



**MICROVEST**  
PURPOSEFUL INVESTING

# PURPOSEFUL INVESTING

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# MEASURABLE IMPACT

2019 Impact Report





## The Need

- Approximately 1.7 billion adults<sup>1</sup> lack access to basic financial services worldwide – 56% of whom are women.
- There is a \$5.2 trillion<sup>2</sup> funding gap to small businesses in developing economies.

These small businesses are the primary drivers of job creation in emerging markets, representing approximately 45% of employment and 33% of GDP<sup>3</sup>.

## The Threat

- Lack of financing is a barrier to the formation and growth of many small businesses in emerging markets.
- Un- and underbanked borrowers may turn to loan sharks within the financial sector that are unregulated and predatory.

This can contribute to borrower over-indebtedness and may threaten the stability of a country's financial sector through high delinquencies and non-performing loans.

## The Solution

- Identifying and investing in Responsible Financial Institutions or "RFIs" supports and promotes ethical lending practices in un- and underbanked communities.
- Financial inclusion for small businesses directs loan proceeds to growth initiatives.

This can translate to job creation and increased incomes for micro-entrepreneurs. Earning an income means being able to afford basic necessities like food, shelter, education and healthcare.





# LETTER FROM THE CEO

At a high level, every report that MicroVest has ever produced has been an impact report. We were founded on two simple impact principles. The first is that rigorous impact screens unlock hidden productivity. We believe that most investors miss these opportunities, and a methodology that unlocks them will directly result in risk-adjusted returns and lower correlation. The second founding principle is that great returns lead to scale. Without scale, impact investing would severely under optimize its potential. We continue to demonstrate that we are earning risk-adjusted returns for our investors specifically **because** of our impact principles and social due diligence **not despite** our impact screens.

Over the intervening 16 years, we have continued to refine how we measure the **four pillars of our impact: Impact Leadership, Institution Building, Financial Inclusion, and Financial Health**. We strive to lead the impact sector by example and thus took on a number of important initiatives in 2019 that support this four-pillar framework. First, we thought it was important to codify the blended nature of our firm's impact and financial objectives. Most firms begin with a first step of becoming a B-Corps. Our Board supported our recommendation that we begin first by converting our holding company to a Delaware statutory public benefit limited liability company. (This innovative for-profit corporate form, enacted in Delaware in 2018, is intended to produce a public benefit and to operate in a responsible and sustainable manner). Transforming our parent company in this way will codify our social impact mission in the charter of MicroVest going forward, making sure we will be free to balance financial and impact returns.

In Spring 2019, MicroVest joined 59 other leading asset owners, asset managers and key market participants as one of the first signatories of the International Finance Corporation's (IFC's) Operating Principles for Impact Management. Our adoption of the IFC's Principles underlines our belief in a common market standard that provides greater transparency, credibility, and discipline to impact investments. Furthermore, we believe that the development of these Principles represents a significant advancement toward managing and measuring the impact that can help us better achieve the UN Sustainable Development Goals (UN SDGs) that underpin these initiatives.

In parallel with this work, we recently reviewed and added to our internal social impact assessment methodology by adopting the ALINUS (Aligning Investors Due Diligence with Universal Standards) tool, which will help us standardize our measurement of a portfolio company's social performance across the following dimensions: monitoring of social goals, commitment to those goals, availability of products that meet clients' needs, fair treatment of customers, fair treatment of employees, the balance of social and financial performance, and green microfinance.

At MicroVest, we strive to promote financial inclusion for un- and underbanked communities in developing economies while seeking to provide our investors with measurable impact and meaningful returns. To that end, MicroVest's progress this year moves in tandem with a maturing impact market, and we are proud of the work we continue to do to help fill a small segment of the \$5.2 trillion<sup>2</sup> funding gap that exists for small businesses in developing economies.

Sincerely,

**GIL CRAWFORD**

Chief Executive Officer

# MICROVEST'S IMPACT INVESTING FRAMEWORK

MicroVest's Impact Investing Framework is built around **four pillars**. These pillars serve as our foundation for responsibly and effectively creating measurable positive social impact. In this report, we present MicroVest's 2019 impact results for each of these four pillars.



Direct Impact

## FOUR PILLARS



### IMPACT INVESTING LEADERSHIP

Commercial investment products enable capital flow to Responsible Financial Institutions or "RFIs".



### INSTITUTION BUILDING

Scaling RFIs deepens financial sector development and fuels economic growth.



Indirect Impact



### FINANCIAL INCLUSION

Underbanked communities gain access to quality financial services.



### FINANCIAL HEALTH

People can better manage their finances and build financial resiliency.





