ENVIRONMENTAL AND SOCIAL RESPONSIBILITY (ESR)

2019 ANNUAL REPORT

regmifA

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REGMIFA'S 2019 SOCIAL RETURN AT A GLANCE (EXECUTIVE SUMMARY)[1]

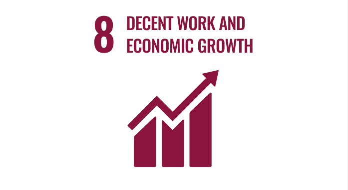
The Fund invested USD 50.9 million in 2019 across 39 transactions, ending the year with a net portfolio size of USD 123.1 million and reaching 171,805 end-borrowers who:

- Are a majority women (52%)
- Reside primarily in urban areas (76%)
- Live in 19 different countries, notably Ghana (27%), Kenya (13%), South Africa (8%) and Tanzania (8%)
- Are running a micro, small, or medium sized enterprise (91%)
- Are active in trade (59%) and also services, agriculture, and production (33%)
- Received on average a USD 716 loan, representing 42% of GNI per capita, on average
- Borrowed through both individual and group loans (71% and 29%, respectively)
- Repaid their loans on time in 90% of cases

The Fund is actively contributing to United Nations Sustainable Development Goals[2] 1,5 and 8 by:

Ensuring that low-income individuals have access to financial services, including microfinance and savings products

Providing women with equal access to economic resources and opportunities



Promoting job creation by financing micro-, small and medium enterprises, and expanding access to banking and financial services

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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 to provide a clearer picture of the overall portfolio.

2 The United Nations Sustainable Development Goals, adopted by all Member States of the United Nations in 2015, are 17 global goals to achieve peace and prosperity for people and the planet by 2030. (https://sustainabledevelopment.un.org/sdgs)

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 will observe 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..[3]

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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3 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

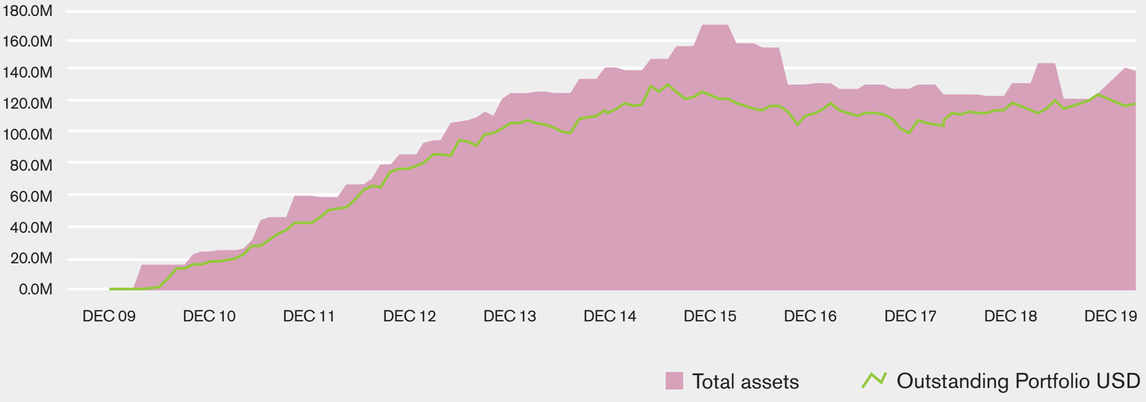
2.1 FINANCIAL PERFORMANCE

Many Sub-Saharan African economies experienced another year of stable recovery and growth in 2019, which is reflected in the USD 50.9 million disbursed across 39 transactions, after the record level set in 2018 (USD 58.5 million disbursed across 44 transactions). The Fund's lending activity remained subdued in two traditionally strong markets (Nigeria and Kenya) due to the lack of a hedging solution to provide local currency loans in Nigeria and low demand in Kenya due to the weak economic context. The Fund's year-end outstanding nominal loan portfolio grew slightly to USD 123.1 million (2018: USD 121.4 million) with USD 144.5 million assets under management.

Lending activity in 2019 was mainly focused on renewals of existing lines (14) and additional amounts to existing partners (17) versus loans to new partners (8), but outreach remains strong across 19 countries and 51 partner lending institutions. Efforts to address and resolve loans in default status continued throughout 2019, with the number of loans in workout status remaining at five following the addition and closure of some cases. One of the key developments from a financial perspective that took place in 2019 was the onboarding of private investors through the issuance of notes. With the addition of the USD 17.2 million in notes raised from two investors, the public-private partnership envisioned when the Fund was established finally came to fruition.

In 2019, the income waterfall allowed for the full payment of target dividends to A and B shareholders for the ninth year in a row while the C Shares began to recover from the increased market and credit risk observed over the past several years. Accordingly, the Fund's Net Asset Value (NAV) of C Shares as of year-end 2019 rose to USD 56.7 million up slightly from the value at year-end 2018 (USD 55.2 million) due to a drop in net loan losses and unrealized capital gains.

Figure 2.1: Gross Loan Portfolio, USD nominal



During 2019:

- Credit risk remained well-diversified with 96 investments across 51 PLIs in 19 countries;
- The Fund's blended capital structure ensured USD 3.0 million was distributed to A and B shareholders in both target and complementary dividends, meeting their target dividends for the ninth year in a row; and
- 2019's accumulated impairment losses dropped to USD 10.4 million from USD 14.1 million in 2018, which reflects additional impairment losses of USD 354k and write offs totaling USD 4 million.

