ENVIRONMENTAL AND SOCIAL RESPONSIBILITY (ESR)

ANNUAL REPORT 2017

regmifA

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REGMIFA'S 2017 SOCIAL RETURN AT A GLANCE[1]

The Fund invested USD 34 million in 2017 across 28 transactions, ending the year with a net portfolio size of USD 109.5 million and reaching approximately 151,288 end-borrowers who:

- Are a majority women (54%)
- Reside primarily in urban areas (76%)
- Live in 22 different countries, and predominantly in Ghana (20%), Kenya (14%), Tanzania (11%) and Uganda (10%)
- Are running a micro, small, or medium sized enterprise (90%)
- Are active in trade (67%) and also services, agriculture, and production (24%)
- Received on average a USD 723 loan, representing 66% of GNI per capita on average
- Borrowed through both individual and group loans (61% and 39%, respectively)
- Repaid their loans on time in 90% of cases

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1 The majority of indicators in this report were calculated based on the Investment Manager's internal ESR standards. The IM's internal reporting standard at the portfolio level focuses on investment-weighted data.

1.0
SOCIAL MISSION, OBJECTIVES & STRATEGY

1.1 SOCIAL MISSION

REGMIFA's mission is to foster economic development in Sub-Saharan Africa by supporting financial institutions that serve micro, small, and medium sized enterprises (MSMEs). REGMIFA works to build unique public-private partnerships with public institutions, private investors, and African stakeholders to achieve its mission.

In pursuing its development goal, the Fund observes principles of sustainability and additionality, combining public mandate and market orientation.

1.2 IMPACT OBJECTIVES

Public Private Partnership

Develop inclusive financial systems by leveraging public funds as a risk cushion to attract significant private sector capital to SSA.

Foster economic development

Foster socio-economic development, employment creation, and income generation in countries where human development is low.

Sub-Saharan Africa

Access large numbers of poor and difficult-to-access countries in SSA through commercial investments.

Demand-oriented financing

Provide PLIs with a stable source of long-term, local currency financing coupled with Technical Assistance (TA) to build capacity and reduce the PLIs overall risk profiles.

Qualified PLIs

Invest in PLIs (including Tier 2 and Tier 3) that are operationally sound, lack access to capital and adopt best practices in the field of social performance and client protection.[2]

Serving MSMEs

Promote entrepreneurship and the MSME sector through the financing and strengthening of PLIs.

Additionality

Produce and catalyze positive changes in the MSME financing industry in SSA by playing a complementary role to the private sector.

Sustainability

Demonstrate to the general financial sector and investor community that MSME financing can be a sustainable investment in terms of social impact and commercial returns.

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2 Tier 1 institutions: PLIs with total assets above USD 30m; Tier 2 institutions: PLIs with total assets between USD 10m and USD 30m; Tier 3 institutions: PLIs with total assets below USD 10m.

1.3 ENVIRONMENTAL AND SOCIAL RESPONSIBILITY (ESR) STRATEGY

The Fund commits to its social mission and impact objectives through the active management of its social performance in line with its ESR strategy and risk management system. REGMIFA's ESR performance management strategy and system are based on four pillars:

1.3.1 Investor Level

Beyond its fiduciary duty, a key factor for financial sustainability, REGMIFA has a social responsibility to its investors as well as its end-borrowers. The Fund pursues a triple bottom line mission that aims to promote sustainable development in SSA. The Fund's various governance bodies constantly strive to support the Fund in achieving its mission and to realize both strong ESR and financial outcomes. This responsibility is put into practice through:

- The Fund's ESR Policy & Procedures, which clearly define its ESR strategy
- The ethical chart based on the client protection principles to which the Fund adheres
- The social rating tool used to manage ESR performance and to select PLIs
- This ESR report, allowing investors to assess the Fund's ESR performance
- The ESR Compliance Officer, in charge of coordinating the ESR performance management
- Partnerships with external research organizations to evaluate the Fund's ESR practices

1.3.2 Sector Level

At the sector level, the Fund aims to enter into a large number of countries in SSA, including those where no or very few commercial investors operate, and encourage the general financial sector to invest in African MSMEs and contribute to the development of inclusive financial systems. The Fund also aims to share and spur best practices within the microfinance sector, in particular in the area of social performance. This is accomplished through:

- The prospection of and investment in new untapped countries
- The participation of the Investment Manager in major sector initiatives
- The sponsoring of and participation in conferences on MSME finance
- The role played by the TA Facility in the strengthening of PLIs
- The provision of TA services to the Fund's PLIs addressing all areas of social performance
- The communication strategy of the Fund

1.3.3 PLI Level

At the PLI level, the Fund aims to work with a wide range of PLIs adopting and/or committed to using best practices in the area of social performance management. The Fund provides its partners with high-quality financial solutions. It also encourages them to adopt ethical practices and helps them build capacity. This is achieved through:

- Financing all types of PLIs, with a special focus on Tier 2 and Tier 3 institutions
- Targeting socially-oriented PLIs with strong business prospects
- The systematic inclusion of ESR issues in investment decision-making
- Offering a wide range of financing services meeting the specific needs of PLIs
- The positive impact of REGMIFA on PLIs' governance and business practices
- The integration of aspects of Social Performance Management principles and Client Protection Principles as defined by the SMART campaign in all TA projects wherever applicable

1.3.4 End-Borrower Level

At the end-borrower level, the Fund targets low-income people who are considered financially excluded who run MSMEs, through the Fund's investments with PLIs. The Fund offers PLIs a wide range of high-quality financial services and protects their clients against potential harmful practices. It also pays close attention to how PLIs interact with their stakeholders and whether they take into consideration the various needs of the end-borrowers. This fourth pillar is reached through:

- The targeting of PLIs focusing on low income and excluded end-borrowers
- The targeting of PLIs focusing on MSMEs
- The targeting of PLIs providing other loans such as housing and education
- The monitoring of loan terms and conditions and over indebtedness
- The evaluation of the extent to which PLIs consider all stakeholders in their operations
- The inclusion of client protection principles at all levels of the Fund's and TA Facility's operations