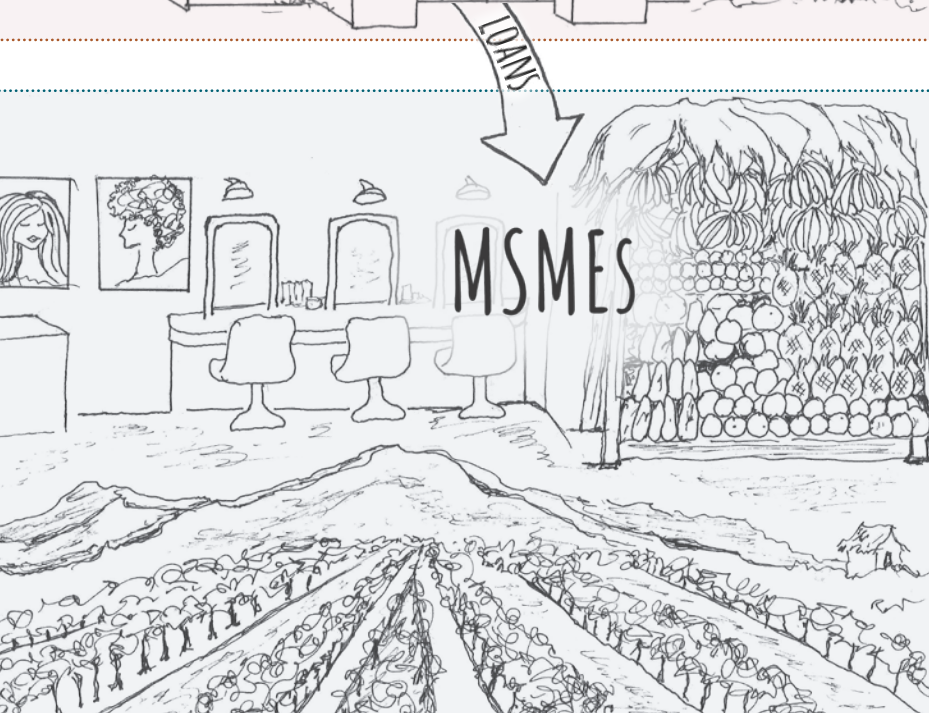
# MICROVEST INVESTS IN

**RFIs** play a **critical role** in how we create **measurable** and positive **social impact** in developing economies.



## SELECTING AND SUPPORTING ONLY THE BEST RFIs IS GOOD BUSINESS

MicroVest only works with RFIs that pass its due diligence process which assesses the strengths of an institution under a **"3C" analysis framework: Country** (macroeconomic and political risk); **Character** (commitment to financial sustainability, good governance, legal compliance and ethical treatment towards end-borrowers) and **Credit** (financial performance). We believe that financially sound institutions that adopt responsible lending practices are best positioned to facilitate productivity gains that spur economic growth and higher yields.



## UNLOCKING A COMMUNITY'S ECONOMIC GROWTH POTENTIAL

Providing micro, small and medium enterprises (MSMEs) with access to financial products and services can have a profound impact on economic growth. As business needs are financed, productivity rises and MSMEs begin to contribute valuable goods, services and jobs to the local economy. As a result, members of the community become wage earners and business owners. As financial inclusion spreads across the community, it further develops and deepens the financial sector.



# IMPACT INVESTING LEADERSHIP

## PURPOSEFUL INVESTING

MicroVest specializes in creating and managing investment vehicles that are designed to help institutional investors access innovative RFI's that most would otherwise not be able to invest in directly. MicroVest's 16-year track record of investing in this market segment puts us in a unique position to identify the right institutions to scale and provide leadership and guidance around best practices as the industry evolves.

## BRIDGING THE FUNDING GAP

It is estimated that almost a quarter of the world's population (approximately 1.7 billion<sup>1</sup> people) lack access to basic financial services globally. At the same time, there is a \$5.2 trillion<sup>2</sup> funding gap to micro, small and medium enterprises (MSMEs) – businesses that are significant contributors to GDP and local employment. To bridge this financing gap and expand access to financial services, MicroVest raises private capital through its funds and invests in RFI's. By investing in these institutions, we are actively building a scalable and sustainable system that enables capital to flow to where it is critically needed.

## SCALING SOLUTIONS FOR THE "MISSING MIDDLE"

Within the impact investing industry, much focus is placed on new, untested innovations. This results in a lack of sustainable investment opportunities in the private capital markets that are large enough and mature enough to attract institutional investors. To help close this opportunity gap, MicroVest develops and leverages impact investing vehicles that offer institutional investors scalable funds that create direct, quantifiable impact with risk-adjusted returns.

MicroVest has a **16-year** track record of investing in RFI's in emerging and frontier markets.

Since 2003, we've disbursed more than **\$1 billion** to over **200 RFI's** in over **60 countries**.



## PARTNERING WITH IMPACT LEADERS AND PROGRESSIVE INITIATIVES

MicroVest is a proud participant and signatory of a number of impact investment-focused initiatives that support the growth and professionalization of the industry around the world. Throughout our 16-year history, we have sought to build strong partnerships and lead dialogue around impact measurement, benchmarking and transparency to sustainably grow the base of capital that seeks to advance social and environmental priorities while achieving financial returns.

### MicroVest is a proud signatory of:

Signatory of:



### MicroVest is a voluntary member of:



### MicroVest endorses:



### MicroVest is the proud recipient of the following industry recognition and awards:



### MicroVest's funds are aligned with six of the UN Sustainable Development Goals:



\* MicroVest's status as a signatory to the IFC's Operating Principles for Impact Management applies to all funds that are open for investment.

\*\* MicroVest is a signatory to the SMART Campaign's Principles for Consumer Protection.