2.2 ESR PERFORMANCE

REGMIFA maintained its social mission in 2019 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 **171, 805 end-borrowers** via its partner lending institutions
- The majority of borrowers run **MSMEs (91%)**, creating jobs in their local community
- **8 new PLIs** were added to the loan portfolio
- Of the 8 new PLIs, **six were categorized as Tier 1** (total assets above USD 30m) and **two as Tier 2** (total assets between USD 10m and USD 30m), demonstrating a modest 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
- **64%** of investments were made in **Low Human Development countries**[4], while **54%** of investments were made in **Least Developed Countries**[5]
- PLIs have a **relatively small size** (69% were Tier 2 or Tier 3 institutions at disbursement date)
- PLIs have a **diversified profile** in terms of legal status, credit risk, and age
- **85%** of financing to PLIs was in **local currency** and **89%** had **fixed interest rates**
- The Fund offers **longer-term maturities** (up to 5 years) than those available locally
- The Fund supported an estimated **1,315 jobs at the PLIs** through its investments
- PLIs paid a total of more than **USD 25.1m of taxes** to national governments
- **67%** of PLIs **endorsed the Smart Campaign** for client protection
- The **TA Facility approved and launched 2 regional programs involving 5 PLIs, and a scholarship program benefitting 6 staff members of 6 REGMIFA's PLIs, all reaching 10 countries**

4 http://hdr.undp.org/en/content/human-development-index-hdi

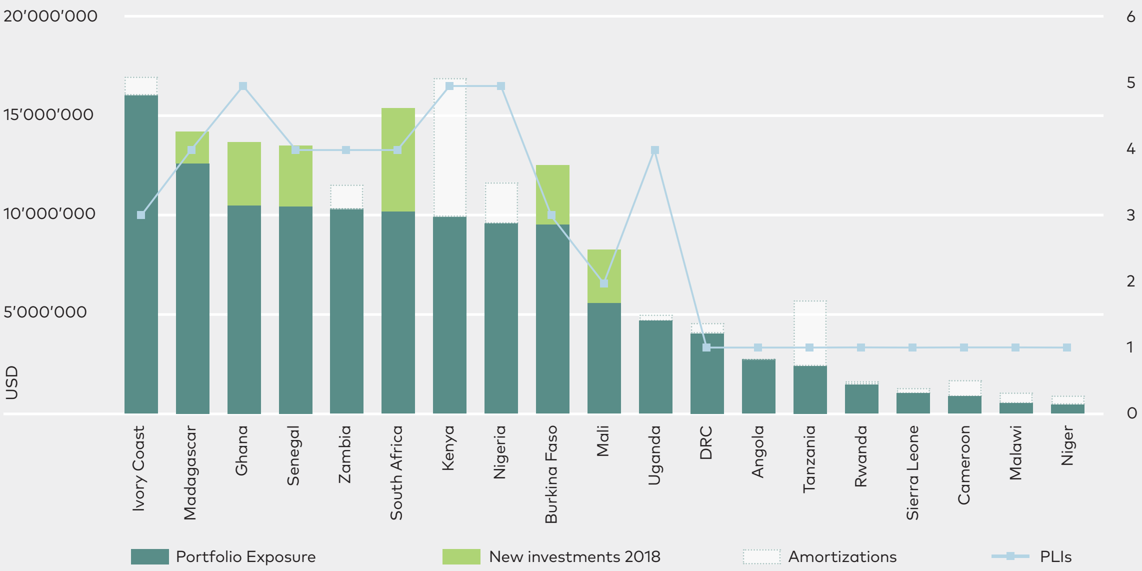
5 http://unctad.org/en/Pages/ALDC/Least%20Developed%20Countries/UN-list-of-Least-Developed-Countries.aspx

3.0
SECTOR LEVEL DEVELOPMENT

3.1 INVESTED COUNTRIES

In 2019, the Fund portfolio was invested in a total of 19 countries, compared to 20 countries in 2018 (the Fund is no longer invested in Chad).

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[6]. The weighted average economic risk score for the portfolio in 2019 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 2.3 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.

6 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.

The median scores have remained stable globally and in Sub-Saharan Africa since 2017, the portfolio-weighted average economic risk score has been maintained at 2.3. Moreover, as in 2017 and 2018, the Democratic Republic of Congo remains the country with the highest political risk scores in REGMIFA's portfolio (3.6).

Table 3.1: Economic and Political Risk Scores

	Economic		Political	
	2018	**2019**	**2018**	**2019**
Portfolio-weighted average	2.34	2.30	2.50	2.52
Sub-Saharan Africa median	2.30	2.30	2.46	2.50
Global median	1.50	1.50	2.10	2.10

Sub-Saharan Africa continues to have among the highest levels of poverty worldwide. As of December 2019, 64% of the portfolio investments are in countries with low human development, 28% in countries with medium human development (Angola, Cameroon, Kenya, Zambia, Ghana) and 8% in South Africa, the only country classified with a high human development level.[7] The portfolio-weighted average GNI per capita is USD 1,692 which is far below the world average (USD 10,879) and in line with the average for Sub-Saharan Africa (USD 1,598).

7 In 2018, South Africa's Human Development Index (HDI) value was 0.705. According the United Nations Development Program classification, countries with a HDI value from 0.700 to 0.799 are classified with a high human development. From 1990 to 2018, South Africa's HDI value increased from 0.0625 to 0.705 due to the improvement of several indicators as life expectancy, mean years of schooling and expected years of schooling as well as an increase in the country's GNI per capita.
http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/ZAF.pdf

Table 3.2: Country-Level Development Indicators

Country	% Portfolio	2018 GNI per capita (current US$) [8]	2018 Life expectancy at birth [9]	HDI RANK 2018 (out of 189)[10]	Human Development Level[11]
Portfolio	100%	1,692	61.9	156.7	Low
Cote D'Ivoire	13.0%	1,600	57.0	165	Low
Madagascar*	10.3%	510	66.3	162	Low
Ghana	8.5%	2,130	63.5	142	Medium
Senegal*	8.5%	1,410	67.4	166	Low
Zambia*	8.3%	1,430	63.0	143	Medium
South Africa	8.2%	5,750	63.5	113	High
Kenya	8.1%	1,620	65.9	147	Medium
Nigeria	7.9%	1,960	53.9	158	Low
Burkina Faso*	7.6%	670	60.7	182	Low
Mali*	4.9%	840	58.5	184	Low
Uganda*	4.0%	620	62.5	159	Low
DRC*	3.2%	490	60.0	179	Low
Angola*	2.3%	3,370	60.4	149	Medium
Tanzania*	1.8%	1,020	64.5	159	Low
Rwanda*	1.1%	780	68.3	157	Low
Sierra Leone*	0.8%	490	53.9	181	Low
Cameroon	0.7%	1,440	58.5	150	Medium
Malawi*	0.4%	360	63.3	172	Low
Niger*	0.3%	390	61.6	189	Low

** 13 of the 19 investee countries are least developed countries (LDCs).*

8 The World Bank DataBank. (n.d.). World Development Indicators. Retrieved from: http://databank.worldbank.org/data/source/world-development-indicators
9 Ibid.
10 United Nations Development Programme. (2016). Human Development Reports Retrieved from: http://hdr.undp.org/en/composite/HDI
11 United Nations Development Programme. (2016). Human Development Reports. Retrieved from: http://hdr.undp.org/en/composite/HDI

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.

the smart campaign

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
Supporting Sustainable Finance

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.

