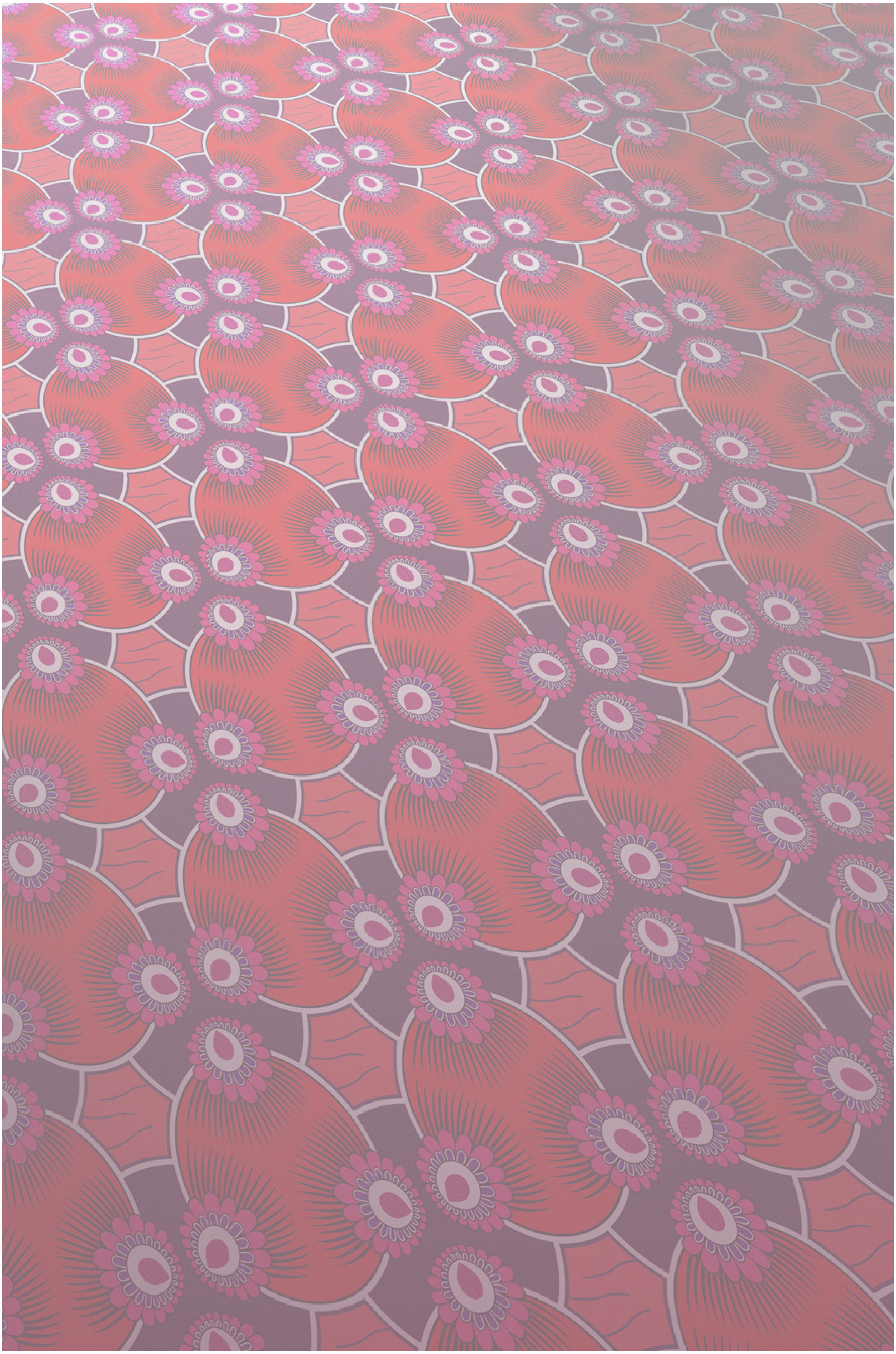
THE IMPACT OF MICROFINANCE ON REGMIFA'S BORROWERS:

INSIGHTS FROM THE 60 DECIBELS MFI INDEX

JUNE 2022

regmifA



KEY RESULTS
TABLE 1

4 COUNTRIES	**1,297** END-BORROWERS INTERVIEWED
66% ACCESSING FINANCE FOR THE FIRST TIME	**87%** INCREASED THEIR BUSINESS INCOME
88% IMPROVED THEIR QUALITY OF LIFE	**81%** IMPROVED THEIR ABILITY TO ACHIEVE THEIR FINANCIAL GOALS
68% STRONGLY AGREED THAT THEY UNDERSTAND ALL THE LOANS' TERMS AND CONDITIONS	**65%** DO NOT PERCEIVE LOAN REPAYMENTS AS A BURDEN
70% DECREASED THEIR STRESS LEVELS RELATING TO FINANCES	**70%** INCREASED THEIR SAVINGS

ABOUT THE INVESTMENT MANAGER

Symbiotics acts as the Investment Manager of REGMIFA. Symbiotics is a specialist impact asset manager, dedicated to private debt investment in emerging and frontier markets. We offer investments in Emerging and Frontier markets focused on impact outcomes, tailoring investment solutions according to client needs, in the form of investment funds and segregated mandates.

The Symbiotics group is a leading market access platform for impact investing, financing micro-, small and medium enterprises and low- and middle-income households in emerging and frontier markets. We have structured and originated 6,500 deals for over 520 companies in almost 100 emerging and frontier markets representing USD 6.5 billion. The firm held total assets under management and advisory of USD 2.9 billion, as at 31 December 2021.