## MEASURABLE IMPACT

**2019 Impact**  
as of September 30, 2019

**\$340m**  
Assets Under Management

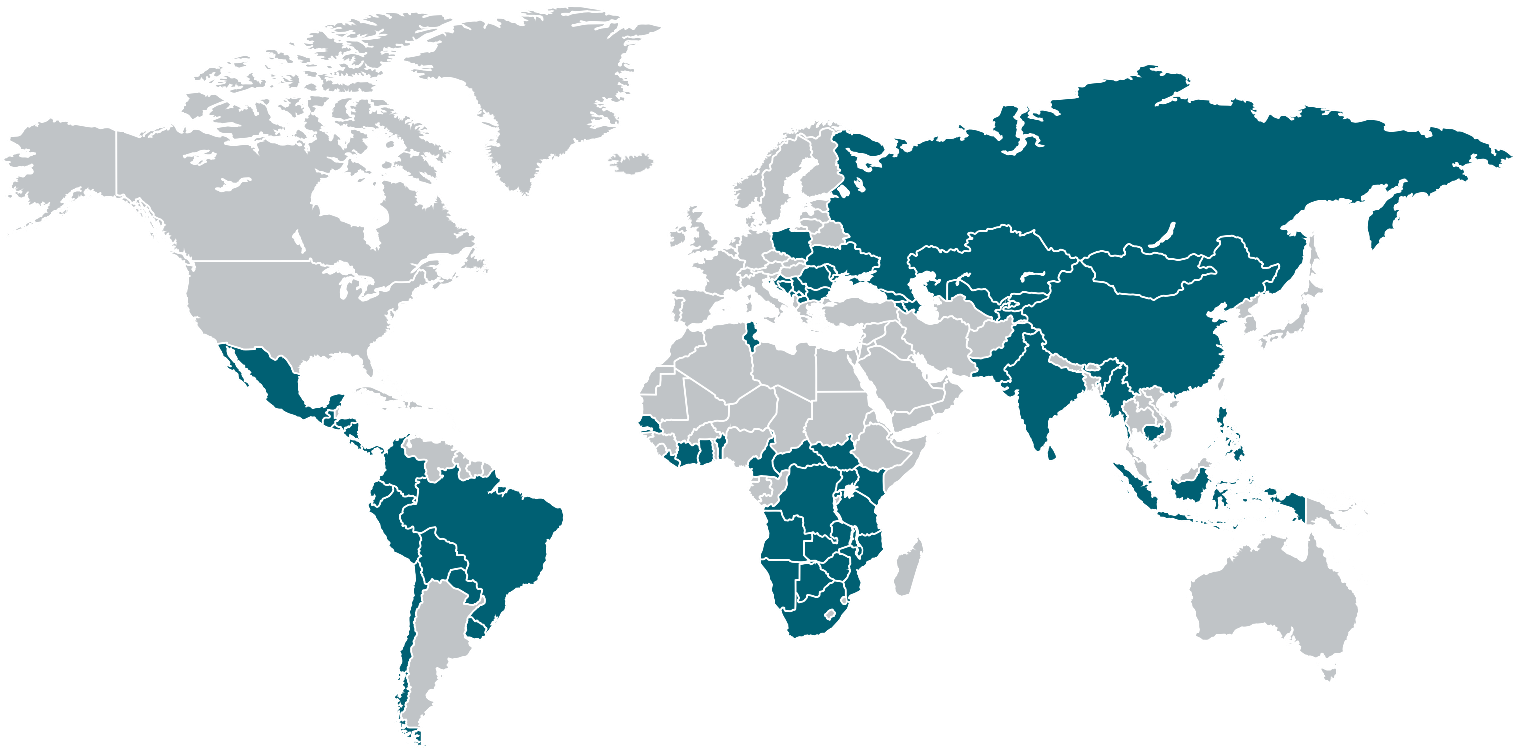
**74**  
Institutions Financed

**32**  
Countries Invested



# MORE THAN \$1 BILLION DISBURSED TO OVER 200 RFIs IN 60+ COUNTRIES SINCE INCEPTION

The list of countries in the illustration reflect countries that MicroVest has invested insince inception, as well as countries where MicroVest's investments in holding companies had branches/operated in.





A photograph of an elderly woman sitting on a stone floor, weaving a large, conical woven basket. She is wearing a white shirt and dark pants. In the background, numerous other similar woven baskets are hanging from the ceiling and leaning against the wall, creating a sense of a traditional craft workshop or storage area. The lighting is warm and natural, highlighting the textures of the woven baskets and the woman's hands.

## Scaling Impact Responsibly

Successfully scaling impact investing is much more than raising capital. While that is a starting point, it is not sufficient to ensure that a healthy, vibrant and ethical financial sector can meet trillions in demand from small businesses and micro-entrepreneurs. We identify financial institutions that can scale with integrity by screening for social responsibility and impact potential as rigorously as we would evaluate financial potential. As RFIs expand their loan portfolios and refine their processes, management and governance, they can more sustainably fill the void between the traditional financial sector and loan sharks.





# INSTITUTION BUILDING

## PURPOSEFUL INVESTING

MicroVest supports institution building by providing capital to RFIs, enabling them to grow, deepening the financial sector, and contributing to economic growth. We promote inclusive growth and industry transparency by carefully financing only RFIs that have strong governance practices, dedicated management teams and a demonstrated track record of commitment to client well-being. MicroVest's multi-stage due diligence process ensures a deep understanding of an institution's business model, commitment to its mission and underlying credit risk factors.

## COMBINING TOP-DOWN, BOTTOM-UP DUE DILIGENCE

MicroVest's 3C due diligence framework of Country, Character, and Credit guides much of our initial assessment of a financial institution before it enters the portfolio. While our investment and risk teams carefully assess operating and financial history, as well as country, macroeconomic, credit, and political risks, our Character underwriting helps us identify financial institutions that demonstrate a commitment to the communities they serve, which in turn, results in a more responsible and scalable portfolio.