SocialPerformance
TASK FORCE

Social Performance Task Force

In 2019, Symbiotics participated in the Social Investor Working Group Meeting in Washington, D.C in collaboration with the International Finance Corporation. 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

In November 2019, Symbiotics participated on the European Microfinance Week 2019 session on the SDGs organized by the European Microfinance Platform. Symbiotics was part of a working group focused on measuring investor contribution to the SDGs.

Symbiotics also maintained its subscription to several other initiatives in 2019, including the European Microfinance Platform, the European Venture Philanthropy Association, the Principles for Responsible Investments Association, Sustainable Finance Geneva, the Swiss Microfinance Platform, and Swiss Sustainable Finance.

3.4 TECHNICAL ASSISTANCE

During 2019, Symbiotics monitored 13 projects to completion worth EUR 890,438 and submitted 3 projects worth EUR 214,000 that were approved by the TA Facility Committee. The REGMIFA TA Facility was active in 10 countries benefitting 10 PLIs and the TAF Manager leveraged its expertise by continuing to design demand-driven TA projects. The year 2019 witnessed an increased demand for projects that had a digital financial services (DFS) thematic focus. To address these needs, the TAF Manager conceived a number of projects related to digitalization (strategy and roadmap, product development, client awareness, agency banking etc.) which included 2 TA Packages on DFS for ACEP and FINCA affiliates.

Out of EUR 214,000 approved by the TAF Committee, the 2 TA packages represent 88% of the volume of approved projects, amounting to EUR 187,800. The programmatic interventions are meant to benefit ACEP's affiliates in Burkina Faso, Cameroon and Niger on one hand, and on the other hand, FINCA's affiliates in Zambia and Malawi in their respective DFS journeys. The TAF Manager continued to prove the efficiency of the TA Package as a tool in supporting multiple PLIs in various countries, using highly talented consultants, realizing economies of scale and enabling them to address strategic, operational and institutional issues with the PLIs.

Additionally, scholarship grants to the international renowned Boulder Institute of Microfinance were awarded to 6 PLIs from 6 different countries to participate in the inaugural edition of the Boulder Digital Transformation of Microfinance Institutions training along with the traditional Boulder MFT training.

4.0
PARTNER LENDING INSTITUTION DEVELOPMENT

4.1 PLI PROFILE

Legal Status and Years of Existence

Of the total volume invested by the Fund, 63% is in non-bank financial institutions (NBFIs), 27% in banks, 9% in cooperatives and 2% in non-governmental organizations (NGOs). In terms of number of institutions, the largest share is in the NBFI category (67%), followed by banks (22%), four cooperatives (8%) and two NGOs (4%). 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 (75%). The Fund has remained with a low exposure to relatively new institutions (3-6 years of existence) at 10% in since 2018.

Legal Status	Number of PLIs	% Portfolio
NBFI	34	62.7%
Bank	11	26.6%
Cooperative	4	8.6%
NGO	2	2.2%

Years of Existence	Number of PLIs	% Portfolio
3-6 years	2	10.1%
6-15 years	36	74.7%
>15 years	13	14.8%

Figure 4.1: Years of Existence, % Portfolio

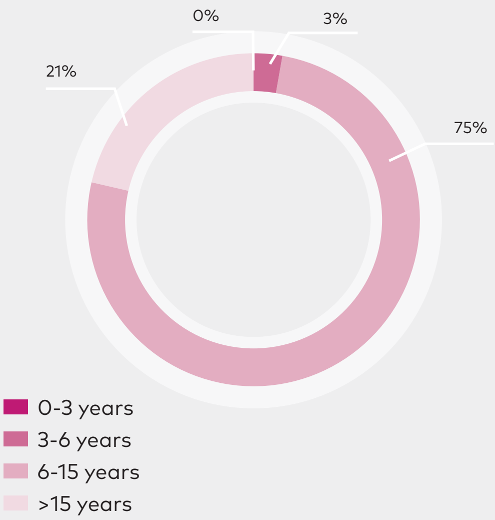
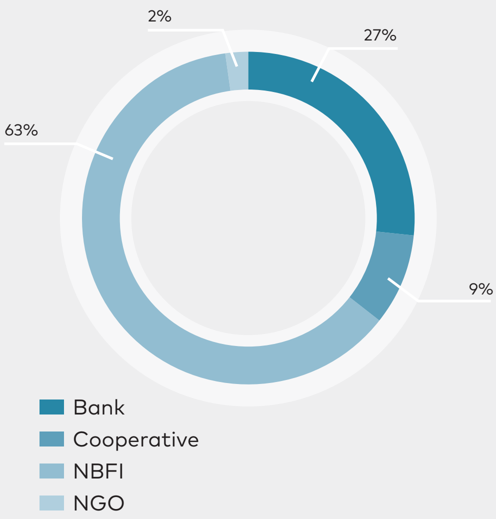


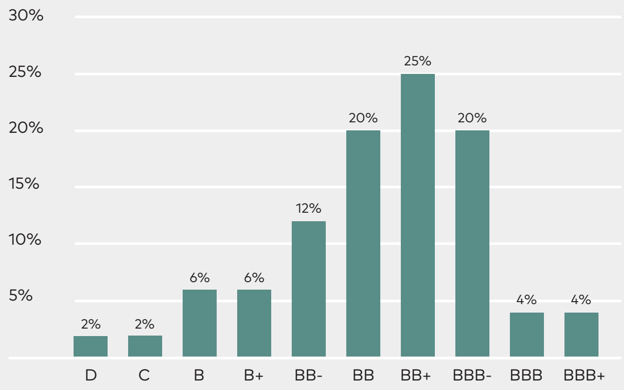
Figure 4.2: PLI Legal Status, % Portfolio



Credit Risk

In 2019, the weighted average credit risk of PLIs remained as BB (2018: BB). The Fund continues to target less mature financial institutions that are typically underserved by other lenders, while also continuing its exposure to larger, more stable PLIs. With the exception of the five workout cases, the individual credit ratings ranged from C to BBB. 69% of the portfolio is invested in sub-investment grade PLIs (compared to 76% in 2018), representing 73% of the PLIs in terms of number.

