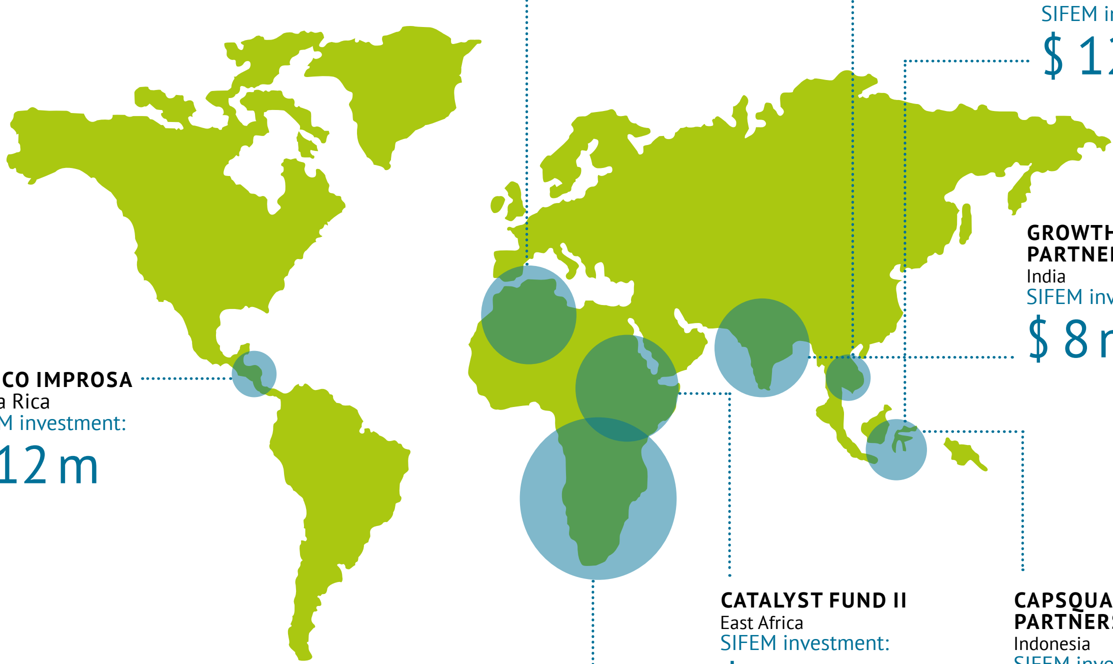
In 2017, a total of USD 87.4 million of new investment commitments were made. The new portfolio positions are as follows:

ABRAAJ GLOBAL CREDIT FUND
Global
SIFEM investment:
$ 10 m

MAGHREB PRIVATE EQUITY FUND IV
North Africa (Tunisia, Egypt, Morocco and Algeria)
SIFEM investment:
€ 10 m

AMRET
Cambodia
SIFEM investment:
$ 8.4 m

INDOSURYA INTI FINANCE
Indonesia
SIFEM investment:
$ 12 m



GROWTH CATALYST PARTNERS
India
SIFEM investment:
$ 8 m

BANCO IMPROSA
Costa Rica
SIFEM investment:
$ 12 m

CATALYST FUND II
East Africa
SIFEM investment:
$ 8 m

CAPSQUARE ASIA PARTNERS FUND II
Indonesia
SIFEM investment:
$ 10 m

AFRICA FORESTRY FUND II
Sub-Saharan Africa
SIFEM investment:
$ 7 m

AFRICA FORESTRY FUND II

(USD 7 million committed)

Africa Forestry Fund II (AFF II) is a private equity fund that invests in the sustainable forestry products value chain, including sustainable forestry plantations, forestry products processing, and manufacturing facilities, as well as wood-to-energy biomass generation assets. The Fund targets projects throughout Sub-Saharan Africa, many of which are located in rural areas. It seeks to bring a wide range of environmental, social and economic benefits to surrounding communities.

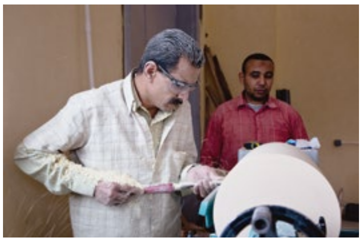
The African continent offers compelling economic growth opportunities; however, the forestry sector and its value chain suffer from inadequate investment and poor management. As the continent develops, the demand for wood-based products is increasing and supply is not able to keep up, resulting in a need for Africa to import wood products. AFF II requires and supports its companies to manage plantations and other operations in a sustainable manner, in an effort to protect biodiversity, sequester carbon, and help halt the cycle of deforestation and land degradation. It also seeks to foster social and environmental best practices across operations and rural communities, with a focus on the provision of safe and formal jobs for the workers. SIFEM's investment of USD 7 million supports the sustainable growth of a sector that is crucial for the long-term development of Sub-Saharan Africa.