## ONGOING MONITORING TO UNCOVER POTENTIAL RISKS AND OPPORTUNITIES

MicroVest's investment, risk, and portfolio teams closely monitor our RFIs to gain early visibility into potential financial, country or social changes so that they may be proactively addressed. Quarterly operating and impact metrics for each RFI are also captured, analyzed, and reported.

### MicroVest's Ongoing Portfolio Monitoring Process

#### Monthly Watch List Review

Assess and monitor covenant breaches and discuss risk trends or concerns.



#### Quarterly Review

Update credit risk scores for each RFI in the portfolio.  
Validate credit risk scores to assess credit changes and valuations.  
Portfolio -level risk review assesses current level and trends related to credit and country risk.



#### Semi-Annual Review

Updated sovereign risk scores help us set internal country exposure guidelines for fund diversification.



#### Annual Review

Visit each portfolio company on site, typically once every 12 to 18 months.





## KOMPANION BANK Kyrgyzstan

Originally formed in 2004 when five Mercy Corps-affiliated microcredit agencies were consolidated in the Kyrgyz Republic, Kompanion Bank was able to grow its client base from 8,700 to more than 100,000 in 2019 with a footprint that has spread to nearly every major city and village in Kyrgyzstan. As one of the first microfinance institutions in the country, Kompanion boasts one of the widest branch networks, a well-known brand, and a loyal customer base. MicroVest disbursed its first loan to Kompanion in 2006 and became one of its first international lenders.

In 2015, following the footsteps of several other microfinance institutions, Kompanion embarked upon its transformation into a bank and finally obtained its banking license in January 2016. In a country that continues to be one of the only democracies in Central Asia with an established rule of law, the Central Bank is very focused on consumer protection and on promoting a vibrant business climate.

### Social Impact Metrics:

**1,131** Permanent Employees  
**100,032** Active Borrowers  
**64%** Female Borrowers  
**62%** Rural Borrowers  
**200,180** Savers/Depositors



## MEASURABLE IMPACT

### 2019 Impact

as of June 30, 2019



**\$670m**

**23%**

Average  
Gross Loan  
Portfolio

Average  
Gross Loan  
Portfolio  
Growth



**10%**

**80k**

Average  
Operating  
Expense Ratio

Permanent  
Employees



**29%**

**19%**

Female Senior  
Management

Female Board  
Members

All figures are portfolio level statistics based on self-reported data by MicroVest portfolio companies as of 6/30/2019. The data reflects the aggregate weighted averages, total, or percentage of MicroVest's portfolio of reporting RFIs and does not reflect MicroVest's actual investment in the RFIs.



# FINANCIAL INCLUSION

## PURPOSEFUL INVESTING

By lending to responsible, well-run financial institutions, MicroVest provides the capital that institutions need to grow and in turn, serve more MSME borrowers previously excluded from and/or otherwise unable to access credit through the formal financial system.

## BANKING REFUGEES TO FOSTER INDEPENDENCE

Given MicroVest's focus on emerging economies, we sometimes find ourselves in regions with refugee populations. Displaced refugees struggle to live independently and thrive in a new community. With no established credit or networks, it can be difficult for them to qualify for financing. A few of our portfolio companies offer financial products for refugees.



*Space allocated to UGAFODE by OPM at Nakivale Refugee Settlement in Insingiro District to establish a mini branch, which is expected to become operational in January 2020 and will be the first of its kind in the over 32 refugee settlements in Uganda.*

One of MicroVest's RFI, **UGAFODE Microfinance Limited** built partnerships with stakeholders in the refugee space to promote financial inclusion for both rural and urban refugees, and has seen repayment rates of 100%. Key among UGAFODE's refugee banking partnerships is one with the Office of the Prime Minister (OPM), in charge of verification relating to Know Your Customer (KYC) requirements before refugees can access products and services offered by banking institutions. Others include InterAid Uganda, which implements livelihood programs that equip refugees with business skills like tailoring and shoe-making. Another is with KIVA, who is helping to minimize the risk on the loan products. UGAFODE Microfinance Limited also provides savings and loan programs for the refugees to boost their businesses and achieve financial inclusion.



## INCREASING PRODUCTIVITY THROUGH LEASING PRODUCTS

### MR. SOK LAY

Client of i-Finance Leasing



Mr. Lay works at a small trading company in Phnom Penh. Prior to leasing his new Honda Click from i-Finance to commute to work and meet his customers, Mr. Lay rode an old motorbike that required frequent visits to the repair shop and often resulted in him being late for work. With his new motorbike lease from i-Finance, Mr. Lay is now able to be punctual at work and spend less time at the repair shop. His fuel expenditure has also decreased. His monthly salary of \$650 makes his motorbike lease payment of \$107 per month affordable for him.

**i-Finance Leasing** is an independent financial institution that provides modern banking and leasing services to Cambodians. In 2017, MicroVest became i-Finance's first institutional lender with a \$1 million loan, which helped diversify the portfolio beyond traditional MFIs and banks.

## SUPPORTING WOMEN THROUGH INVESTMENT

Facilitating gender equality can be a powerful catalyst for societal and economic transformation. Studies show that female borrowers are more likely to invest in working capital for income generating activities, education and savings, and less likely to default. When reviewing an RFI, MicroVest evaluates the number of women on staff, senior management positions (including Board positions) held by women, which we ultimately believe strengthens our portfolio and leads to better financial results.