Figure 4.3: Credit Risk Profile December 2019



Size/Tier

Out of 8 new PLIs added to the portfolio in 2019, six are Tier 1 and two are Tier 2. At the portfolio level, 70% of the volumes invested are in Tier 1 institutions, while 30% are in Tier 2 and Tier 3 institutions.

Figure 4.4: Portfolio Breakdown by Tier, # PLIs

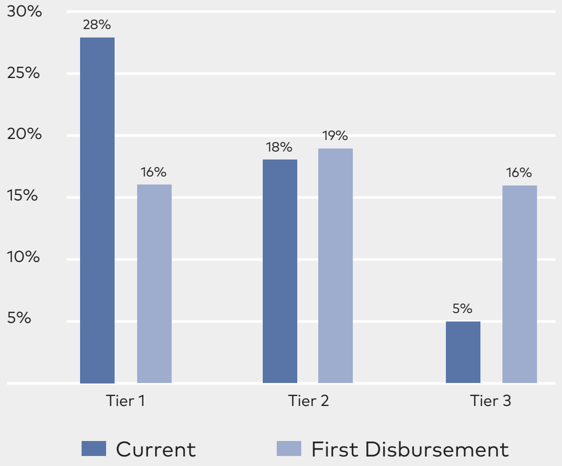
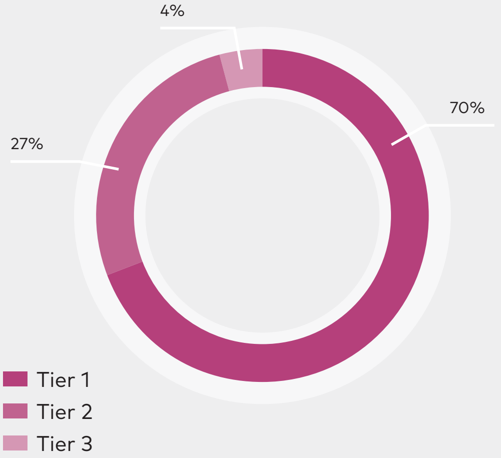


Figure 4.5: Portfolio Breakdown by Current Tier, % Portfolio



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 decreased the overall percentage exposure in frontier PLIs from 5.1% in 2018 to 4.3% of the GAV.

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.[12]

Table 4.1: Key Financial Indicators by Tier

Key Indicators	Tier 1	Tier 2	Tier 3	Avg. Portfolio	SYM50
Number of PLIs	28	18	5	51	50
Total assets (USD millions)	86.50	20.27	7.03	55.33	235.74
Loan Portfolio (USD millions)	85.78	32.77	4.53	123.1	190.34
Number of active borrowers	52,401	36,732	15,593	43,262	74,387
Average loan balance (USD)	1,145	368	315	897	2,018
Debt to Equity ratio	4.33	4.36	3.19	4.23	4.68
Portfolio Yield (%)	35.4	50.2	59.3	43.0	22.6
OER (%)	22.2	35.2	47.7	29.3	11.5
OSS (%)	122.9	108.9	103.6	116.1	118.9
ROE (%)	20.1	6.3	19.7	15.2	12.9
PAR>30 (%)	7.6	6.0	3.9	6.6	3.3

12 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.

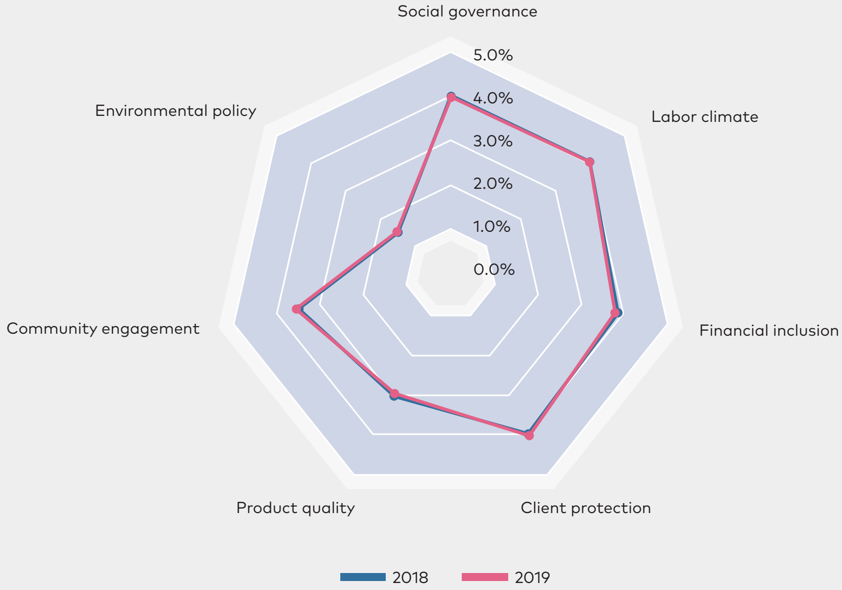
4.2 SOCIAL RESPONSIBILITY

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 3.6 stars (2018: 3.6) out of 5.

Figure 4.6: Social Responsibility Rating (Portfolio-Weighted)



ESR RATING AT A GLANCE

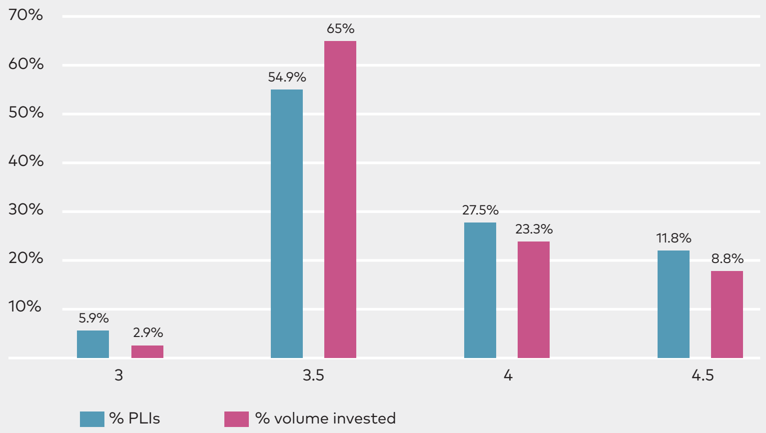
The ESR Rating shows to which extent a PLI contributes to socio-economic development and acts responsibly towards its stakeholders. It includes 100 indicators split into seven dimensions:

1. Social Governance (20%)	5. Product Quality (15%)
2. Labor Climate (15%)	6. Community Engagement (15%)
3. Financial inclusion (15%)	7. Environmental Policy (5%)
4. 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 51 PLIs in the portfolio, 37 were evaluated and rated in 2019. Eleven PLIs received improved social responsibility ratings, while 2 PLIs were 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.