CATALYST FUND II

(USD 8 million committed)

Catalyst Fund II is a private equity fund which invests in East Africa, with primary target countries Kenya, Tanzania, Ethiopia, Uganda, and a secondary focus on Rwanda, Zambia and the Democratic Republic of Congo. The Fund invests in SMEs and other fast growing companies that operate in the consumer goods, financial services, manufacturing, and healthcare sectors.

Access to capital is a major hurdle for SMEs in East Africa, and many businesses require strategic input as well as growth capital to reach the next stage of institutionalisation. Given the prevalence of the informal sector, the creation of formal jobs is of particular importance in this region. Formal jobs ensure better working conditions for employees, as well as social and medical insurance benefits, and increase government revenues through tax receipts. Operating in a challenging business environment, Catalyst II adds value to its portfolio companies by working alongside management to ensure implementation of best practice reporting, governance, health, safety, and other social and environmental standards. With an investment of USD 8 million in Catalyst Fund II, SIFEM will contribute to foster economic growth, support sustainable job creation, and promote the integration of the target countries into the world economy.



ABRAAJ GLOBAL CREDIT FUND

(USD 10 million committed)

AGCF is the first global emerging markets fund offering private debt to middle-sized and growth-oriented companies in emerging markets and developing countries. It is a generalist fund investing globally with a focus on industrial sectors, infrastructure (transport, energy), logistics, and communication.

Gaining access to finance is a challenge even for mid-sized companies in developing countries, where foreign and local banks prefer to take less risks and therefore extend fewer loans. The Fund aims to bridge this gap and contribute to financial sector innovation and deepening. In addition, the creation of formalized jobs leads to better working conditions, including social and medical insurance benefits, as well as increased government revenues through tax contributions. With its investment of USD 10 million in AGCF, SIFEM supports the provision of finance to growth-oriented companies that drive resource efficiency and adhere to international sustainability standards in emerging markets and developing countries.

This fund is currently under legal restructuring.

MAGHREB PRIVATE EQUITY FUND IV

(EUR 10 million committed)

MPEF IV is a private equity fund investing in SMEs and mid-market companies in North Africa (including Tunisia, Egypt, Morocco, and Algeria). The Fund's strategy focuses on companies that are well-established in their local markets and that have the potential to scale up their activities at the regional level. MPEF IV targets a range of sectors, including IT and telecoms, fast-moving consumer goods, healthcare, education, logistics, or agribusiness, with a preference for companies focused on export growth.
The North Africa region is still recovering from the impact of the Arab Spring: private investors continue to be reluctant to invest. North Africa's economies have not grown fast enough to create sufficient jobs, and whilst governments can provide an enabling environment, the largest motor of job creation is the private sector, specifically SMEs and mid-market enterprises. SIFEM's investment of EUR 10 million in MPEF IV contributes to expanding the private sector and generating employment, a key element to contain social tensions, political unrest, and migration pressure.

CAPSQUARE ASIA PARTNERS FUND II

(USD 10 million committed)

Capsquare II invests in SMEs and fast-growing companies in Indonesia with a focus on consumer-driven sectors such as fast-moving consumer goods, food and beverages, healthcare, and education. Each of the invested companies benefits from the full-time support and operational experience of Capsquare via the Fund's control-ownership approach.
Indonesia's economy has expanded strongly over recent decades. However, nearly 100 million Indonesians still live on less than USD 3 per day and the informal sector accounts for an estimated 50 per cent of employment. Via its control-ownership approach, the Fund makes a significant contribution to strengthening and professionalising companies in order to unlock growth, productivity, and gains in profitability. This includes bringing the companies in line with international environmental, social, and corporate governance standards. SIFEM's investment of USD 10 million therefore contributes to the diffusion of best practices in Indonesia and supports the creation of decent and formal employment opportunities and the generation of tax revenues for the local government.