2.0 SOCIAL RESPONSIBILITY TO INVESTORS

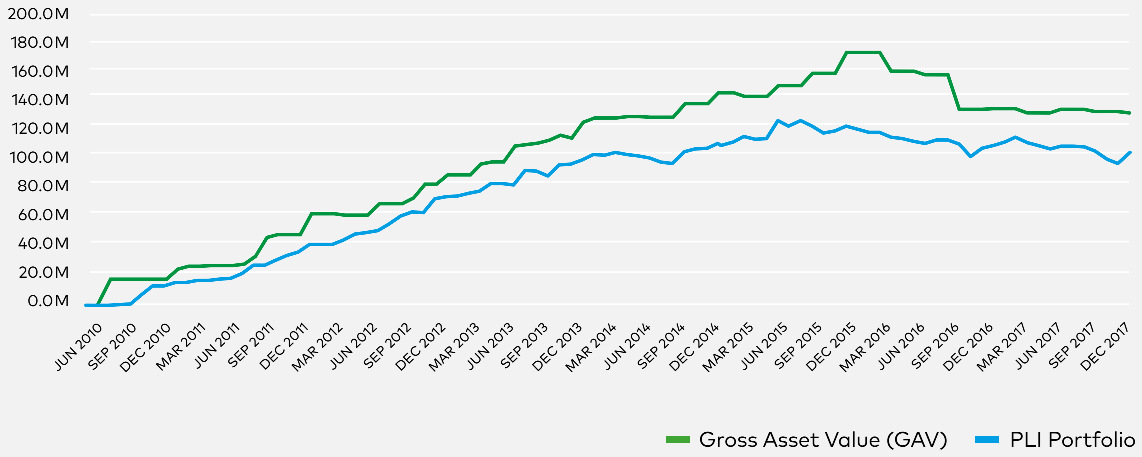
2.1 FINANCIAL PERFORMANCE

Following a sharp slowdown in growth across Sub-Saharan Africa over the past two years, 2017 has shown signs of recovery, with a cautious resumption in microfinance markets and REGMIFA's investment activity, which has witnessed an increase in disbursed volume to USD 34.27 million (2016: USD 29.96 million). At the same time, USD 39.48 million in repayments resulted in a net portfolio contraction of – USD 5.2 million compared to 2016, ending the year with a portfolio of USD 109.5 million and USD 133 million assets under management.

Despite a reduction in portfolio, the Fund's outreach was strengthened with the addition of five first-time partners to the Fund's portfolio, reaching 53 investees at the end of 2017. Arrears in Nigeria and related provisions caused by currency convertibility challenges in 2015 and 2016 were also significantly reduced due to the successful sourcing of USD and full repayment by three of the Fund's Nigerian partners. A series of recovery cases in other countries were equally successfully closed. At the same time, despite these positive developments, the recovery outlook for a series of cases needed to be adjusted during 2017, warranting an overall increase of loan loss provisions to 11.5% of the Fund portfolio as of year-end 2017.

In 2017, the income waterfall allowed for the full payment of target dividends to A and B shareholders. In line with their risk bearing capacity and the Fund's waterfall structure, C shares absorbed the loan loss allowances of the Fund, while years of capitalized target and complementary dividends ensured the C share NAV remained with USD 63,124,648 above their nominal subscription value of USD 62,314,790.

Portfolio and Total Asset Growth



During 2017:

- 5 new PLIs were added to the investment portfolio, including 2 Tier 2 and 1 Tier 3 PLIs
- Credit risk remained well diversified with 92 investments across 53 PLIs in 22 countries
- The Fund's blended capital structure ensured USD 2.06 million was distributed to A and B shareholders, meeting their target dividends for the seventh year in a row
- 2017's increase in loan loss provisions of USD 6.2 million was allocated to the C shares as per the Fund's waterfall structure. The C share protection remained strong at over 47% of the Fund's Gross Asset Value (GAV) at year end.

2.2 ESR PERFORMANCE

REGMIFA maintained its social mission in 2017 with the incorporation of its ESR strategy in each stage of the investment process. The remainder of this report presents the Fund's most significant ESR achievements including the following:

- The Fund financed an estimated **151,288 end-borrowers** via its partner lending institutions
- The majority of borrowers run **MSMEs (90%)**, creating jobs in their local community
- **2 new countries** and **5 new PLIs** were added to the loan portfolio
- Of the 5 new PLIs, **one was categorized as Tier 3** (total assets below USD 10m) and **one as Tier 2** (total assets between USD 10m and USD 30m), demonstrating a clear deepening of the Fund's stated developmental objective of **increasing its outreach to smaller and less developed PLIs** not commonly served by existing microfinance funders
- **65%** of investments were made in **Low Human Development countries**[3], while **36%** of investments were made in **Least Developed Countries**[4]
- PLIs have a **relatively small size** (75% were Tier 2 or Tier 3 institutions at disbursement date)
- PLIs have a **diversified profile** in terms of legal status, credit risk, and age
- **77%** of financing to PLIs was in **local currency** and **98%** had **fixed interest rates**
- The Fund offers **longer-term maturities** (up to 5 years) than those available locally
- The Fund supported more than **720 jobs at the PLIs** through its investments
- PLIs paid a total of more than **USD 17.5m of taxes** to national governments
- **75%** of PLIs **endorsed the Smart Campaign** for client protection
- The **TA Facility approved eight projects** in 2017

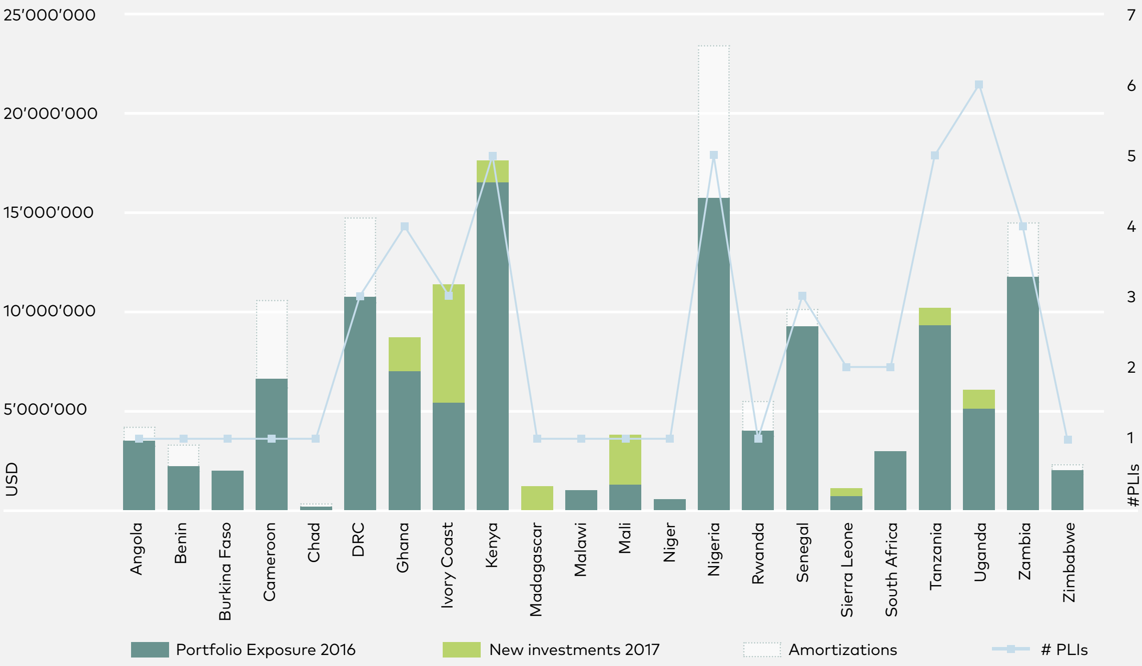
3 http://hdr.undp.org/en/content/human-development-index-hdi
4 http://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx

3.0
SECTOR LEVEL DEVELOPMENT

3.1 INVESTED COUNTRIES

In 2017, the Fund invested in two new countries (Madagascar and South Africa), bringing the total number of countries in the portfolio to 22.