Figure 4.7: 2019 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 3. Of the total volume invested by the Fund, 32% is in PLIs with a social rating of 4 stars or above, while another 65% is in PLIs with a social rating of 3.5 stars. Only 3.5% of the total volume is invested in Tier 3 institutions with scores 3.5 and 4. Smaller institutions generally have less established policies and weaker governance. Such institutions consequently score lower in Symbiotics' social rating, despite their positive impact through financial inclusion. 2.9% of the Fund's portfolio is invested in institutions with a social rating of 3 stars or below. Out of this volume, less than 1% is in Tier 1 PLIs and 2.1% in Tier 2.

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 three 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 decreased to USD 1,269,007 (compared to USD 1,319,081 in 2018). Similarly, the average balance to each PLI decreased from USD 2,289,725 in 2018 to USD 2,413,602 in 2019.

Table 4.2: Loan Size and Maturity

Size	2019
Average loan size	1,269,007
Min loan size	165,889
Max loan size	4,700,943
Average loan balance	2,413,602
Min loan balance	242,058
Max loan balance	9,880,069
Avg. loan balance/ PLI Assets	
0-5%	43%
5-10%	37%
10-15%	10%
15-20%	8%
>20%	2%

Maturity	2019
Weighted avg. maturity	32.0
Min maturity	12
Max maturity	61
<12 months (% volume)	0.0%
12-24 months (% volume)	45%
> 24 months (% volume)	54.7%
<12 months (% number)	0.0%
12-24 months (% number)	49%
> 24 months (% number)	49.5%

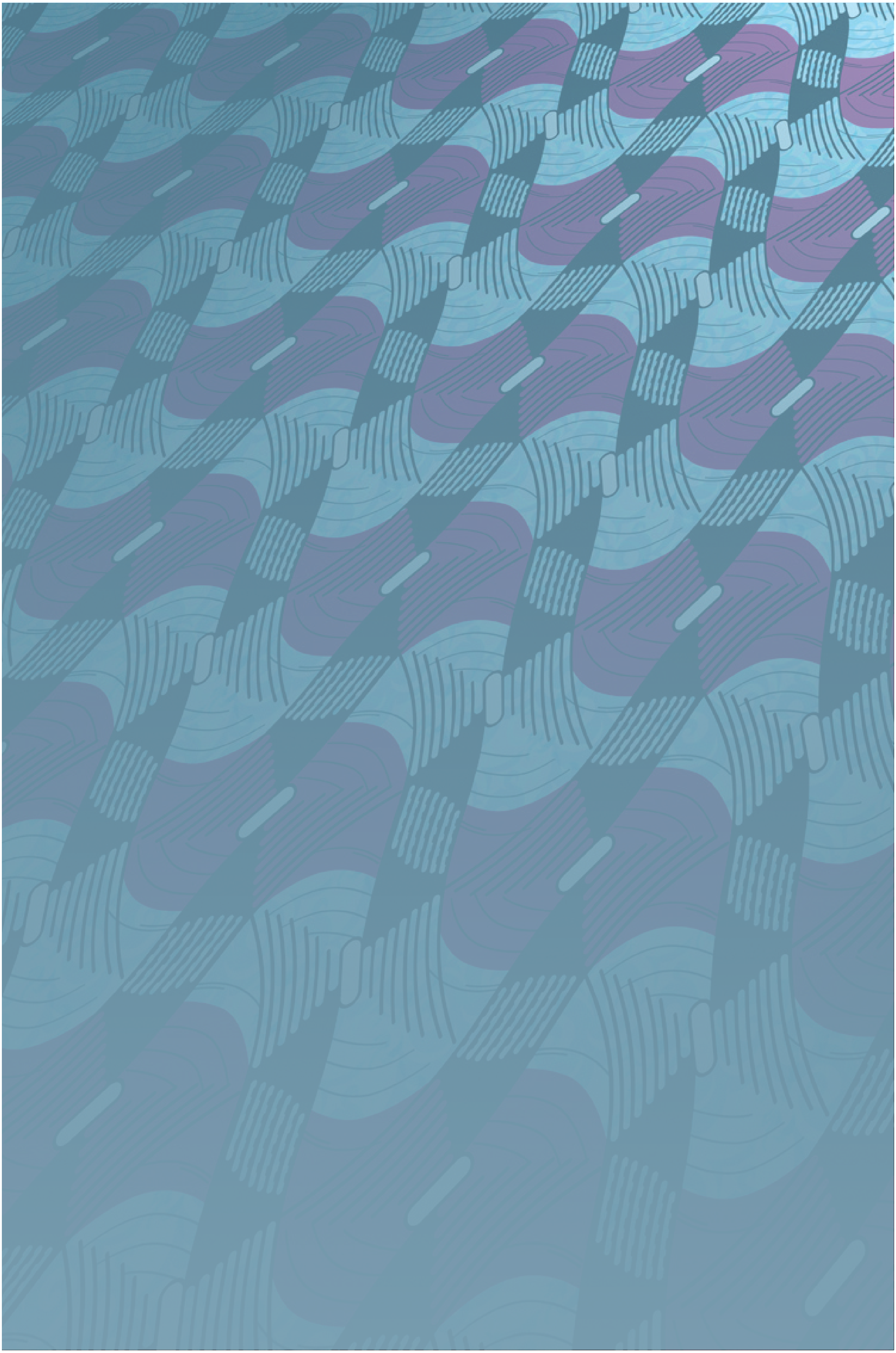
Table 4.3: Loan Products and Pricing

Loan Product	Loan Pricing
+ Mostly senior debt + Most of the loans in local currency + Interest rate risk rarely transferred + Mostly uncollateralized loans + Flexible amortization schedules	+ Competitive pricing to PLIs + Partnership with 2 hedge counterparties + Pricing based on local market conditions + Weighted average spread of 4.36%* + 1% upfront fee usually charged to PLIs

Product Range	2019
% Senior debt	100%
% Subordinated debt	0%
% Fixed rates	89.1%
% Floating rates	10.9%
% Local currency	85%
% Hard currency	15%
Collateralized loans	10.0%
Guaranteed loans	3.0%
Uncollateralized loans	87.0%
% Bullet loans	49.5%
% Amortization loans	50.5%