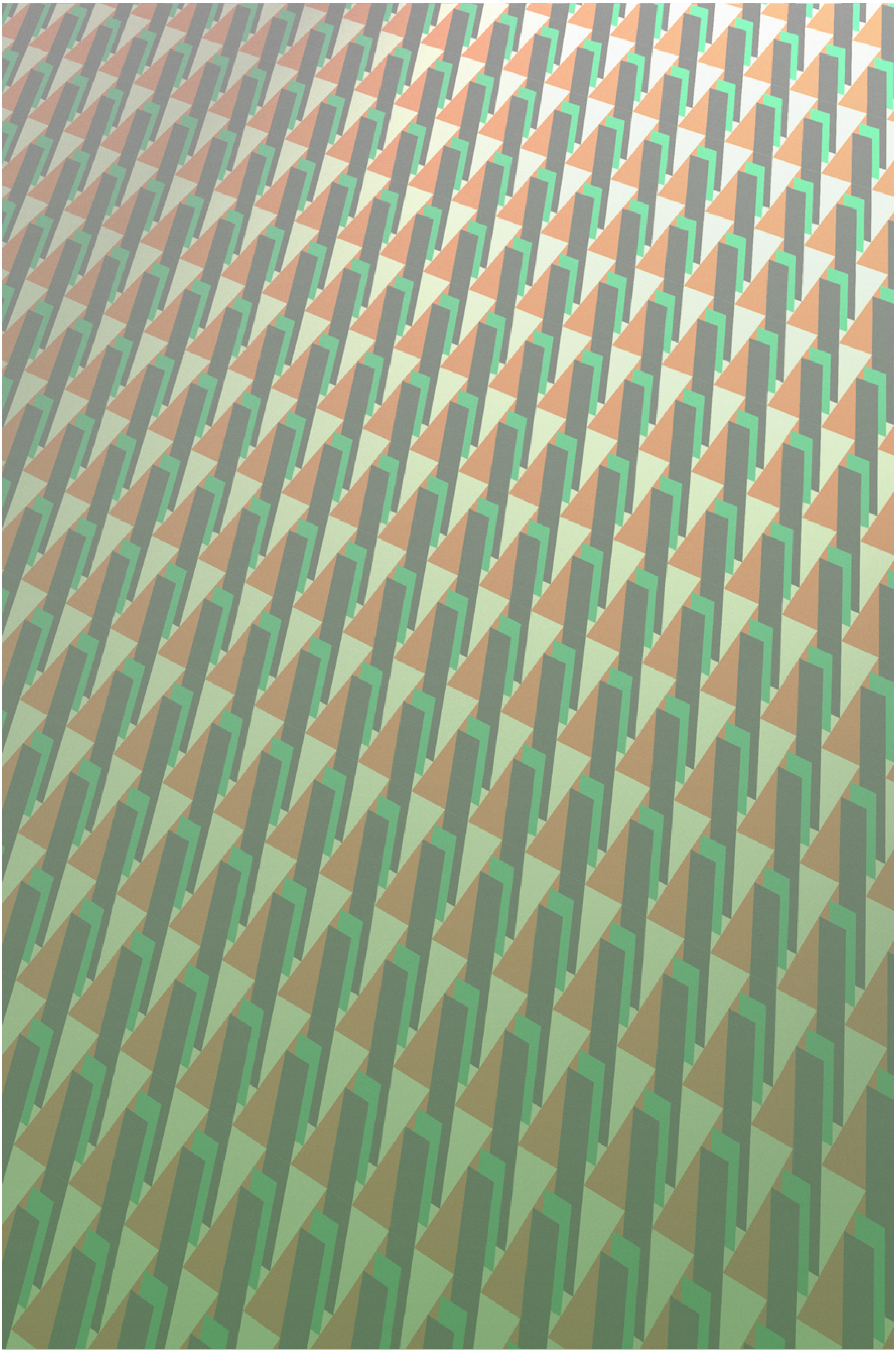
symbiotics

ABOUT THIS REPORT

This report presents the results from five institutions in the REGMIFA portfolio that participated in the 60 Decibels Microfinance Index. It was prepared by Tameo Impact Fund Solutions, with the goal of assessing how end-borrowers' lives and businesses are being impacted by having access to finance.

Tameo Impact Fund Solutions SA (Tameo) is a Swiss impact investing specialist serving the financial industry with independent expert solutions. Tameo guides investment funds, managers, and investors through the entire impact investing journey. It offers the most comprehensive online database of impact funds, customized analyses, and independent valuations. Through its research and advisory services, Tameo empowers clients to move towards best-in-class impact measurement & management.

tameo
Impact Fund Solutions



WHAT IS THE 60 DECIBELS MICROFINANCE INDEX?

The 60 Decibels Microfinance Index (MFI index) is an industry-wide initiative launched by 60 Decibels[1] to obtain comparable client-level impact performance data in microfinance. The initiative is supported by over 20 stakeholders in the microfinance industry, including REGMIFA, together with several impact fund managers, microfinance networks, development finance institutions and non-profit organizations. This initiative represents the first large-scale effort to gather comparable data directly from microfinance borrowers around the world with the aim of increasing transparency for investors as well as informing decision-making at the MFI level.

The MFI index gathers data from about 18,000 microfinance borrowers in 41 countries, who are clients of over 70 microfinance institutions. On average, 250 clients from each financial institution were randomly selected and interviewed by phone in local languages. The survey consists of 37 questions including both quantitative and qualitative indicators developed through a collaborative process. The results of the index are available in a public report and an online dashboard.[2]

The MFI index provides insights along five main dimensions:

- **Access**: measures whether institutions are serving people who are underserved
- **Business impact**: measures how microfinance loans affect borrowers' ability to earn an income from their business and create jobs
- **Household impact**: measures the impact of loans on borrowers' quality of life, and ability to meet their household needs and achieve their financial goals.
- **Financial manage**ment: measures whether borrowers understand the institution's loan conditions and the impact the loan has on their ability to manage their finances
- **Resilience**: measures the degree to which borrowers are financially prepared to overcome an economic shock and whether they have to make sacrifices to repay the loans.

Out of the 70+ microfinance institutions participating in the index, eight are investees from REGMIFA's portfolio, and three are among the top ten (LAPO Sierra Leone, Juhudi Kilimo, ACEP Burkina Faso).

This report is based on data from five of these investees for which REGMIFA provided co-financing for the surveys. Over 1,250 of their end-clients were interviewed between December 2021 and May 2022. In this section, we summarize the responses of these end-clients, analyzing how they were impacted by the microloans in terms of the five dimensions mentioned above.