Figure 3.1: Portfolio Exposures



3.2 DEVELOPMENT LEVEL AND COUNTRY RISK

Given that REGMIFA is an Africa-focused fund, the portfolio's risk exposure is greater than the global average.[5] The weighted average economic risk score for the portfolio in 2017 is 2.3 out of 10, whereas the political risk score is 2.5 out of 10 (10 being the highest possible risk level). These scores are on par with the risk levels for Sub-Saharan Africa overall, where the median economic and political risk scores are 2.4 and 2.5, respectively. The global median economic and political risk scores, on the other hand, are 1.5 and 2.1 respectively, which are notably lower.

5 Average risk assessment scores are obtained from Information Handling Services (HIS) Markit. Each country is assigned an economic risk score and a political risk score:
(i) Economic risk includes the following sub-categories: capital transfer risk, currency depreciation risk, inflation risk, recession risk, sovereign default risk, and under-development risk
(ii) Political risk includes the following sub-categories: government instability risk, policy instability risk, and state failure risk
For both scores, the scale is from 0 to 10, where 0 represents the lowest risk and 10 the highest.

While the median scores have remained stable globally and in Sub-Saharan Africa since 2016, the portfolio-weighted average economic risk score has dropped from 2.8 to 2.3. This is due to a drop in economic risk scores in 14 countries, notably in Nigeria and Malawi, where the drop was by more than 1 point. Moreover, the addition of South Africa to the investee countries also reduced the portfolio-weighted average since it has a below-median risk score (2.0) relative to the region.

Table 3.1: Economic and Political Risk Scores

	Economic		Political	
	2016	**2017**	**2016**	**2017**
Portfolio-weighted average	2.8	2.3	2.5	2.5
Sub-Saharan Africa median	2.4	2.4	2.5	2.5
Global median	1.5	1.5	2.1	2.1

Sub-Saharan Africa continues to have among the highest levels of poverty worldwide, in terms of both the number of people living in poverty and the extent to which they fall below internationally recognized poverty lines (poverty gap). As of December 2017, 65% of the portfolio investments are in countries with low human development, with the remaining 35% in countries with medium human development (Kenya, Zambia, Ghana and South Africa). The portfolio-weighted average GNI per capita is USD 1,105, which is far below the world average (USD 10,327) as well as the average for Sub-Saharan Africa (USD 1,519).

Table 3.2: Country-Level Development Indicators

Country	% Portfolio	2016 GNI per capita[6]	2016 Life expectancy[7]	HDI Rank 2015[8]	Human Development Level[9]	2015 Poverty gap at $1.90 a day (2011 PPP)[10]
Portfolio	100%	1,105	61.2	155	Low	16.3
Kenya	16.1%	400	67.0	146	Medium	16.0
Ivory Coast	10.4%	1,520	53.6	171	Low	3.5
Tanzania	9.3%	900	65.7	151	Low	15.4
Zambia*	8.2%	1,360	61.9	139	Medium	29.5
Ghana	7.9%	1,380	62.7	139	Medium	9.1
Senegal*	7.6%	700	67.1	162	Low	12.8
Nigeria	7.3%	370	53.4	152	Low	21.8
DRC	6.2%	1,380	59.6	176	Low	39.2
Uganda*	5.5%	630	59.9	163	Low	10.8
Mali*	3.5%	490	58.0	175	Low	15.5
South Africa	2.7%	5,480	62.8	119	Medium	6.2
Angola*	2.6%	3,450	61.5	150	Low	9.6
Cameroon	2.4%	1,400	58.1	153	Low	7.6
Rwanda*	2.3%	720	67.1	159	Low	23.1
Burkina Faso*	1.8%	620	60.4	185	Low	11.1
Zimbabwe	1.5%	890	61.2	154	Low	5.2
Madagascar*	1.1%	320	65.9	158	Low	39.0
Benin*	1.0%	820	60.9	167	Low	22.4
Sierra Leone*	1.0%	950	51.8	179	Low	16.7
Malawi*	0.9%	2,450	63.2	170	Low	33.6
Niger*	0.5%	770	60.1	187	Low	13.5
Chad*	0.1%	460	52.9	186	Low	15.3

** 13 of the 22 investee countries are least developed countries (LDCs).*

6 The World Bank DataBank. (n.d.). *World Development Indicators*. Retrieved from: http://databank.worldbank.org/data/source/world-development-indicators

7 Ibid.

8 United Nations Development Programme. (2016). *Human Development Reports*. Retrieved from: http://hdr.undp.org/en/composite/HDI

9 Ibid.

10 The poverty gap is the average shortfall of the total population from the poverty line (where people above the poverty line are counted as having zero shortfall), expressed as a percentage of the poverty line. It reflects the depth of poverty as well as its incidence. A value of 100% implies that everyone in the population has no income. Data is either from 2015 or the latest available for each country.
The World Bank DataBank. (n.d.). *World Development Indicators*.
Retrieved from: http://databank.worldbank.org/data/source/world-development-indicators

3.3 SECTOR INITIATIVES

The Investment Manager of REGMIFA is an active member of the main industry initiatives through which it shares its market knowledge and promotes best practices, in particular in the field of client protection and social performance management. The Fund also attends and sponsors conferences to promote its activities.

Smart Campaign for Client Protection

Protecting clients and promoting responsible lending practices is a key concern for REGMIFA. These practices are embedded at all levels of investment operations as seen in the ethical chart, based strongly on the client protection principles, responsible finance stipulations incorporated in loan agreements, a social rating extensively covering relevant operational aspects, and an Investment Committee and other governance bodies regularly reviewing client protection issues. In order to crystallize this commitment, REGMIFA endorsed the Smart Campaign for Client Protection since 2011 and strongly encourages its PLIs to do the same

LuxFLAG Microfinance Label

In May 2011, REGMIFA was granted the LuxFLAG Microfinance Label, which has been renewed every year since then. The Luxembourg Fund Labeling Agency (LuxFLAG) is an independent, non-profit association created in Luxemburg in July 2006. The Agency aims to promote the raising of capital for microfinance by awarding a recognizable label to eligible MIVs.

Social Performance Task Force

In 2017, Symbiotics attended the Social Investor Working Group Meeting in Zürich, and the annual membership meeting in Mexico City. Furthermore, Symbiotics continued its collaboration with the SPTF to integrate ESG indicators in the annual Symbiotics MIV Survey, an annual study which aims to provide comprehensive market trends and peer group analysis on microfinance investments. Its primary function is to allow microfinance investors and fund managers to benchmark themselves and improve their knowledge of the industry. It also allows academia, researchers and companies to have access to unique information about microfinance funds, including on ESG indicators.