Spread over USD 6M Libor	2019
Weighted avg. fixed rate*	**7.7%**
6.5% to 8.0%	4.3%
8.0% to 8.9%	6.1%
Weighted avg. Spread over USD 6M Libor*	4.4%
< 2%	1.5%
2% to 4%	45.7%
4% to 6%	27.3%
> 6%	15.0%
Weighted avg. up-front Fee	**1.0%**

*Excluding upfront fee



5.0
END-BORROWERS AND STAKEHOLDERS

5.1 END-BORROWERS

The outstanding portfolio of USD 123.1 million contributed to financing 171,805 end-borrowers through 51 PLIs in 2019. There was a decrease in the total number of end borrowers from 2018 (180,068). Although the volume of the outstanding portfolio increased in 2019, the loan size is also slightly larger than in the previous year, increasing from USD 674 in 2018 to USD 716 in 2019. Investments generally finance 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 divided by 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 2019 was in Ghana (26.5%), a significant increase from 2018 (15.2%). This is explained by an increase in the exposure of USD 5M to institutions in Ghana that have an average loan balance lower than the median and will, therefore, reach out to a larger number of clients. Kenya and South Africa follow Ghana in terms of proportion of end-borrowers reached (with 13.1% and 8.4%, respectively). Finally, Angola is in the sixth position (6.5%), rising one position compared to last year.

Table 5.1: Number of Borrowers Reached and Loan Balance

Outreach	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
End-borrowers	37,696	103,307	155,985	194,303	192,820	197,637	164,154	151,288	180,068	171,805
Total since inception	37,696	141,003	296,988	491,291	684,111	881,748	1,045,902	1,197,190	1,377,258	1,549,064
Average Loan Balance	823	420	501	537	603	650	699	723	674	716

Table 5.2: Top Countries by Number of Borrowers Reached

Top Countries % of Borrowers	2018	2019
Ghana	15.2%	26.5%
Kenya	12.8%	13.1%
South Africa	8.8%	8.4%
Tanzania	6.8%	7.8%
Senegal	3.6%	6.8%
Angola	5.6%	6.5%

In 2019, REGMIFA financed a majority of female clients (52% vs. 40% male clients, with the remaining 8% of loans going to legal entities). Borrowers were mainly involved in small trading activities (59%), while a smaller proportion of clients are active in agriculture (9%), services (20%), production (4%) and other types of activities (8%), including transportation, construction, housing, renewable energy, and consumption.

Figure 5.1:
Distribution by Gender, % Headcount

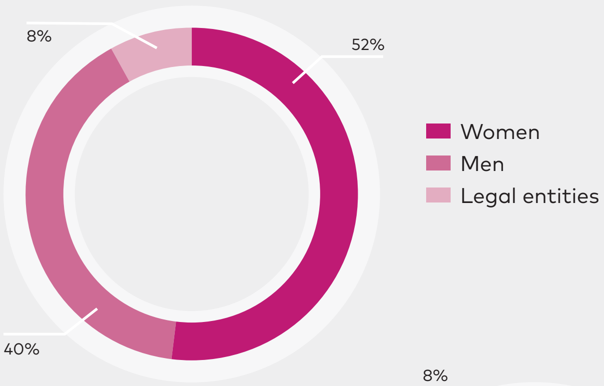
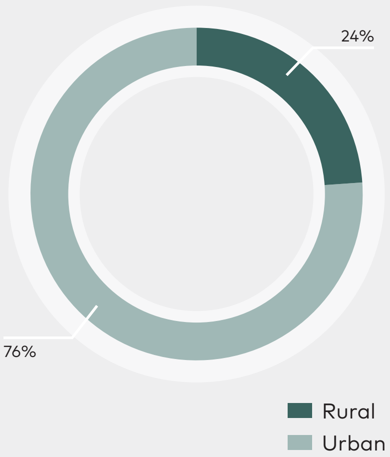


Figure 5.3:
Distribution by Location, % Headcount



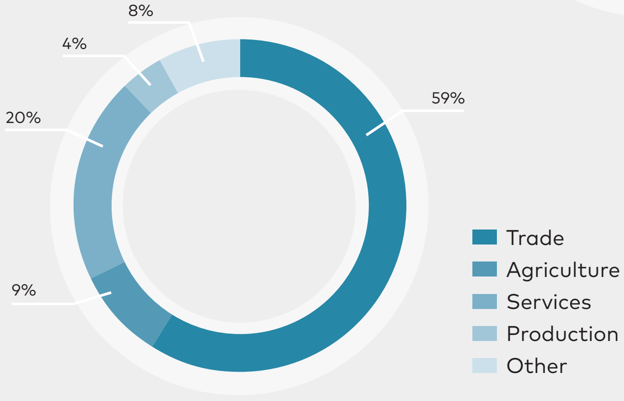


Figure 5.2:
Distribution by Activity, % Headcount

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 funding micro-, small and medium sized enterprises (91%). The remaining 9% is split among other types of lending (large enterprises, consumption, housing, education, other).

Loans are distributed either directly to individuals (71%) or through group loans (29%).

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

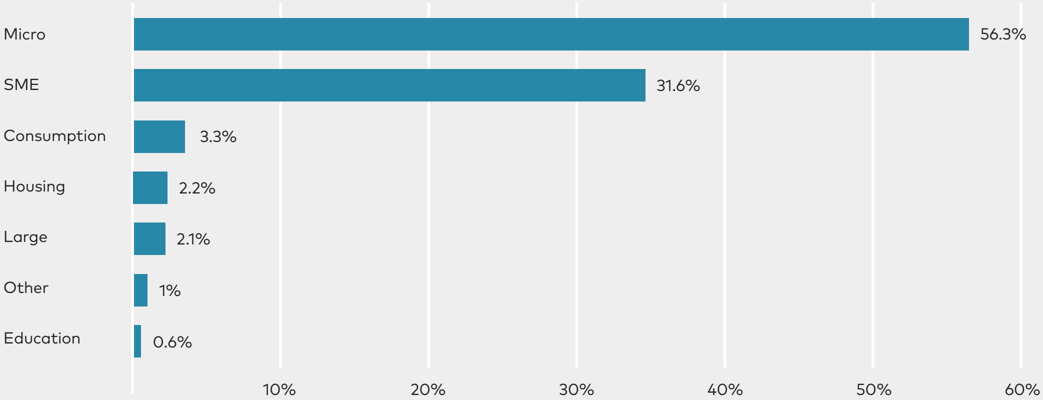
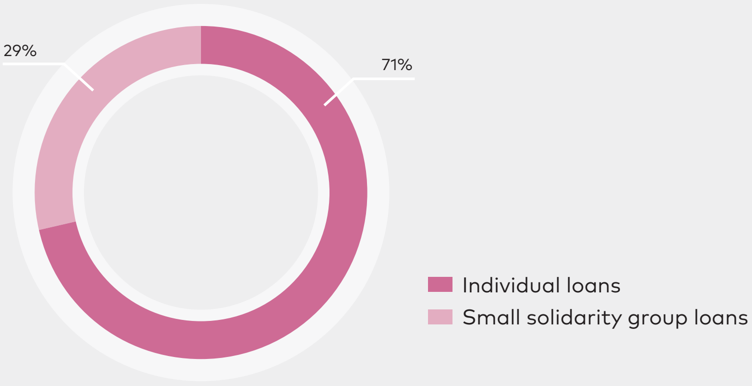