AMRET

(USD 8.4 million senior loan)

Amret was founded as an NGO in 1991 and became a licensed Microfinance Institution (MFI) in 2001. With 400,000 clients across Cambodia, Amret's mission is to strengthen financial inclusion for low-income households and to support the development of micro, small and medium-sized enterprises (MSMEs), especially in rural areas. More than 70 per cent of Amret's loan portfolio are microloans, and between 30 and 40 per cent are for agricultural purposes. More than 70 per cent of its borrowers are women. Financial inclusion in Cambodia is low, with only 22 per cent of the adult population having a bank account. In addition, MSMEs, which generate much of Cambodia's economic output and employment, still have difficulty in accessing finance, hindering their competitiveness and capacity to develop. Amret's large geographical coverage allows outreach to clients in more remote and underserved areas and makes it a driver for broader financial inclusion in Cambodia. In line with its mission, Amret offers training programs for clients on essential topics such as agriculture, financial literacy, and basic healthcare. SIFEM's USD 8.4 million loan is part of a syndicated transaction led by FMO.

GROWTH CATALYST PARTNERS (LOK III)

(USD 8 million committed)

Since its creation, Lok's mission has been to support India's underprivileged and underserved populations, including those in rural and remote areas, via investments in SMEs focused on financial inclusion. Lok III is a continuation of this mission and core investment theme, with an expanded focus to also include the affordable healthcare, and, agribusiness sectors.

India is home to 21 per cent of the world's unbanked adults. Increased formal financing of small-scale financial institutions is needed for India's fundamental long-term growth. Financial institutions targeted by Lok III range from Non-Bank Financial Companies (financial institutions which do not have a full banking license, and cannot take deposits, but which can facilitate other financial services) to Small Finance Banks (which can also take deposits), as well as other companies in the financial inclusion sector such as speciality financing or digital finance. Support for these innovative companies targeting inclusion naturally allows greater outreach to the previously unserved and underserved population.

Lok III also targets innovative companies focused on creating access to affordable and high-quality healthcare products and services. Only 20 per cent of the Indian population is covered by a health insurance, with the affordability of healthcare services being a critical issue for the majority of the remaining 80 per cent. The Fund's financing supports access in underserved regions to high-quality affordable clinical services and healthcare-related financial services such as savings or insurance-related platforms. With its investment of USD 8m in GCP, SIFEM supports an investment that targets the high impact sectors of financial inclusion, healthcare and agribusiness in India.

BANCO IMPROSA

(USD 12 million senior loan)

Banco Improsa, founded in 1986, has established a strong presence in Costa Rica with 13 branch offices serving approximately 2,000 borrowers and 5,000 depositors. It is the second largest SME bank in Costa Rica, with 69 per cent of its loan portfolio allocated to SMEs. In addition, the Bank offers a loan product targeting microentrepreneurs, which are underserved by financial institutions.

MSMEs account for 93 per cent of businesses in Costa Rica, half of which are considered to be underserved. This lack of capital not only prevents their growth, but also contributes to Costa Rica's average unemployment rate of almost 10 per cent, which increases to more than 25 per cent for the youth and lower-income populations. Banco Improsa offers SMEs long-term financing, which is the scarcest and most-needed type of financing. The Bank therefore contributes to the creation of secure and formalized employment opportunities. SIFEM's loan of USD 12 million is earmarked for MSME clients and contributes to broad-based and long-term private sector growth in Costa Rica.