Other Initiatives
Symbiotics also maintained its subscription to several other initiatives in 2017, including the European Microfinance Platform, the European Venture Philanthropy Association, the Global Impact Investing Network, the Principles for Responsible Investments Association, Sustainable Finance Geneva, the Swiss Microfinance Platform, and Swiss Sustainable Finance

3.4 TECHNICAL ASSISTANCE

Technical Assistance (TA) activities played a key role in 2017 working alongside the Fund's investments. In the framework of the available remaining funding of the TA Facility, TA support was provided to target PLIs following a thorough review of the institutions' weaknesses and potential to ensure the facility enabled maximum positive impact. The TA Manager continued to undertake a comprehensive assessment of PLIs and potential TA activities to determine where support was urgently needed and would bring about optimal results for the PLI. The PLIs also continued to demonstrate their commitment and interest in the success of the TA interventions by contributing on average a co-financing share of 25.3%.

During 2017, the TA Facility was mostly marked by project tendering and monitoring with a satisfactory pick-up in the number of project approvals and projects contracting. The TA Manager procured the approval of eight projects (including four training scholarships) totaling EUR 341,000. Of that amount, 67% or ca. EUR 229,000 financed four customized projects allocated to Tier 1 (52%) and Tier 2 (48%) PLIs located in Tanzania, Uganda and Madagascar, a first time TA support for this last country.

4.0
PARTNER LENDING INSTITUTION DEVELOPMENT

4.1 PLI PROFILE

Legal Status and Years of Existence

Of the total volume invested by the Fund, 65% is in non-bank financial institutions (NBFIs), 30% in banks, 6.4% in non-governmental organizations (NGOs) and 0.3% in cooperatives. In terms of number of institutions, the largest share is in the NBFI category (71.7%), followed by banks (20.7%), NGOs (5.6%) and one cooperative (1.8%). PLIs also vary in terms of years of existence from well-established to new institutions, with the majority of PLIs incorporated between 6-15 years ago (63%). The Fund increased its exposure to relatively new institutions (3-6 years of existence) from 9% in 2016 to 13% in 2017.

Legal Status	Number of PLIs	% Portfolio
NBFI	38	64.7%
Bank	11	28.6%
NGO	3	6.4%
Cooperative	1	0.3%

Years of Existence	Number of PLIs	% Portfolio
0-3 years	0	0.0%
3-6 years	8	12.9%
6-15 years	30	62.9%
>15 years	15	24.2%

Figure 4.1: PLI Legal Status, % Portfolio

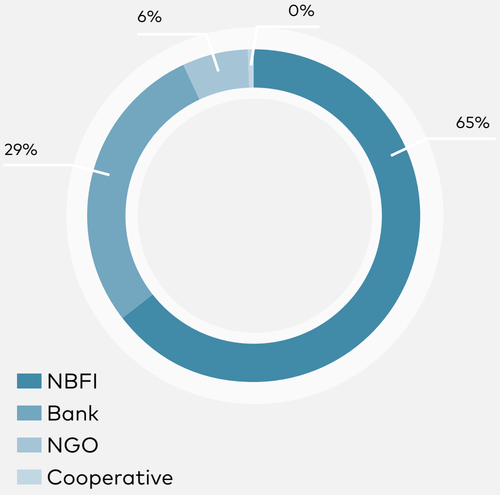
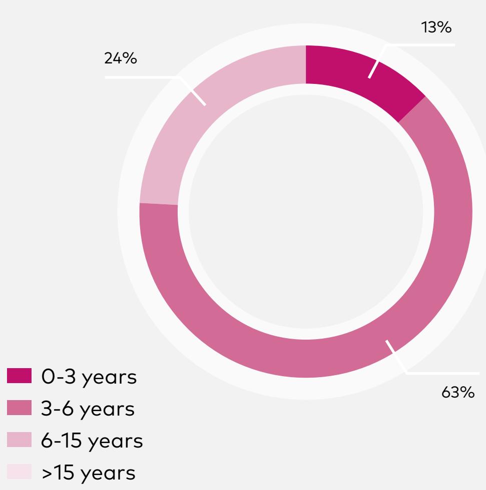


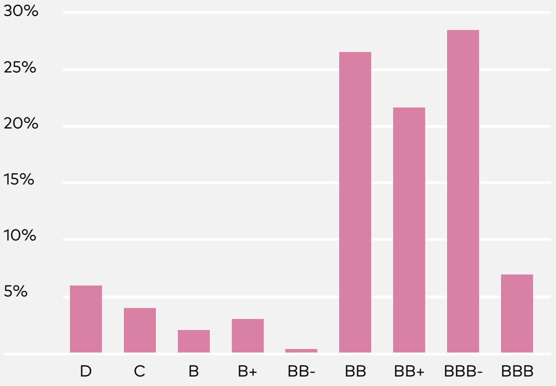
Figure 4.2: Years of Existence, % Portfolio



Credit Risk

In 2017, the weighted average credit risk of PLIs was BB- (2016: BB+). The lower rating in 2017 is due to three cases of non-performing loans in Nigeria and Benin. The Fund continues to target less mature financial institutions that are typically underserved by other lenders, while continuing its exposure to larger, more stable PLIs. With the exception of the three workout cases, the individual credit ratings ranged from C to BBB. 64% of the portfolio is invested in sub-investment grade PLIs (compared to 48.7% in 2016), representing 75% of the PLIs in terms of number.

Credit Risk Profile December 2017



Size/Tier

REGMIFA aims to target relatively small financial institutions. Out of five new PLIs added to the portfolio in 2017, one is Tier 2 and one is Tier 3. At the portfolio level, 65% of the volumes invested are in Tier 1 institutions, while 35% are in Tier 2 and Tier 3 institutions.

Figure 4.4: Portfolio Breakdown by Current Tier, % Portfolio

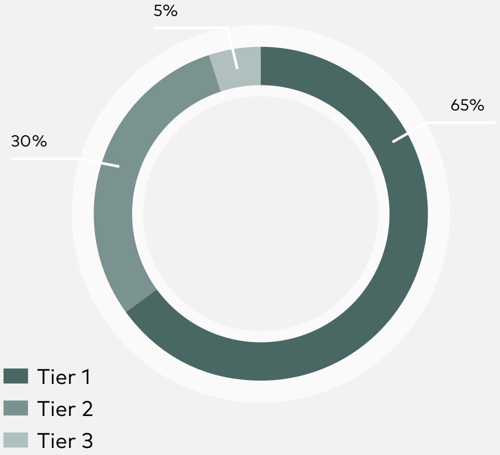
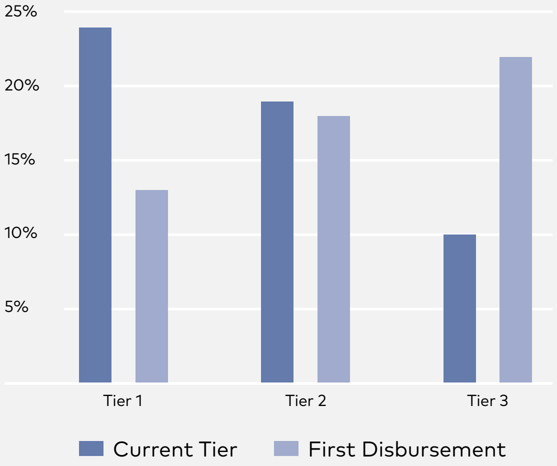


Figure 4.5: Portfolio Breakdown by Tier, # PLIs



Frontier Institutions

To strengthen the Fund's developmental objective and gradually increase the number of investments in smaller and less developed PLIs which are not as commonly served by existing microfinance funders, the Fund developed a "risk bucket" for higher risk institutions up to 5% of total assets. This portion of the portfolio is earmarked for a number of less developed, smaller PLIs, called "frontier institutions," that show potential for growth and lasting development impact. These institutions are frequently located in least-developed markets where REGMIFA is likely to have the largest additionality, acting in its role as a pioneer and market leader. Targeted frontier PLIs typically have an expected credit risk rating ranging from BB- to BB+, good growth potential, positive social impact, and contribute to the Fund's geographic and partner level diversification. REGMIFA increased the overall percentage exposure in frontier PLIs from 4.30% in 2016 to 4.96%.