Figure 5.5: Lending Methodology, % Portfolio (Weighted Average)



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, 88% offer savings services, 78% offer insurance products, 77% offer payment services, and 43% offer other non-financial services. Overall, 88% of investees offer one or more of these non-credit products to their clients.

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

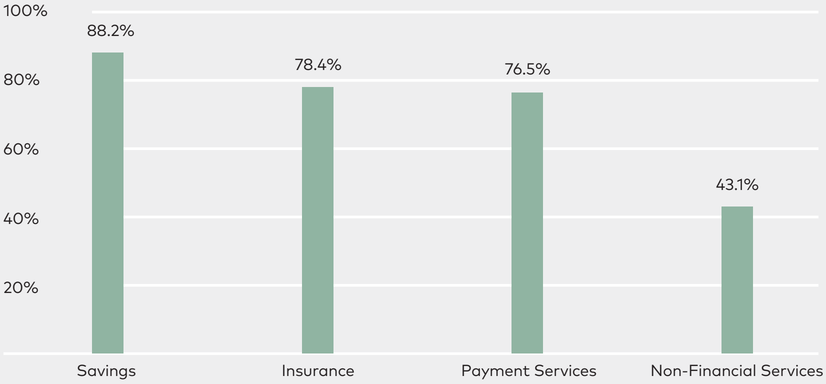


Table 5.3: Credit and Savings Conditions

Credit Conditions	2019
Avg. Loan balance (USD)	897
Avg. Loan balance / GNI pc	53%
Avg. Portfolio yield	43%
10% to 30%	33.3%
30% to 50%	25.5%
> 50%	41.2%

Savings Conditions	2019
% savers / borrowers	312%
% savings / PLI loan portfolio	48%
Avg. Savings (USD)	403.0
Avg. Savings / GNI pc	24%

The estimated average loan balance was USD 897. 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 43%, 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 403, representing 24% 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 2019, 67% of PLIs had endorsed the Smart Campaign on an individual basis, a small decrease from 69% in 2018.

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*	2019
Average PAR>30 + Write off	11%
% of PLIs with PAR>30 + Write off < 6%	45.1%
% of PLIs with PAR>30 + Write off between 6% and 9%	19.6%
% of PLIs with PAR>30 + Write off > 9%	35.3%
% of PLIs with access to credit bureau (CB)	90.2%
% of PLIs with no access to CB but using informal means to collect client data	9.8%
% of PLIs assessing client repayment capacity in a detailed and systematic way	88.2%
% of PLIs assessing client repayment capacity but not in a detailed/systematic way	11.8%
% of PLIs with relatively efficient client complaint mechanisms in place	80.4%
% of PLIs making proactive efforts to promote financial literacy	92.2%

* Note: Restructured loan values are included

Out of the 13 projects completed and reviewed by the TAF Manager in 2019, 11 projects were assessed for addressing Client Protection Principles (CPPs) and Social Performance Management (SPM) enforcement. This analysis and statistics exclude the 2 training programs completed in 2019 as CPPs and SPM are not tracked during training courses.

Out of the 11 completed projects assessed, the TA activities implemented for the majority (7) of them addressed at least 1 of the CPPs and SPM enforcement. However, although 4 of the completed projects did not directly address CPPs and SPM during the project interventions, the beneficiary PLIs are systematically encouraged to adhere to appropriate standards (either as required by the local regulations or global international standards). This was the case, for instance, for interventions supporting The Phakamani Foundation in South Africa, Juhudi Kilimo in Kenya, Access Bank in Zambia, or for the PLIs participating in the TA Package on Risk Management, etc.

The TAF Manager conducted an independent review of the completed projects to gauge the field activities reported or to be carried out, and their relationship to the CPPs and SPM. Notably, the most addressed principle was:

- CPP 1 – Appropriate product design and delivery (examples include projects on " Support to develop Mobile Financial Services – Mobile savings and credit products", "Support for (1) Feasibility Study to develop new products and an alternative business model (2) Training on governance and microfinance business strategy", and "Lancement des prets PME")

One project on "Implementing a client Policy and Developing a Financial Education Program" actually addressed all the 7 CPPs.

Table 5.5: TA Projects Addressing the CPPs

TA projects addressing Client Protection Principles (CPP)	2019
Of the 11 projects completed in 2019, seven projects specifically addressed and reported one or more of the CPPs:	
CPP 1: Appropriate product design and delivery	6 projects
CPP 2: Prevention of over-indebtedness	3 projects
CPP 3: Transparency	3 projects
CPP 4: Responsible pricing	3 projects
CPP 5: Fair and respectful treatment of clients	1 project
CPP 6: Privacy of client data	3 projects
CPP 7: Mechanisms for complaint resolution	3 projects

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 15.9%), job creation (total number of 23,333 people employed by PLIs), and staff compensation (average annual gross salary of USD 8,353 per employee), as well as the total amount of taxes paid by PLIs to national governments (USD 25.1m).