The benchmarks mentioned throughout this section are calculated by using data from all MFIs participating in the MFI index. These benchmarks allow for performance comparability between REGMIFA's investees and similar MFIs around the world.[3]

---

1 60 Decibels is an impact measurement company mainly known for their Lean Data approach. With a network of more than 750 researchers in 50 countries, 60 Decibels provides impact performance benchmarks.

2 https://app.60decibels.com/mfi-index

3 60 Decibels calculates the average performance of the participating microfinance institutions for each indicator included in the index and it weighs each MFI's performance equally. For more information, see the methodology section of the Microfinance Index Report via https://app.60decibels.com/mfi-index

SAMPLE DESCRIPTION

The following results present aggregated data from the end-clients of five institutions where REGMIFA is invested, with the following characteristics:

SAMPLE COMPOSITION
TABLE 2

Country	No. respondents
Burkina Faso	262
Ghana	506
Malawi	279
Uganda	250
Total	**1297**
60dB Microfinance Index 17,956	

Average age	43 years
% women	63%
% living in rural areas[4]	55%

All end-clients interviewed are using their loans for business purposes, **either to finance an existing business (91%), or to start a new business (10%)**. Among these clients, the main loan purpose is to buy inputs for their business including inventory (68%), farming supplies (12%), and livestock (10%). Similarly, 10% of customers use their loans to buy machinery for their enterprises. Education (17%), household expenses (12%) and emergency spending (10%) are among the non-business purposes to which customers are allocating their loans.

4 This value does not include data from Sinapi Ghana since the question was not included in the questionnaire.

RESULTS BY DIMENSION

1. ACCESS

ACCESS: COMPARISON TO THE MICROFINANCE INDEX BENCHMARK
TABLE 3

Indicator	Microfinance Index Benchmark results	REGMIFA's investees average results
% accessing for the first time	58%	68%
% without access to good alternative	58%	56%

One of the main objectives of microfinance is to provide underserved populations with access to financial services, so assessing this dimension is a key part of assessing the impact performance of microfinance products. **We find that on average MFIs in this sample are mostly serving end clients who were previously underserved. Two out of three respondents indicated this is the first time, they were able to access the type of loans offered by their MFI**. The results from the survey are in line with the data from the 2021 Global Findex, i.e., customers from Burkina Faso and Malawi, countries where account ownership is 36% and 43% respectively,[5] reported the highest proportion of customers having access for the first time (Fig 18), while customers of institutions located in countries where account ownership is 60% are scoring slightly lower than the MFI index benchmark.

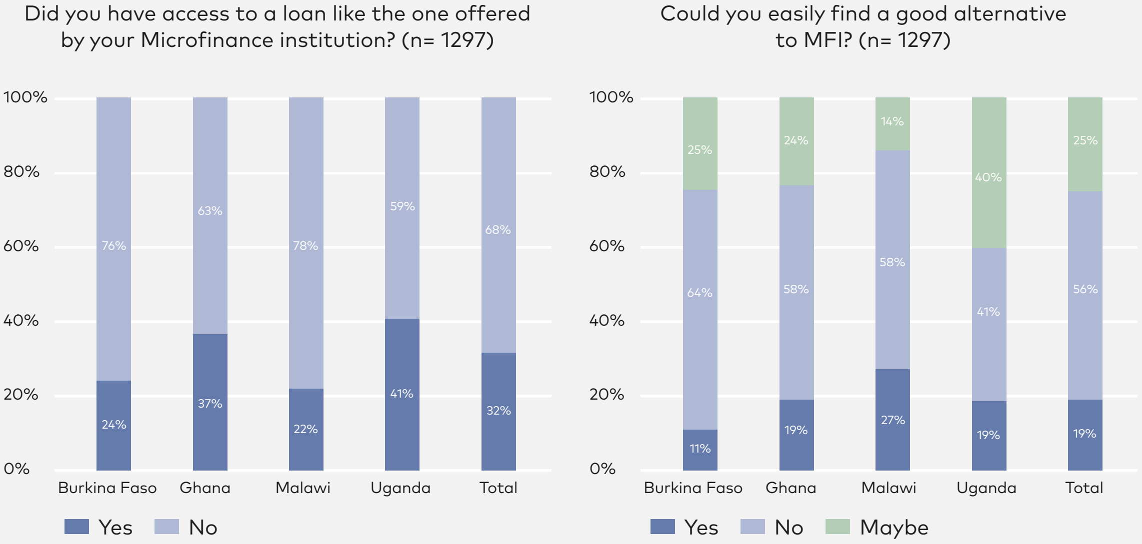
> ***"There are times when a merchant may be in financial trouble, yet it is difficult to borrow from a private individual. [The institution] appears as a hope for us."***

In addition, more than half of respondents in the sample could not find a good alternative to the services offered by the institutions, demonstrating that these MFIs are reaching out to a population who otherwise do not have access to services suitable to their needs.