Financial Sustainability

In order to promote sustainable financial inclusion, the Fund invests in financially sustainable PLIs from all three tiers. Increasingly, the Fund has invested in smaller and weaker institutions that are not yet fully viable but have sound business strategies. Lower asset size, smaller client base, and lower average loan size are the typical characteristics of these PLIs. The table below shows a comparison among different PLIs based on the tier classification, and as compared to SYM50[11].

Table 4.1: Key Financial Indicators by Tier

Key Indicators	Tier 1	Tier 2	Tier 3	Avg. Portfolio	SYM50
Number of PLIs	24	19	10	53	50
Total assets (USD millions)	80.3	18.9	6.2	44.3	517.7
Loan portfolio (USD millions)	63.7	12.4	4.1	34.0	382.2
Number of active borrowers	86,533	18,322	9,191	47,488	156,656
Average loan balance (USD)	707	650	452	690	2,168
Debt/Equity ratio	4.3	-2.7	4.3	1.8	4.6
Portfolio yield (%)	40.2	45.2	53.7	44.6	25.1
OER (%)	26.1	32.6	61.3	35.1	13.3
OSS (%)	116.3	97.7	84.5	103.6	116.6
ROE (%)	10.0	-1.3	-36.1	-2.7	11.2
PAR>30 (%)	8.3	8.9	8.0	8.4	5.1

11 SYM50 is an index developed by Symbiotics, consisting of 50 microfinance institutions that are representative of Symbiotics' microfinance portfolio. It is updated on a monthly basis and each institution is equally weighted.

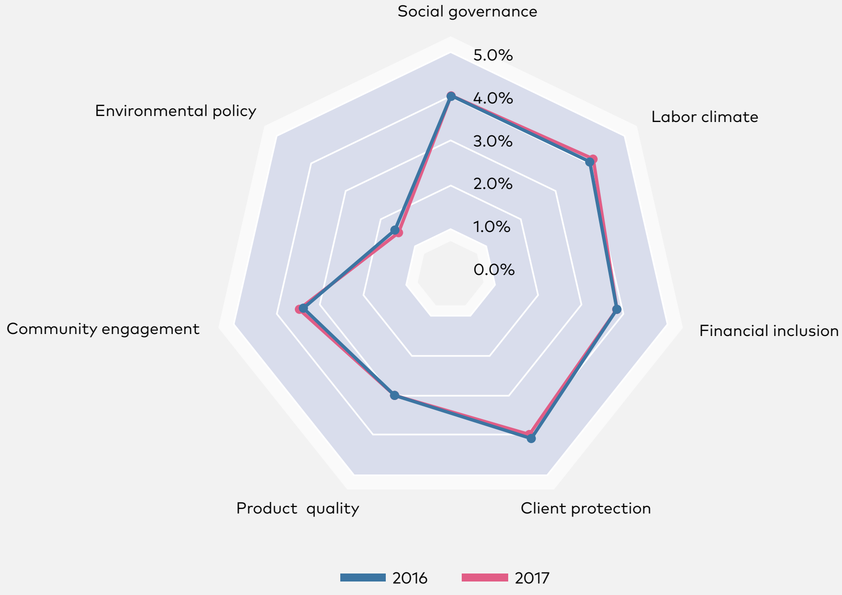
4.2 SOCIAL RESPONSIBILITY

REGMIFA actively seeks to work with socially-oriented PLIs and monitors social responsibility through its ESR ratings which are calculated prior to any disbursement and then updated annually when available.

Average Social Rating

The average ESR score of PLIs in the Fund's portfolio remained stable at 3.5 stars (2016: 3.5) out of 5.

Figure 4.6: Social Responsibility Rating (Portfolio-Weighted)



ESR RATING AT A GLANCE

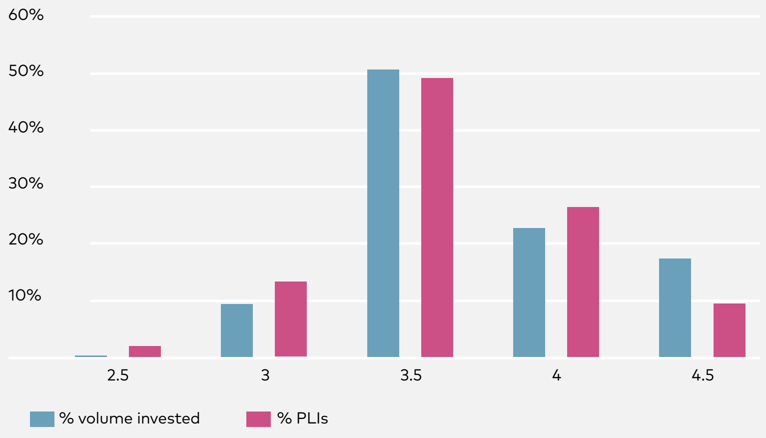
The ESR Rating shows to which extent a PLI contributes to socio-economic development and acts responsibly towards its stakeholders. It includes 100 indicators split into seven dimensions:

Social Governance (20%)	Product Quality (15%)
Labor Climate (15%)	Community Engagement (15%)
Financial inclusion (15%)	Environmental Policy (5%)
Client Protection (15%)	

Each indicator is graded from 0 to 3 (0 = non-existence or very poor, 3 = existence and high quality) and each of the seven dimensions contributes to the final score as per its weighting (see % amounts in brackets above). The final score is a rating from 0 to 5 stars, i.e. an extremely strong likelihood that the Fund contributes to sustainable development via its investment in the assessed PLI, or an extremely low risk of having a negative social impact.

Of the 53 PLIs in the portfolio, 42 have been evaluated and rated in 2017. Four PLIs received improved social responsibility ratings, while 1 PLI was downgraded. The social responsibility assessment is generally performed once every year as an essential part of the investment advisory report. The outcomes of these reports are discussed by the Investment Committee, which bases its investment decisions on both the social and financial performance of PLIs.