## MEASURABLE IMPACT

**2019 Impact**  
as of June 30, 2019



**10.8m**  
Active  
Borrowers

**\$4.2k**  
Average  
Loan Size for  
Microfinance  
Borrowers



**48%**  
Female  
Borrowers

**\$109k**  
Average Loan  
Size for SME  
Borrowers



**37%**  
Rural  
Borrowers

**80%**  
Productive  
Loans\*

\*Productive loans are those that go toward enterprises such as manufacturing and production, agriculture and livestock, commerce and trade, services, education, and renewable energy. Sectors that are excluded from MicroVest's classification of a productive loan include housing, consumer, and other sector loans.

All figures are portfolio level statistics based on self-reported data by MicroVest portfolio companies as of 6/30/2019. The data reflects the aggregate weighted averages, total, or percentage of MicroVest's portfolio of reporting RFIs and does not reflect MicroVest's actual investment in the RFIs.

# FACILITATING GENDER EQUALITY BY INVESTING IN WOMEN

When we facilitate financial inclusion, employment and leadership gaps narrow, economies, communities, firms and customers all reap benefits. However, according to the International Finance Corporation, the financing gap for female entrepreneurs stands at \$285 billion<sup>4</sup> while the labor force participation rate between men and women has barely narrowed. While these challenges have many dimensions, MicroVest believes that both financial institutions and their end borrowers can play a powerful role in addressing them. A gender-smart approach, especially when it includes women in senior leadership roles, helps firms become more productive and innovative while creating workplaces that attract and retain high quality employees. We believe that this ultimately shows up in key traditional measures of financial success like revenue growth and profitability.



**BINA ARTHA**  
Indonesia

Founded in 2011, Bina Artha offers working capital loans directly to women and to women-led micro, small, and medium-enterprises (MSMEs) in Indonesia. 98% percent of Bina Artha's clients are women in rural and semi-urban areas with daily gross incomes of up to \$8, slightly below Indonesia's estimated daily GDP per capita of about \$9. The majority of Bina Artha's targeted clients include households living with daily income per person of approximately \$2, slightly above the World Bank poverty line of \$1 per day. The typical female entrepreneur looks to Bina Artha for working capital loans of around \$150 for petty trade, food processing, small production and services (mostly transport). In 2017, the organization received its SMART certification, confirming its high standards of client protection and responsible lending.

Bina Artha continues to innovate around its financial products and in partnership with water.org, introduced a loan for group borrowers focused on water and sanitation in 2018; enabling its borrowers to access improved hygienic conditions by building and maintaining latrines at their residences and purchasing water filters.

## **Social Impact Metrics:**

**2,228** Permanent Employees  
**361,129** Active Borrowers  
**99%** Female Borrowers  
**80%** Rural Borrowers  
**329** Branches

The figures listed here are based on self-reported data provided to MicroVest by Bina Artha as of 6/30/2019.





## LOLC MYANMAR Myanmar

Originally founded in 2013 by the LOLC Group, LOLC Myanmar (LMM) built a market-leading position as a top five microfinance institution in Myanmar. MicroVest initially invested in LMM in 2016 because of Myanmar's sizeable population, nascent financial sector and backing from LOLC, which has steadily built its international presence across south and southeast Asia and recently launched operations in Africa. Since the beginning of the partnership, LMM was able to grow its loan portfolio nearly fivefold by expanding from group to individual loans, a process that saw LMM leverage its parent company's expertise in individual lending. In 2019, the organization received its Smart Campaign certification, an affirmation of LMM's commitment to responsible lending.

### Social Impact Metrics:

**739** Permanent Employees  
**149,332** Active Borrowers  
**93%** Female Borrowers  
**155,189** Savers/Depositors  
**58** Branches

The figures listed here are based on self-reported data provided to MicroVest by LOLC Myanmar as of 6/30/2019.

### A Focus on Women

In a country where financial inclusion remains low, LMM is focused on empowering women. 93% of LOLC Myanmar's clients are female and 76% of its staff members are women. Many women at the organization hold senior management positions, including their Head of Operations, Head of Internal Audit, Head of IT and Head of Human Resources. 71% of branch, area and regional managers are female, as well.



**Nilar Soe**, General Manager, LOLC Myanmar

LOLC Myanmar's General Manager, Nilar Soe, has over twenty years of microfinance operations and audit experience. She joined the company after seeing the potential for the institution to contribute to development in low income communities. Her decision to join LOLC was further enforced by the fact that a majority of the company's borrowers are women and tend to spend loan proceeds for the betterment of their families. She joined LOLC as Deputy General Manager, grew with the organization, and today manages the company's day-to-day operations. As she has gained autonomy in her role and greater decision-making authority, her leadership at the institution has helped her continue to grow professionally.





# FINANCIAL HEALTH

## PURPOSEFUL INVESTING

Financial inclusion is the gateway to financial health. According to the Center for Financial Services Innovation (CFSI), financial health is achieved when individuals can effectively manage their day-to-day finances, build financial resilience to weather shocks and pursue financial goals.

MicroVest strives to create an ecosystem in which access to financial tools translates to improved outcomes. By identifying and financing responsible institutions that share this end-goal, MicroVest is helping to build a future where financial health is the norm.

Financial  
**inclusion** is  
the **gateway**  
to **financial**  
**health**.



**ESPOIR**  
Ecuador

Fundación ESPOIR is a private Ecuadorian NGO that offers financial services through credit groups (village banking) and individual credit methodologies. ESPOIR's borrowers, the majority of whom are low income female entrepreneurs, live in the country's semi-urban and rural areas. Village banking clients benefit from an educational program and a low cost (\$2.89 per month) insurance package that includes primary health care to their families (spouse and children under the age of 21), as well as life and credit insurance throughout the duration of the loan. Health care is provided through their own clinics (in Portoviejo, Manta and Quevedo) and network of health care providers, so that all clients can be served. In addition to these complementary services, ESPOIR has a fast (48 hour) turnaround time and a loyal client base of which 61% are unique to ESPOIR.