Table 5.6: Income Distribution & Staff

Income Sources	2019
Income from lending activities	87.0%
Other-operating income	10.2%
Non-operating income	2.8%
Total Income Distribution	
Personnel expenses	26.6%
Banking expenses	30.0%
Other operating expenses	29.6%
Non-operating expenses	1.7%
Taxes	3.1%
Net Income	9.7%
Shareholders	
Return on assets	3.4%
Return on equity	15.9%
Leverage	4.3
Staff	
Total number of PLIs' employees	23,333
Average salary of employees (USD)	8,352.9
Average salary / GNI pc	4.9
Government Taxes	
Government taxes / taxable income	13%
Total taxes paid by PLIs	25,106,588

6.0
ESR OBJECTIVES

6.1 OVERALL ESR GOALS OF REGMIFA

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	**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
REGMIFA	
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

6.2 ESR ACHIEVEMENTS IN 2019

As shown in this report, although improvements can be made in some specific areas, the 2019 ESR objectives have been mostly achieved by the Fund at the investor, sector, PLI, and end-borrower levels.

6.2.1 INVESTOR LEVEL

Target	Actual	Status
Focus on financial sustainability and achieve business plan objectives	As a result of ongoing stability and economic recovery in a number of REGMIFA's markets, the 2019 financial results allowed for full payment of target dividends as well as complementary dividends for the A and B shares of approximately USD 3 million in total. A significant portion (USD 644k) of the distributable income was allocated to the TA facility. Additionally, the C shares received 100% of their target dividends as well as complementary dividends, the capitalization of which helped restore the retained earnings buffer that was depleted in recent years.	Partially Achieved
Proactively manage PLIs with payment issues requiring a loan loss provisioning	In 2019 loans in workout status remained at five, reflecting the write-off of two (Finadev Chad and PRIDE Tanzania) and addition of two (AB Rwanda and MFinance) as the dedicated recovery unit continues to proactively manage PLIs with payment issues, slowly collecting outstanding sums and taking legal action where necessary. Provisions are calculated in accordance with IFRS 9 and assessed on a quarterly basis.	Achieved
Be responsive to information requests from Board, IC and shareholders	The Board of Directors noted that the Investment Manager continues to proactively respond to information requests from the Fund's Board, IC, and shareholders ensuring responses are provided in a timely manner.	Achieved

6.2.2 SECTOR LEVEL

Target	Actual	Status
Increase the portfolio size to USD 132 million	Outstanding portfolio at year end increased to USD 123 million, missing the target. The Fund reached 51 investees at the end of the year with an average investment per institution rising modestly to USD 2.4 million from USD 2.3 million in 2018. This continues to reflect the Fund's focus on its existing PLIs in 2019, many of which are smaller, less served institutions.	Not Achieved

Target	Actual	Status
Continue developing innovative financing strategies to enter into new countries	REGMIFA did not enter any new countries in 2019, but continued expanding its reach to new PLIs in its target markets, investing in 8 new PLIs that were not in the Fund's portfolio in 2018.	Not Achieved
Participate in some major sector initiatives	In 2019, Symbiotics participated in the Social Investor Working Group Meeting in Washington, D.C in collaboration with the IFC.	Achieved
Develop the concept and budget for an impact study on the Fund's investment activity	The impact study on the Fund's investment activity was conducted. The data collection was completed in December 2019 and the impact study will be published in 2020.	Achieved

6.2.3 PLI LEVEL

Target	Actual	Status
Add new PLIs to the loan portfolio	Added 8 new PLIs.	Achieved
At least 78% of new PLIs should be Tier 2 or Tier 3 institutions	38% of the newly added PLIs are Tier 2 institutions, no Tier 3 institutions were added	Not Achieved
Offer demand-oriented financial services to PLIs and be innovative in the field	Symbiotics continued to be proactive in offering demand-oriented services such as loans in local currencies, Technical Assistance, and longer loan maturities.	Achieved
Continue performing high-quality ESR ratings and focusing on socially responsible PLIs	37 high-quality ESR ratings were performed on Regmifa PLIs in 2019	Achieved
Continue to implement Impact Assessment recommendations for REGMIFA and the REGMIFA TA intervention	Out of the 13 projects completed and reviewed by the TAF Manager in 2019, 11 projects were assessed for addressing Client Protection Principles (CPPs) and Social Performance Management (SPM) enforcement.	Ongoing

6.2.4 END-BORROWER LEVEL

Target	Actual	Status
Increase outreach in terms of number of end-borrowers financed	In 2019, REGMIFA reached 171,805 end borrowers, 5% less than in 2018 (180,068)	Not Achieved
Target mostly MSMEs while not excluding other credit products	91% of the REGMIFA portfolio contributed to funding MSMEs.	Achieved
Target low income and otherwise excluded end-borrowers (e.g., rural clients)	The majority of REGMIFA end-borrowers fall in a low-income bracket, as indicated by an average loan balance of USD 674. Additionally, 64% of investments were made in Low Human Development countries, while 54% of investments were made in Least Developed Countries, an increase from 47% in 2018.	Achieved
Encourage PLIs to endorse the Smart Campaign to reach a higher ratio of endorsement	67% of REGMIFA PLIs have endorsed the Smart Campaign, a decrease from 69% in 2018.	Ongoing
Follow latest developments in the field of client protection and always seek to find innovative ways to implement the client protection principles	The REGMIFA IC continues to pay close attention to PLIs' practices with respect to client protection. Moreover, the TAF works with PLIs to develop, improve, and adhere to strict client protection principles.	Ongoing

6.3 ESR OBJECTIVES FOR 2020

Investor Level

- Focus on financial sustainability and achieve business plan objectives
- Proactively manage PLIs with payment issues requiring a loan loss provisioning
- Be responsive to information requests from Board, IC and shareholders, particularly with regard to COVID-19 effects

Sector Level

- Increase the portfolio size to USD 127m
- Continue developing innovative financing strategies to enter into new countries (19)
- Develop the concept and budget for an impact study on the effect of COVID-19 on end borrowers

PLI Level

- Add new PLIs to the loan portfolio
- At least 30% of new PLIs should be Tier 2 or Tier 3 institutions
- At least 80% of PLIs endorse client protection principles
- Offer demand-oriented financial services to PLIs and be innovative in the field
- Continue performing high-quality ESR ratings and focusing on socially responsible PLIs
- Continue to implement Impact Assessment recommendations for REGMIFA and the REGMIFA TA intervention

End-Borrower Level

- Increase outreach in terms of number of end-borrowers financed
- Target mostly MSMEs while not excluding other credit products
- Target low income and otherwise excluded end-borrowers (e.g., rural clients)
- Encourage PLIs to endorse the Smart Campaign to reach a higher ratio of endorsement
- Follow latest developments in the field of client protection and always seek to find innovative ways to implement the client protection principles

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