2017 Portfolio ESR Rating



ESR scores in the portfolio range from 2.5 to 4.5 stars. None of the PLIs in which the Fund is invested has a score below 2.5. Of the total volume invested by the Fund, 40% is in PLIs with a social rating of 4 stars or above, while another 50.6% is in PLIs with a social rating of 3.5 stars. Only 0.1% of the Fund's volume is invested in the only PLI (Tier 3) with a 2.5-star social rating. Smaller institutions generally have fewer established policies and weaker governance. Such institutions consequently score lower in Symbiotics' social rating, despite their positive impact through financial inclusion. 9.4% of the Fund's portfolio is invested in institutions with a social rating of 3 stars or below. Out of this volume, 1.4% is in Tier 1 PLIs, 5.8% in Tier 2 and 2.2% in Tier 3.

4.3 FINANCIAL SERVICES TO PLIS

Offering demand-oriented financial services to PLIs is one of the key objectives REGMIFA pursues to create social impact. This is reflected in REGMIFA's lending practices which are based on 1) flexibility in terms of loan amount and rapidity of disbursement; 2) the possibility of offering long term financing solutions in the framework of a long term partnership with PLIs; 3) uncollateralized loan products denominated in local currency; 4) price competitiveness due notably to partnerships with four counterparties to hedge FX risk and the Fund's increasing size and efficiency; and 5) the possibility to offer complementary TA services.

The Fund's average investment size in PLIs remained stable at USD 1,176,907 (compared to USD 1,158,898 in 2016). The average balance, however, fell from USD 2,206,363 in 2016 to USD 2,065,138 in 2017.

Table 4.2: Loan Size and Maturity

Size	2017
Average loan size	1,176,907
Min loan size	90,919
Max loan size	9,500,000
Average loan balance	2,065,138
Min loan balance	95,158
Max loan balance	11,500,000
Avg. loan balance / PLI assets	7.2%
0% to 5%	41.5%
5% - 10%	34.0%
10% - 15%	13.2%
15% - 20%	9.4%
> 20%	1.9%

Maturity	2017
Weighted avg. maturity	34.6
Min maturity	24
Max maturity	60
< 12 months (% volume)	0.0%
12 - 24 months (% volume)	32.7%
> 24 months (% volume)	67.3%
< 12 months (% number)	0.0%
12 - 24 months (% number)	40.4%
> 24 months (% number)	59.6%

Table 4.3: Loan Products and Pricing

Loan Product
+ Mostly senior debt + Most of the loans in local currency + Interest rate risk rarely transferred + Mostly uncollateralized loans + Flexible amortization schedules

Loan Pricing
+ Competitive pricing to PLIs + Partnership with 4 hedge counterparties + Pricing based on local market conditions + Weighted average spread of 4.99% + 1% upfront fee usually charged to PLIs

Product Range	2017
% Senior debt	97.3%
% Subordinated debt	2.7%
% Fixed rates	97.5%
% Floating rates	2.5%
% Local currency	77.0%
% Hard currency	23.0%
Collateralized loans	7.0%
Guaranteed loans	2.1%
% Bullet loans	77.0%
% Amortization loans	23.0%

Spread over USD 6M Libor	2017
Weighted avg. Spread*	4.99%
Weighted avg. up-front Fee	1.0%
< 2%	0.0%
2% to 4%	17.4%
4% to 6%	56.5%
> 6%	26.1%

*Excluding upfront fee

5.0
END-BORROWERS AND STAKEHOLDERS

5.1 END-BORROWERS

The outstanding portfolio of USD 109.5 million contributed to financing 151,288 end-borrowers through 53 PLIs in 2017. While there was a slight drop in the total number of end borrowers from 2016 (164,154), this was to be expected as the volume of the outstanding portfolio decreased and the average loan size slightly increased from USD 699 in 2016 to USD 723 in 2017. Investments are calculated to finance relatively more end-borrowers through institutions with smaller average loan balances, representing the proportionally broader effect an investment is estimated to have via an institution that provides smaller financing to more people. Because the number of REGMIFA end-borrowers is calculated as the sum of each REGMIFA investment in each PLI / each PLI's average loan balance per borrower, PLIs with extremely low average loan balances will have a proportionally larger share of end-borrowers in the REGMIFA portfolio.

As shown in the second part of the table below, REGMIFA has maintained its broad impact in several key markets. The highest number of borrowers reached in 2017 was in Ghana (20%), which was the country with the second-highest number of borrowers in 2016. Kenya and Tanzania follow Ghana in terms of proportion of end-borrowers reached, as was the case in 2015 and 2016 (with 14% and 11%, respectively). Meanwhile, South Africa, which was newly added to the portfolio in 2017, is now also among the countries with the highest number of borrowers reached (10%). Finally, Nigeria is now in the sixth position (8%), a significant drop from the first position in the past 4 years. This is due to the fact that REGMIFA's exposure in Nigeria has fallen following the devaluation of the Nigerian naira.

Table 5.1: Number of Borrowers Reached and Loan Balance

Outreach	2010	2011	2012	2013	2014	2015	2016	2017
End-borrowers	37,696	103,307	155,985	194,303	192,820	197,637	164,154	151,288
Total since inception	37,696	141,003	296,988	491,291	684,111	881,748	1,045,902	1,197,190
Average Loan Balance	823	420	501	537	603	650	699	723

Table 5.2: Top Countries by Number of Borrowers Reached (% of Borrowers)

Top Countries	2016	2017
Ghana	15.7%	19.6%
Kenya	11.1%	13.7%
Tanzania	9.6%	10.6%
Uganda	4.6%	10.4%
South Africa	-	9.7%
Nigeria	23.0%	8.1%

In 2017, REGMIFA financed a majority of female clients (54% versus 42% male clients, with the remaining 4% of loans going to legal entities). Borrowers were mainly involved in small trading activities (67%), while a smaller proportion of clients are active in agriculture (7%), services (12%), production (5%) and other types of activities (8%), including transportation, construction, housing, renewable energy, and consumption.

Figure 5.1:
Distribution by Gender, % Headcount

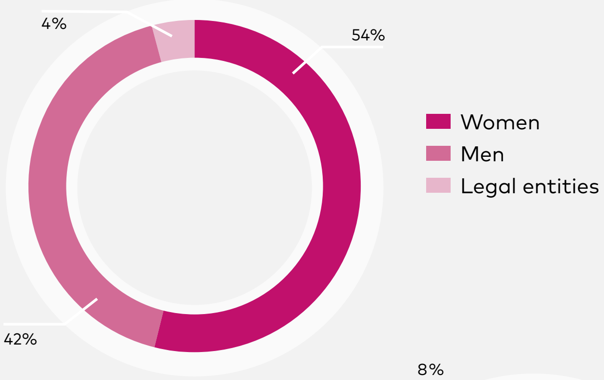
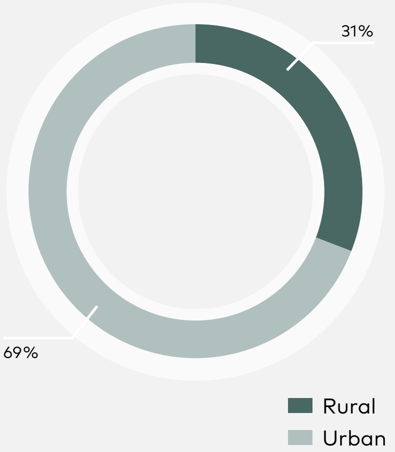