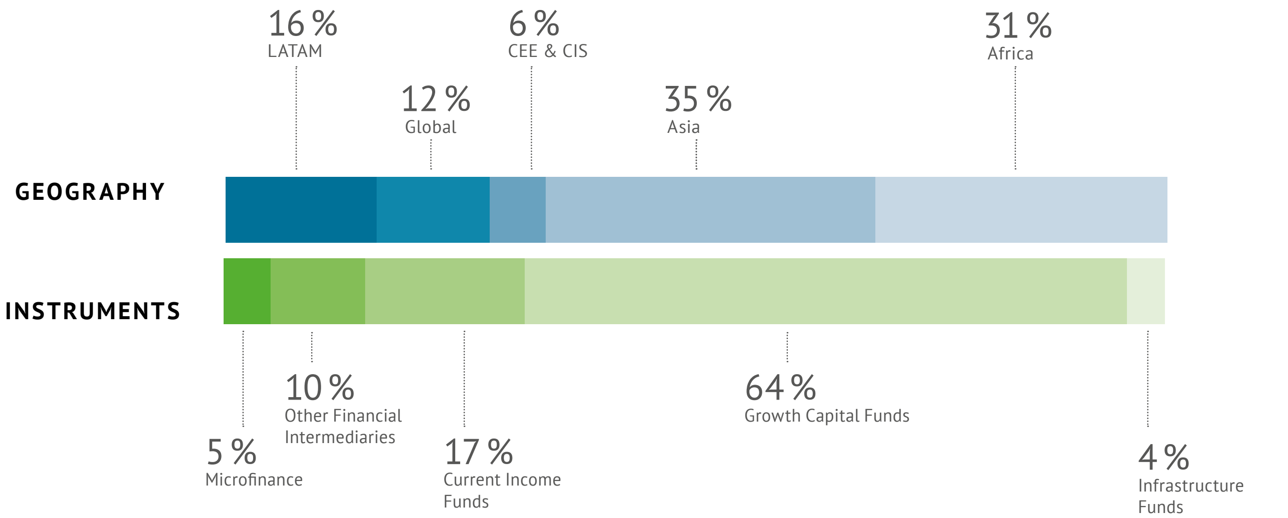
INDOSURYA INTI FINANCE

(USD 12 million senior loan)

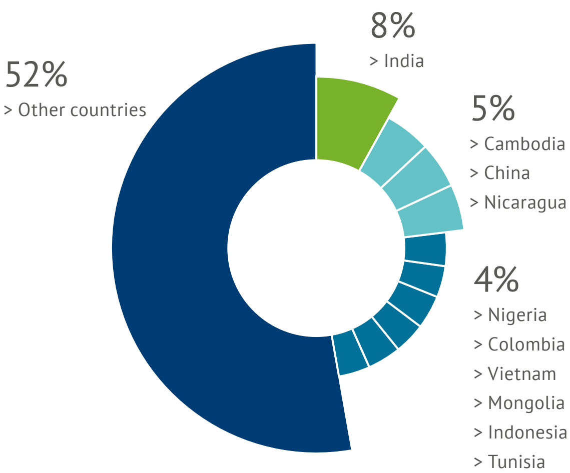
PT Indosurya Inti Finance (Indosurya) provides financing solutions for SMEs and individuals in Indonesia. Indosurya serves almost 2,000 clients via 70 branch offices and points of sale across Java, Bali and Sumatra, the main hubs of economic activity in Indonesia. Its offer to SMEs includes working capital and investment loans, as well as loans for property. It further offers microcredit solutions for personal or business use.

Like many developing countries, Indonesia is faced with the problem of the "missing middle". Financial institutions focus mainly on catering to the needs of the largest and smallest businesses, while SMEs "in the middle" struggle to access finance. This lack of access, in turn, prevents SMEs from growing and creating jobs. In Indonesia, SMEs, together with micro-enterprises, account for 99 per cent of total enterprises, and employ nearly 90 per cent of the total workforce. Indosurya plays a critical role in serving unbanked SME clients with the finance necessary to grow and thrive. SIFEM's USD 12 million loan is part of a syndicated transaction led by the IFC, with other DFIs participating. The loan will increase the availability of capital dedicated to SMEs and further increase the access to finance for the underserved. By helping to drive investments in Indonesia's SME sector, the transaction contributes to broad-based and long-term private sector growth.