### **Social Impact Metrics:**

**371** Permanent Employees

**46,205** Active Borrowers

**76%** Female Borrowers

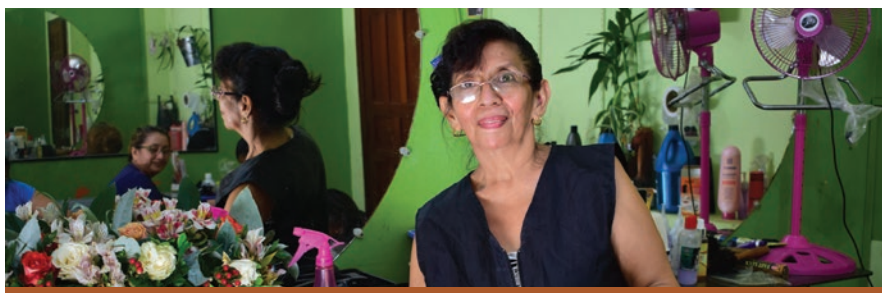
**75%** Rural Borrowers

The figures listed here are based on self-reported data provided to MicroVest by ESPOIR as of 6/30/2019.



**MRS. ZOILA BERMELLO**  
Client of ESPOIR, Ecuador

Eight years ago, Zoila Bermello owned just one fishing boat when she applied for her first loan with ESPOIR. With ESPOIR's financing, she was able to expand her business and now owns two additional fishing boats that she manages with the help of an assistant. She uses the additional cash flow to pay for her children's education, as well as various improvements to her family's household. She is also the beneficiary of the company's health screening activities and was fortunately able to detect breast cancer in the early stages due to ESPOIR's health education initiative.



**MRS. MARIA ELENA MENDEZ**  
Client of ESPOIR, Ecuador

In addition to using a loan from ESPOIR to grow her business and improve her home, Ms. Mendez was able to detect cancer on time, thanks to preventative health education sessions provided by ESPOIR.



## MEASURABLE IMPACT

**2019 Impact**  
as of June 30, 2019



**41%**  
Deposit-taking  
Institutions

**7.8m**  
Savers/  
Depositors



**1%**  
Average TTM  
Write-off Rate

**8%**  
Non-Performing  
Loans  
>30 and  
Restructured  
Loans/Gross  
Loan Portfolio



All figures are portfolio level statistics based on self-reported data by MicroVest portfolio companies as of 6/30/2019. The data reflects the aggregate weighted averages, total, or percentage of MicroVest's portfolio of reporting RFIs and does not reflect MicroVest's actual investment in the RFIs.





# IFC'S OPERATING PRINCIPLES FOR IMPACT MANAGEMENT

In 2019, MicroVest joined 59 other global investment firms as one of the first signatories and early adopters of the International Finance Corporation's (IFC) Operating Principles for Impact Management. The Principles represent a common market standard that seeks to provide greater transparency, credibility and discipline to the impact investment management industry. Furthermore, the Principles mark a significant advancement toward managing and measuring impact so that our industry can better contribute to achieving the sustainable development goals that encompass many of the social and environmental objectives that impact investing aims to advance.

## IFC PRINCIPLE 1

### **Our strategic impact objective and investment strategy**

MicroVest seeks to promote financial inclusion for un- and underbanked communities in emerging markets. We invest directly in RFIs, usually microfinance institutions and SME financial institutions that exhibit commitment to social impact and focus on providing credit and other financial products to populations that struggle to access the formal financial system.

## IFC PRINCIPLE 2

### **Our management of strategic impact**

Financial institutions that receive an investment from MicroVest commit to providing financial, operational and social impact data on a quarterly basis. This data gives MicroVest visibility into the number and types of end borrowers our client RFIs reach.

## IFC PRINCIPLE 3

### **Our contribution to the achievement of impact**

MicroVest provides RFIs with the raw material that they need to extend credit to MSMEs that have productive uses for capital. When MSMEs grow, the result is typically job creation and improved livelihoods for individuals and communities in emerging markets.

## IFC PRINCIPLE 4

### **Our assessment of each investment's expected impact**

While not an ex-ante prediction, MicroVest's social impact score helps us form initial expectations around the social impact potential of an RFI and understand how its success could contribute to generating impact at the systemic level. Ultimately, the end borrowers of an RFI that MicroVest backs experience the intended impact when they can improve their economic prospects.

## IFC PRINCIPLE 5

### **Our approach to managing and monitoring potential negative impacts of our investments**

MicroVest's investment strategy targets RFIs that actively support the communities where they live and work and value ethical treatment of customers. Our social impact score identifies clients with strong potential while helping to screen out institutions that fail to uphold these values. Covenants on prohibited activities and practices also govern MicroVest's relationships with its own providers of debt capital.

#### IFC PRINCIPLE 6

##### **Our monitoring of each investment's progress toward the achievement of impact**

MicroVest collects many data points on loan portfolio growth and performance, and we believe that data on loan origination volume and end borrowers offers directional evidence in support of our social impact goals. Moreover, we pay close attention to borrower- and portfolio-level trends to understand why they are moving in a particular direction.