Figure 5.2:
Distribution by Location, % Headcount



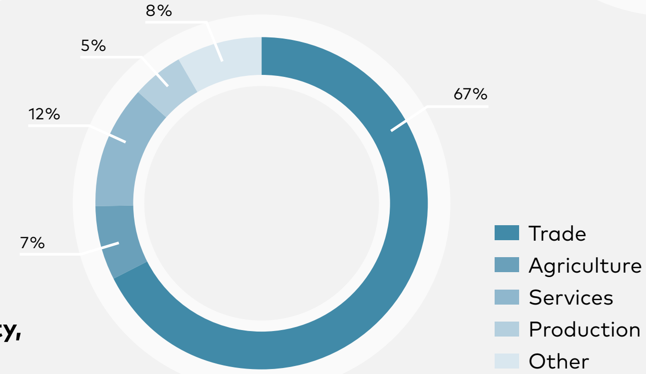


Figure 5.3:
Distribution by Activity, % Headcount

5.2 PLI FINANCIAL SERVICES

Generally, micro, small, and medium sized enterprises together employ the majority of workers. This is especially true for developing countries in Sub-Saharan Africa. Access to finance restricts MSME growth, hampering wealth and job creation and eventually stifling economic growth. Removing these obstacles and unlocking the potential of local capital markets to benefit MSMEs is thus a priority for REGMIFA investors.

The majority of REGMIFA's portfolio is allocated to fund micro-, small and medium sized enterprises (90%). The remaining 10% is split among other types of lending (large enterprises, consumption, housing, education, other).

Loans are distributed either directly to individuals (61%) or through group loans (39%).

Figure 5.4: Credit Products, % Portfolio (Weighted Average)

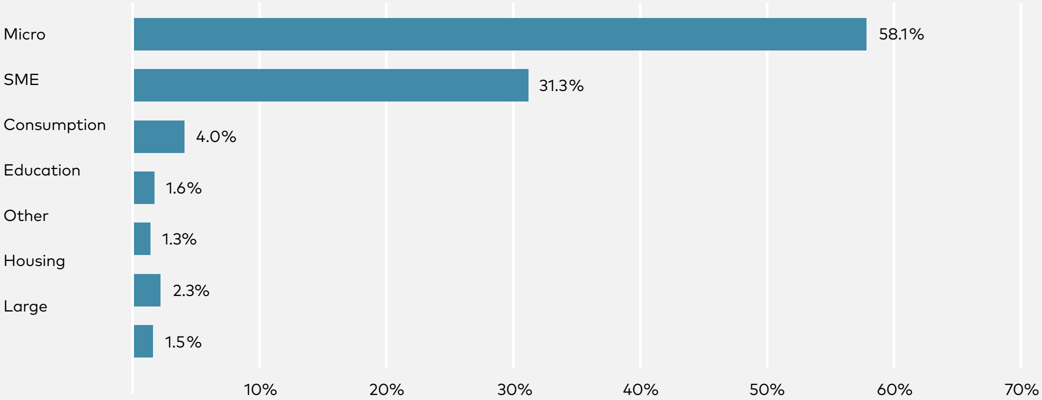
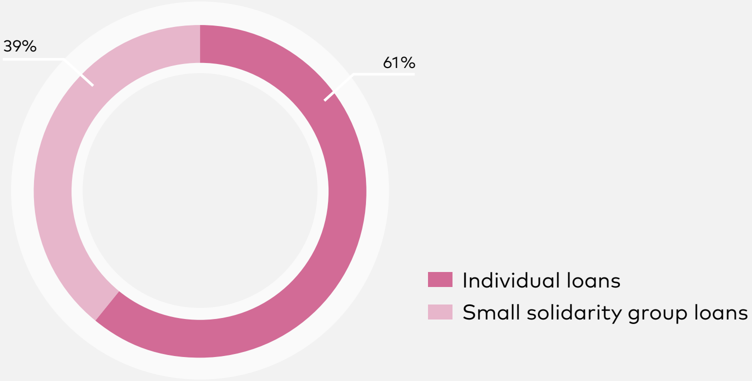


Figure 5.5: Lending Methodology, % Portfolio (Weighted Average)



Among the ways that individuals can cope with managing their cash flows is through financial (and non-financial) services such as:

I Savings (e.g. deposits, checking accounts)
II Insurance (e.g. credit insurance, life insurance)
III Payment services (e.g. cash transfers, electronic payments, remittances)
IV Other non-financial services (e.g. business development services, education)

Of the investees in the REGMIFA portfolio, 79% offer savings services, 86% offer insurance products, 83% offer payment services, and 41% offer other non-financial services. Overall, 94% of investees offer one or more of these non-credit products to their clients.

Figure 5.6: Non-Credit Services, % Headcount (Weighted Average)

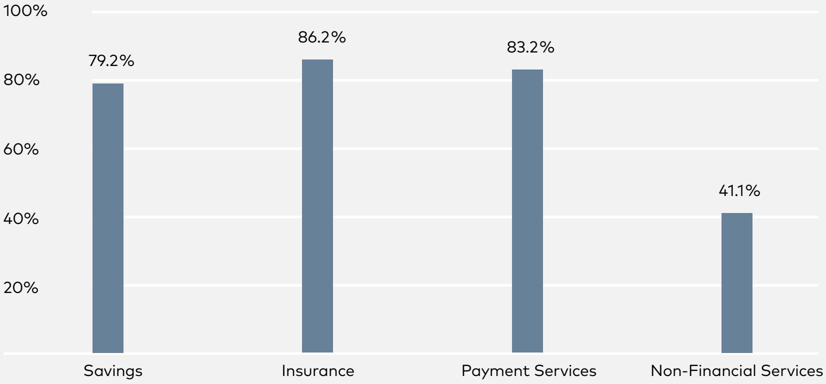


Table 5.3: Credit and Savings Conditions

Credit Conditions	2017
Avg. Loan balance (USD)	723
Avg. Loan balance / GNI pc	65.5%
Avg. Portfolio yield	40.7%
10% to 30%	24.5%
30% to 50%	35.8%
> 50%	39.6%

Savings Conditions	2017
% savers / borrowers	334%
% savings / PLI loan portfolio	43.3%
Avg. Savings (USD)	369
Avg. Savings / GNI pc	33.4%

The estimated average loan size to end-borrowers remained low (USD 723). This reflects the strategy of most PLIs (targeting micro-entrepreneurs) and may be an indication that PLIs are focused on poverty reduction, thus reaching individuals with strong liquidity constraints. The weighted average interest rate paid by end-borrowers is 41%, but the rate is higher in some cases. Overall, there is a weak negative correlation between a PLI's size and its interest rate; smaller-sized institutions typically charge higher interest rates and decrease their rates gradually as they grow.

REGMIFA PLIs have, on average, more savers than borrowers. However, the simple average size of savings is relatively small (USD 369, representing 33% of GNI per capita).