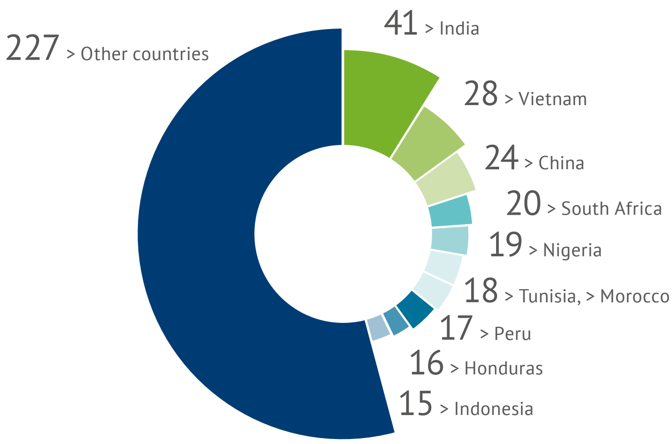
PORTFOLIO OVERVIEW



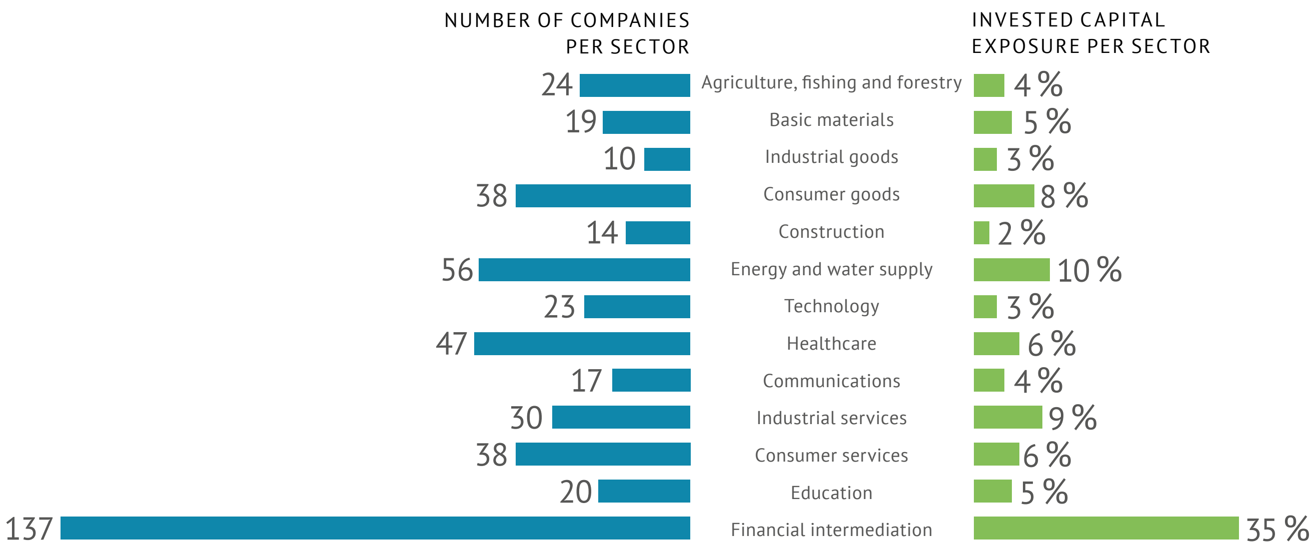
LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL



LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES



INVESTED PER SECTOR



2017 FINANCIAL HIGHLIGHTS

	2017	2016
OPERATIONAL HIGHLIGHTS in USDm		
Commitments and cash flows		
Total commitments made to date	899.4	793.1
Total active commitments	757.1	687.5
Uncalled commitments	258.5	203.9
Cumulative paid-in capital to date	647.9	610.3
Cumulative reflows received to date	483.9	443.0
Cumulative net cash flow to date	−164.0	−167.3
New investment commitments	87.4	91.9
Reflows from investments	40.9	46.0
Investment Portfolio Valuation		
Residual value	377.0	335.6
Internal Rate of Return (%)	7.44 %	6.97 %
Total Value over Paid-In (%)	133 %	128 %
Private finance mobilised		
Total private investor commitments advised by Obviam	123.5	116.0
New co-investments from private investors	7.8	20.8
FINANCIAL STATEMENT HIGHLIGHTS in CHFm		
Annual Results		
Investment profit (loss)	45.0	12.4
Operating result	36.7	5.9
Total comprehensive income	7.8	12.0
Balance Sheet		
Balance sheet total	623.7	622.3
Cash and cash equivalents	233.5	248.4
Uncommitted capital	−18.4	41.1
Financial assets	367.4	341.1
Long-term liabilities	368.2	364.6
Shareholder's equity	237.7	230.0
Equity ratio (%)	38.1 %	37.0 %

USD 87.4 m
NEW INVESTEMENT COMMITMENTS

CHF 36.7 m
OPERATING RESULT

Note: Operational highlights are presented in USD, the functional (base) currency in which SIFEM's accounts are held. The Financial Statements are translated into the presentation currency CHF for reporting purposes. Annual result and balance sheet figures per IFRS account; investment portfolio valuation based on rolled-forward data as of 30 September 2017.

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GLOSSARY

Investment partners: other DFIs or private investors investing in local funds together with SIFEM

Local fund manager: Management team of local funds in which SIFEM has invested

Portfolio companies: local SMEs and other fast growing companies which were provided long-term financing by a fund

Underlying portfolio: totality of portfolio companies