#### IFC PRINCIPLE 7

##### **The exit of investment with regard to its effect on sustained impact**

MicroVest's debt investments are structured to ensure full repayment within two to three years, at which point MicroVest has the option to extend a new loan.

#### IFC PRINCIPLE 8

##### **The documentation and review of decisions and processing around impact**

MicroVest's due diligence materials estimate how an RFI's loan portfolio will grow and thus contribute to closing the financial inclusion gap. Our due diligence also reflects our assessment of an RFI's character and our social impact score. All of these factors are continuously assessed as portfolio companies report results.

#### IFC PRINCIPLE 9

##### **Public disclosure of alignment with Principles**

MicroVest's disclosure to the IFC Operating Principles is publicly available on MicroVest's website.

The information contained here has not been verified or endorsed by International Finance Corporation, the World Bank or any member of the World Bank Group or the Secretariat or Advisory Board. All statements and/or opinions expressed in these materials are solely the responsibility of MicroVest and do not reflect the opinion of International Finance Corporation, the World Bank or any member of the World Bank Group. None of International Finance Corporation, the World Bank or any member of the World Bank Group shall be responsible for any loss, claim or liability that the person or entity publishing this statement or its investors, Affiliates (as defined hereafter), advisers, employees or agents, or any other third party, may suffer or incur in relation to this information or the impact investing principles to which it relates. For purposes hereof, "Affiliate" shall mean any individual, entity or other enterprise or organization controlling, controlled by, or under common control with the Signatory.



# 2019 IMPACT RESULTS AT A GLANCE

The following metrics are based on self-reported data from MicroVest portfolio companies as of 6/30/2019. Average portfolio company statistics for June 2019 are weighted by portfolio exposure at cost as of 6/30/2019 and exclude any company that did not report the metric.

	13-DEC	14-DEC	15-DEC	16-DEC	17-DEC	18-DEC	19-JUN
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## IMPACT INVESTING LEADERSHIP

Number of Institutions Financed	71	89	85	86	80	77	76
Microfinance						49%	51%
SME Finance						44%	39%
Alternative*						6%	9%
Number of Countries**	38	39	35	40	37	34	34
Assets Under Management (millions)	239	286	407	425	385	343	340



## INSTITUTION BUILDING

Gross Loan Portfolio	297,217,662	241,422,301	283,603,398	414,839,861	420,305,322	618,025,279	670,466,181
Annual Portfolio Growth	32%	27%	26%	26%	32%	36%	23%
Portfolio Yield (YTD annualized)	28%	25%	24%	25%	26%	25%	22%
Operating Expense Ratio	18%	16%	13%	13%	14%	12%	10%
Permanent Employees					75,438	67,547	80,262
Loan Officers Employed					33,775	31,488	36,968
% of Female Senior Management***							29%
% of Female Board Members***							19%
Total Number of Branches					5,679	4,809	5,452



## FINANCIAL INCLUSION

Avg. # of Clients****							
Microfinance	192,954	221,441	332,715	374,243	409,851	379,827	370,137
SME Finance	186,351	153,087	138,834	174,001	106,403	27,134	49,392
Alternative						N/A	5,721
Avg. Loan Size (US\$)							
Microfinance	2,019	1,746	1,298	1,588	2,870	2,971	4,235
SME Finance	27,590	31,201	25,843	25,296	33,686	129,762	109,223
Alternative						N/A	16,263
Number of Loans Outstanding							
Microfinance					12,153,685	10,961,261	11,951,988
SME Finance					1,035,295	673,381	4,400,311
Alternative					N/A	N/A	10,932
Avg. Loan Size as % of Per Cap GDP							
Microfinance	58%	52%	48%	64%	77%	71%	97%
SME Finance	466%	1039%	605%	815%	1036%	1760%	1455%
Alternative						N/A	813%

	13-DEC	14-DEC	15-DEC	16-DEC	17-DEC	18-DEC	19-JUN
% Female Borrowers	52%	55%	62%	62%	59%	45%	48%
Microfinance	58%	60%	71%	71%	69%	66%	62%
SME Finance	12%	25%	20%	27%	27%	20%	28%
Alternative						N/A	N/A
% Productive Loans*****	79%	75%	73%	77%	80%	76%	80%
Microfinance	84%	79%	78%	78%	82%	81%	82%
SME Finance	47%	68%	64%	76%	74%	72%	76%
Alternative						N/A	100%
Number of Active Borrowers					12,565,881	9,558,303	10,798,681
Rural Borrowing Clients as a % of Total Clients					47%	37%	37%
Urban Borrowing Clients as a % of Total Clients					53%	63%	63%



## FINANCIAL HEALTH

Non-Performing Loans>30/Gross Loan Portfolio	4%	5%	5%	6%	5%	7%	8%
Non-Performing Loans>90/Gross Loan Portfolio*****						5%	5%
Write-offs/Average Gross Loan Portfolio (TTM)	2%	1%	2%	2%	2%	1%	1%
Deposit Taking (Y/N)	62%	53%	51%	56%	31%	40%	41%
Number of Savers (Depositors)					5,272,543	7,086,098	7,854,435

N/A indicates not enough companies reporting to provide a representative statistic.

\*Alternative includes education finance, housing finance, payment & remittance transfer providers and other RFIs

\*\*Includes "global" and "regional SSA" as individual countries.

\*\*\*As of 2019, MicroVest changed the methodology for collecting data on these metrics.

\*\*\*\*As of December 2018, the average number of clients represents the average number of active borrowers.