5.3 CLIENT PROTECTION

Protecting clients is a shared responsibility between REGMIFA and its partner PLIs. Client protection is at the core of the Fund's investment policy and is embedded at all levels of operations. In practice, this means minimizing or eliminating negative effects for clients, particularly over-indebtedness, and treating clients fairly, in line with the principles promoted by the Smart Campaign: appropriate product design and delivery; transparency; responsible pricing; fair and respectful treatment of clients; privacy of client data; and mechanisms for complaint resolution.

At the strategic level, REGMIFA's activities comply with its ethical chart, which is strongly inspired by the client protection principles. The Board of Directors has endorsed the Smart Campaign on behalf of the Fund, which demonstrates commitment to client protection at the highest level. The various governance bodies address this issue on a regular basis to monitor progress made and actions taken in this area.

At the operational level, the Fund addresses the question of client protection in its day-to-day business. The credit risk analysis performed by the Investment Manager reviews in detail the operations as well as the credit policies and procedures of PLIs to check that the repayment capacity of clients, among other things, is properly assessed. The ESR rating, which is performed in conjunction with the credit risk rating, also includes 12 indicators related to the client protection principles. Finally, each potential loan is considered in terms of the PLIs' business plan and the possibility for them to disburse the sum lent by REGMIFA in a sustainable way.

In addition to checking the disbursement and repayment capacity of PLIs, the Investment Committee makes investment decisions based on ESR ratings, particularly the actions taken by PLIs in the area of client protection. Client protection related issues such as the interest rate level or risk of overheating/over indebtedness are frequently discussed during Committee meetings and special disbursement conditions can be set to encourage PLIs to improve their practices. PLIs also commit to treat their clients fairly by signing loan agreements (which include a responsible finance clause).

Endorsed smart campaign

Furthermore, the Fund encourages PLIs to endorse the Smart Campaign for client protection. As of 2017, 75% of PLIs had endorsed the Smart Campaign on an individual basis.

Below are a few aggregated indicators extracted from the PLIs' ESR ratings. These indicators, among others, are used by the Fund to assess the social responsibility level of PLIs in the area of client protection as well as by the TAF to determine PLIs' TA needs. In addition, the TA Facility, since its inception, has been continuously advocating for projects that included client protection aspects, in areas such as prevention of over-indebtedness, product transparency, adequacy of services, responsible pricing, and client literacy.

Table 5.4: Social Responsibility Ratings - Client Protection Indicators

Client Protection*	2017
Average PAR>30 + Write off	10.4%
% of PLIs with PAR>30 + Write off < 6%	34.0%
% of PLIs with PAR>30 + Write off between 6% and 9%	17.0%
% of PLIs with PAR>30 + Write off > 9%	49.1%
% of PLIs with access to credit bureau (CB)	81.1%
% of PLIs with no access to CB but using informal means to collect client data	18.9%
% of PLIs assessing client repayment capacity in a detailed and systematic way	88.7%
% of PLIs assessing client repayment capacity but not in a detailed/systematic way	11.3%
% of PLIs with relatively efficient client complaint mechanisms in place	81.1%
% of PLIs making proactive efforts to promote financial literacy	88.7%

* Note: Restructured loan values are included

The table below portrays, out of the eight TA projects designed and approved in 2017, the ones which addressed at least one of the seven Client Protection Principles (CPPs). The hired consultants responsible for implementing projects were specifically requested to integrate and report on how the CPPs and social performance management were integrated in the assignment works and outputs. The TA Manager also conducted an independent review of the assignments and projects to assess the field activities reported or to be carried out, and their relationship to the CPPs. Notably, the three most addressed principles were:

- CPP 1 - Appropriate product design and delivery (example for a project on "Support to improve deposit mobilization through brand development and improved customer relationship management");
- CPP 5 - Fair and respectful treatment of clients (example on the project titled "Support to improve deposit mobilization") and
- CPP 6 - Privacy of client data (example for a project on "Mise en place organisationnelle et fonctionnelle d'un systeme de telecompensation").

Note that the training programs completed in 2017 are not included in these statistics as CPPs are not tracked for their implementation.

Table 5.5: TA Projects Addressing the CPPs

TA projects addressing Client Protection Principles (CPP)	2017
Of the 8 approved projects in 2017, four customized projects specifically addressed one or more of the CPPs	
CPP 1: Appropriate product design and delivery	4 projects
CPP 2: Prevention of over-indebtedness	Not Applicable
CPP 3: Transparency	1 project
CPP 4: Responsible pricing	2 projects
CPP 5: Fair and respectful treatment of clients	3 projects
CPP 6: Privacy of client data	3 projects
CPP 7: Mechanisms for complaint resolution	Not Applicable

5.4 INCOME DISTRIBUTION AND IMPACT ON VARIOUS STAKEHOLDERS OF PLIS

The following data show PLIs' income sources and how income is distributed among various stakeholders. The table also demonstrates the impact of PLIs in terms of shareholder remuneration (average ROE of -1.46%), job creation (total number of 27,494 people employed by PLIs), and staff compensation (average annual gross salary of USD 7,691 per employee), as well as the total amount of taxes paid by PLIs to national governments (USD 17.5m).

Table 5.6: Income Distribution & Staff

Income Sources	**2017**
Income from lending activities	87.3%
Other-operating income	8.3%
Non-operating income	4.4%
Total Income Distribution	
Personnel expenses	30.6%
Banking expenses	33.2%
Other operating expenses	32.8%
Non-operating expenses	3.4%
Taxes	1.2%
Net Income	-1.2%
Shareholders	
Return on assets	0.2%
Return on equity	-1.5%
Leverage	3.3
Staff	
Total number of PLIs' employees	27,494
Average salary of employees (USD)	7,691
Average salary / GNI pc	6.7
Government Taxes	
Government taxes / taxable income	8.7%
Total taxes paid by PLIs	17,492,562

6.0
ESR OBJECTIVES

REGMIFA's Investment Manager is proud to manage a fund in line with best practice ESR performance management guidelines. In order to constantly improve in this area and to put its social mission into practice, the Fund sets clear ESR goals on an annual basis. This makes it possible to actively manage ESR performance, to maximize the socio-economic impact of the Fund's activities, and to commit resources to this objective.

The overall ESR goals of the Fund are as follows:

Investors / Sector

REGMIFA

- **Investors**
- Social and environmental goals
- ESR performance management
- ESR reporting
- Social audit of the Fund

- **Sector**
- Open up new markets
- Participate in major sector initiatives
- Promote best practices
- Technical assistance based on PLIs' needs
- Effective communication strategy

PLIs

- Add PLIs to the portfolio
- Target Tier 2 and 3 PLIs
- Target responsible MFIs
- Systematic inclusion of ESR issues in decision-making
- High-quality financing solutions to PLIs
- Positive impact on PLIs' governance

End-borrowers & Stakeholders

- Increase outreach
- Target MSMEs
- Target excluded clients
- Customized products to end-borrowers
- Stakeholder approach
- Client protection

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