5 Demirgüç-Kunt, A., Kalpper, L., Singer, D., Ansar, S. (2021). The Global Findex Database 2021: Financial Inclusion, Digital Payments, and Resilience in the Age of COVID-19 Retrieved from: https://globalfindex.worldbank.org/.

ACCESS TO LOANS AND ALTERNATIVES TO FINANCE (COUNTRY LEVEL)

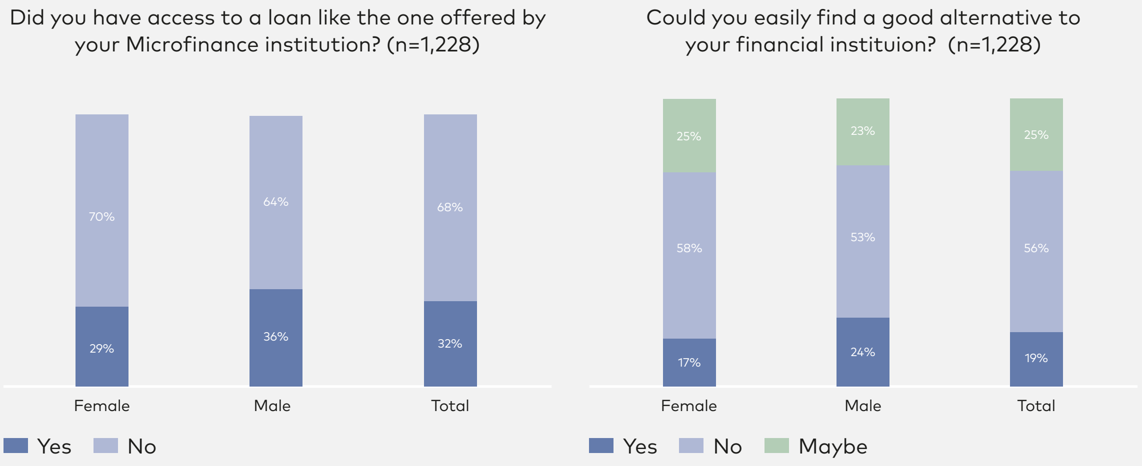
FIGURE 18



Women were more likely to report both that this was their first time accessing this type of loan (70% vs 64% for men) and that they could not easily get access to a good alternative (58% vs 53% for men), suggesting that they are disproportionately affected by limited access to financing (Fig 19).

ACCESS TO LOANS AND ALTERNATIVES TO FINANCE (GENDER)

FIGURE 19



2. BUSINESS IMPACT

BUSINESS IMPACT: COMPARISON TO THE MICROFINANCE INDEX BENCHMARK
TABLE 4

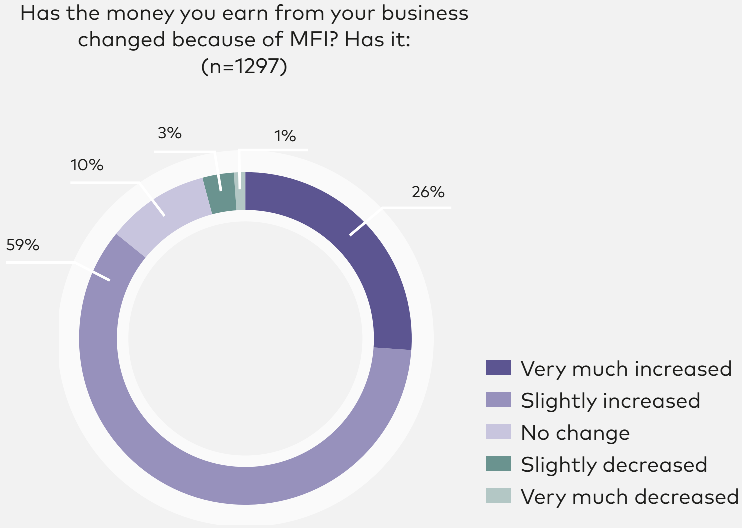
Indicator	Microfinance Index Benchmark	REGMIFA's investees average results
% seeing 'very much increased' improvement in income	24%	26%
% increasing no. of paid employees	13%	25%