\*\*\*\*\*Productive loans are those that go toward enterprises such as manufacturing and production, agriculture and livestock, commerce and trade, services, education, and renewable energy. Sectors that are excluded from MicroVest's classification of a productive loan include housing, consumer, and other sector loans.

\*\*\*\*\*MicroVest began including this statistic in the Social Impact Report in December 2018.



# LOOKING AHEAD

## Insights from the CIO's Office



**JOHN BECKHAM**  
*Chief Investment Officer*

1

### RFIs – NOT STANDING STILL

For newcomers to financial inclusion, it can often seem like all the action is in the fintech start-up space; and there is a lot of action there that investors should examine. However, we also see established RFIs at the forefront of innovation built on a foundation of stable business and credit culture. A notable trend MicroVest has seen over the last year or so is that RFIs, fintechs and the markets they operate in are dynamic and interact in interesting ways. Many investors with experience in financial inclusion will note that what started out as an unorthodox, high-touch group lending model has exploded into technology-enabled and innovative financial service firms that still prioritize the financing, productivity and social impact found in traditionally neglected economic segments, such as MSMEs.

In most of the markets we invest, increasing the availability and affordability of financial services to MSMEs remains the only way to provide the necessary economic tools to rural and neglected communities. These new capacities are developed in-house, through partnerships or strategic acquisitions. We also have seen and expect to continue to see the emergence of new RFIs focused on SME financing, both at the community-level and globally.

We are keeping an eye on all these new developments so that our investors are tapped into the most innovative RFIs that invest in technology, new products and channels to increase their capacity to efficiently foster financial inclusion.

2

### UNCERTAIN ECONOMIC GROWTH YET CONTINUED DEMAND

As this is being written, the semi-annual World Bank and International Monetary Fund meetings are underway here in Washington, DC and economic trends are best summarized as “uncertain”. Trade wars, real and threatened, Brexit and election cycles are widely reported. However, the consequences of these developments are poorly understood.

Although no investment is immune from global macroeconomic and political developments, MicroVest continues to see a positive trend in the steady need and demand for investment from low correlation RFIs, especially for private debt. RFIs are an important participant in efforts to meet the \$5.2 trillion<sup>2</sup> funding gap to small businesses in developing economies.

At MicroVest, we have begun quantifying how that need manifests into demand that our investors can support. Over the years, we have built a portfolio of approximately 70 RFIs located across 30 countries, with growing balance sheets capable of absorbing and experiencing growth rates that require additional debt. Based on conservative growth rates, we estimate annual turnover of senior debt from our existing portfolio of investees to be \$5.5 billion. The overall demand could be as high as \$30 billion, especially as RFIs successfully innovate their service offerings to meet new segments inhabited by MSMEs.



## IMPACT MARKET MATURING

MicroVest believes the impact market has made tremendous advances, and we expect it to continue. The financial and economic press has increased reporting on impact investing and the responsibility investors increasingly want to exercise. The United States also passed the US Build Act, transforming OPIC into a USDFC, a true partner for investment aimed at real and responsible economic and social development. Financial products, such as CLOs, have come to market with clear impact goals, and traditional investors and management firms have taken stakes in or formed partnerships with European impact investment managers.

These developments positively indicate that investors increasingly want to know that their investments are making sustainable contributions to the common good. However, a market survey claims that investment labeled as impact carried little disclosure, monitoring or reporting. To develop sustainable impact investments, market transparency, monitoring and reporting are required. Without these features, cynicism on the viability of any investment measurement to complement return will prevail. At MicroVest, we remain a clear leader, advocate and investment manager providing clear, real and transparently-reported impact.



## MEANINGFUL IMPACT MEASUREMENT

Complementing developments in the investment market, MicroVest was a proud launch signatory to the IFC's Operating Principles for Impact Management. We fully endorse the move to better standards shared by a broader set of the market so that investors know in what they invest. As interest in impact investing grows among traditional investors, these clear standards will support the development of a better and honest marketplace.

Since its inception, MicroVest has always been an impact investor (even before the term was coined), adhering to the IFC's framework was natural and straightforward. More importantly, we have been pleased by the broad and growing array of investment market participants committing themselves to this industry initiative and look forward to seeing this progress unfold.

### ENDNOTES


1. World Bank Global Findex 2017: [https://globalindex.worldbank.org/sites/globalindex/files/2018-04/2017%20Findex%20full%20report\\_0.pdf](https://globalindex.worldbank.org/sites/globalindex/files/2018-04/2017%20Findex%20full%20report_0.pdf)
2. MSME Finance Gap (World Bank, IFC, SME Finance Forum): <https://www.smefinanceforum.org/sites/default/files/Data%20Sites%20downloads/MSME%20Report.pdf>
3. Two Trillion and Counting (IFC-McKinsey) 2010 [https://www.ifc.org/wps/wcm/connect/industry\\_ext\\_content/ifc\\_external\\_corporate\\_site/financial+institutions/resources/two+trillion+and+counting](https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/two+trillion+and+counting)
4. IFC Investing in Women: New Evidence for the Business Case: <https://www.ifc.org/wps/wcm/connect/ac8fca18-6586-48cc-bfba-832b41d6af68/IFC+Invest+in+Women+October+2017.pdf?MOD=AJPERES&CVID=IYLVAcA>





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A full-page background image showing a person in silhouette standing in a small boat on a body of water. The person is casting a large, white fishing net that is spread wide in the air. The scene is set at sunset, with the sun low on the horizon, creating a warm orange and yellow glow that reflects on the water. The sky is a mix of orange, yellow, and light blue.

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