Given that 91% of respondents are using loans for business purposes, it is worth understanding how their businesses are affected by the loans both in terms of income and ability to create jobs. **More than 80% of respondents indicated that their business income increased because of the loan they took from the MFI**.

> ***"[The institution] has allowed me to expand my business, and this has changed the life of my family"***

59% report that it 'slightly' increased whereas 26% reported that their income 'very much' increased (Fig. 20). Only 4% of respondents indicated that their income decreased because of the loan. Overall, these results suggest that access to finance is supporting microenterprises to increase their business income, primarily by allowing them to invest in their business. Compared to the MFI Index benchmarks, institutions from the REGMIFA portfolio performed better on both indicators measuring income change and employees increased.

CHANGE IN BUSINESS INCOME
FIGURE 20



In terms of employment, 35% of respondents reported that they do not have any paid employees (this does not include family members). Among those who do have employees, the number of employees range from 1 to 60 employees, with the majority of borrowers having only one to four employees. 36% reported that their number of employees has not changed because of the loan. 25% of respondents indicated that their number of employees increased because of the loan, whereas 4% reported a decrease in their number of employees. End-borrowers in the sample from Burkina Faso had the highest proportion of customers indicating an increase in employees (46%), while in Malawi it was 15%.

Among the respondents who reported a 'very much increased' business income, 47% also indicated an increase of paid employees.

3. HOUSEHOLD IMPACT

HOUSEHOLD IMPACT: COMPARISON TO THE MICROFINANCE INDEX BENCHMARK
TABLE 5

Indicator	Microfinance Index Benchmark	REGMIFA's investees average results
% 'very much improved' quality of life	35%	35%
% 'very much increased' household spending on home improvement	16%	13%
% 'very much increased' household spending on healthcare	9%	5%
% 'very much increased' number of quality meals	14%	12%
% 'very much increased' household spending on education	13%	12%
% 'very much improved' ability to achieve financial goal	27%	22%

The household impact dimension assesses the impact of loans on several aspects of household well-being, including overall quality of life, spending on food, education, household improvements, ability to go for medical check-ups, as well as ability to achieve financial goals. Altogether, these aspects give us an idea how a borrower's household is affected by access to microfinance. On average, the institutions in the sample were in line with the benchmark for each of the indicators (Table 11).

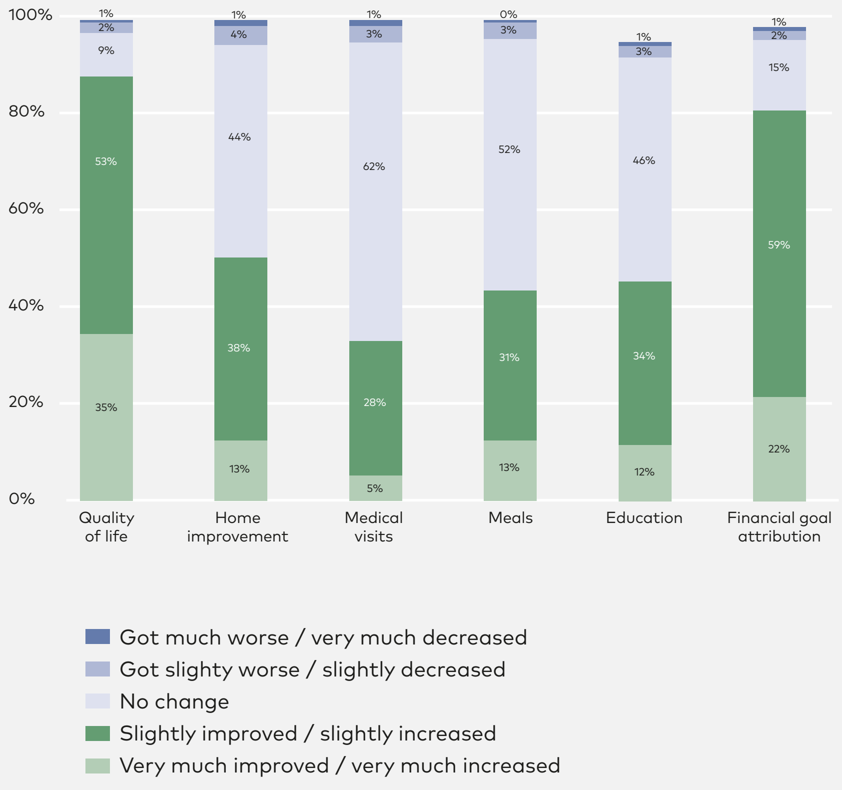
> ***"I manage to take care of my family and am able to pay school fees for my children"***

We see the most significant improvements in overall quality of life as 88% of respondents reported an improvement because of the services they receive from the MFI. **End-borrowers indicating their income has 'very much increased' also represent the highest proportion of respondents reporting a 'very much improved' quality of life**.

81% of borrowers also mentioned that their ability to achieve their financial goals (e.g., increasing their savings or income, investing in their business) improved because of the MFI. In terms of spending on various household needs, between 33% to 51% of borrowers said they could spend more on food, education, home improvements or medical visits, though in most cases, a majority said that their spending on these items had not changed (Fig. 21).

Women were significantly more likely than men to indicate an increase on household spending for home improvement because of the loan (54% vs 10% for men). Overall, end-borrowers from the sample in Burkina Faso experienced the most substantial improvements in their household situation.

HOUSEHOLD IMPACT
FIGURE 21



4. FINANCIAL MANAGEMENT

FINANCIAL MANAGEMENT: COMPARISON TO THE MICROFINANCE INDEX BENCHMARK
TABLE 6

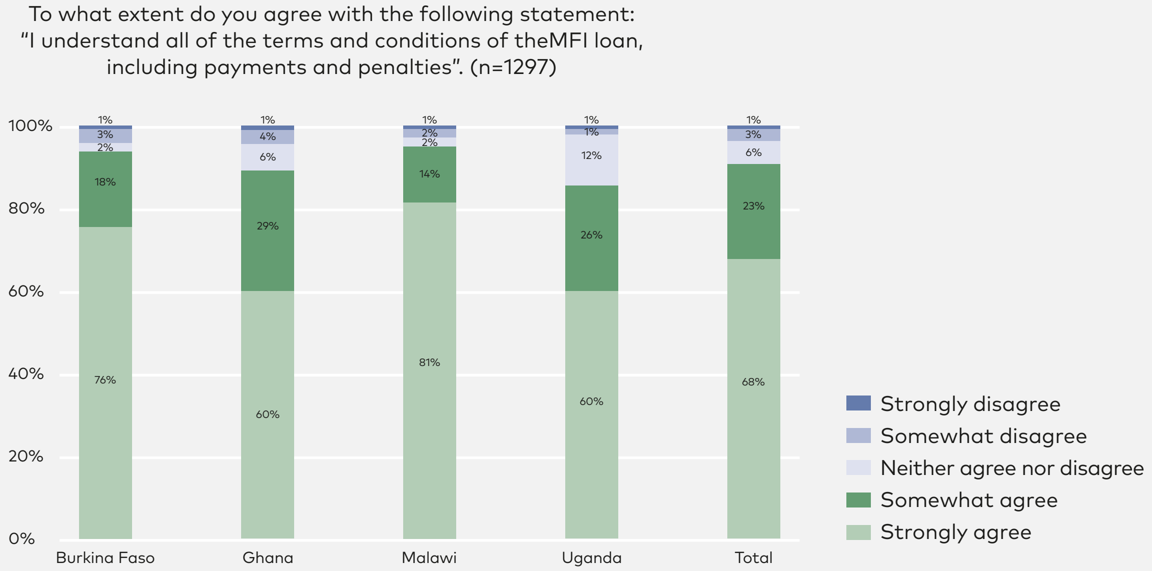
Indicator	Microfinance Index Benchmark	REGMIFA's investees average results
% 'strongly agree' to understanding terms	66%	67%
% 'very much improved / deceased' financial stress	18%	18%
% 'very much improved' ability to manage finances	22%	23%
% indicating payments 'not a problem'	70%	65%

Despite the potential benefits linked to microfinance, credit offered to low-income borrowers comes with a risk of over-indebtedness. The microfinance industry has been collaborating for decades to minimize this risk and protect end-clients from aggressive or exploitative lending practices. REGMIFA emphasizes the importance of client protection in its ESR rating methodology (see ESR reports), and systematically assesses the lending practices of all current and prospective investees. Through the financial management dimension of the MFI index, we listen directly to the end-borrowers to learn whether they understand their loan conditions, and the extent to which loan repayments are a burden to their household.

> ***"I was able to reinvest in my business to increase my sales. The ease of access to credit is very advantageous."***

68% of end-borrowers strongly agreed that they understand all the terms and conditions of the MFI loan (Fig.22), whereas only 4% disagreed. While this indicates that the five institutions are overall providing clear and relevant information to their end-borrowers, 18% of end-borrowers indicated they somewhat understand the terms of conditions, which means institutions can further their efforts in this aspect.

EXTENT OF LOAN UNDERSTANDING
FIGURE 22



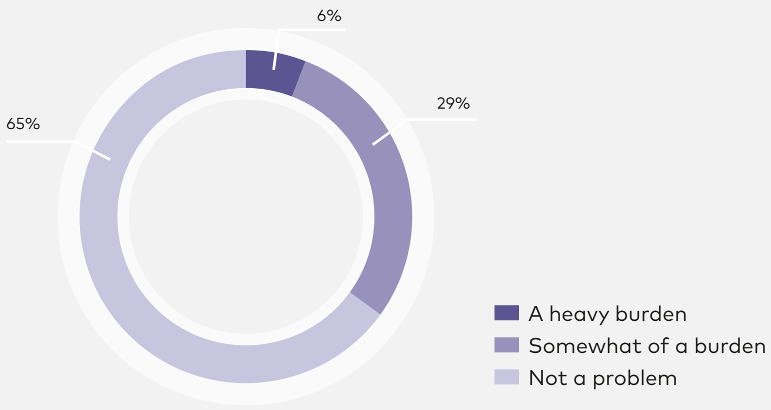
Furthermore, 65% of end borrowers do not perceive their loan repayments as a burden (Fig. 23), whereas about a third do perceive them as a burden with 6% finding them a heavy burden. While this is not a very high proportion, this suggests that there is room for improvement in assessing borrowers' repayment capacity, adjusting the loan terms accordingly and potentially re-scheduling payments. Improving these aspects could also have a positive impact on the institution's reputation since it was observed that out of those borrowers who indicated a heavy burden, 47% are less likely to provide positive feedback in terms of customer service provided by the institutions and represent the highest proportion of end borrowers less likely to recommend the institution to a friend or family.

> ***"We are asked to pay back the loan the same month we got the loan, instead of investing the money, we are using the loan to pay back the money to [the Institution]"***

They are also more likely to indicate a decrease in business income and less likely to indicate an improvement in quality of life and overall household outcomes. However, there is still a proportion of those end borrowers (39%) indicating improvement in the same indicators which can signal that they are still experiencing positive outcomes.

LOAN REPAYMENT BURDEN
FIGURE 23

Thinking about loan's borrowing repayment, are they a heavy burden, somewhat of a burden, or not a problem? (n=1297)



80% of all respondents report an enhanced ability to manage their finances and almost 70% of end-borrowers indicate a decrease in stress levels relating to their finances because of the services they receive from the MFI, suggesting an overall improvement in financial management. In terms of improvement in stress levels, results vary depending on the institution. In Burkina Faso, one of three end-borrowers reports very much reduced stress levels while less than 15% report the same from institutions in Ghana and Uganda.

5. RESILIENCE

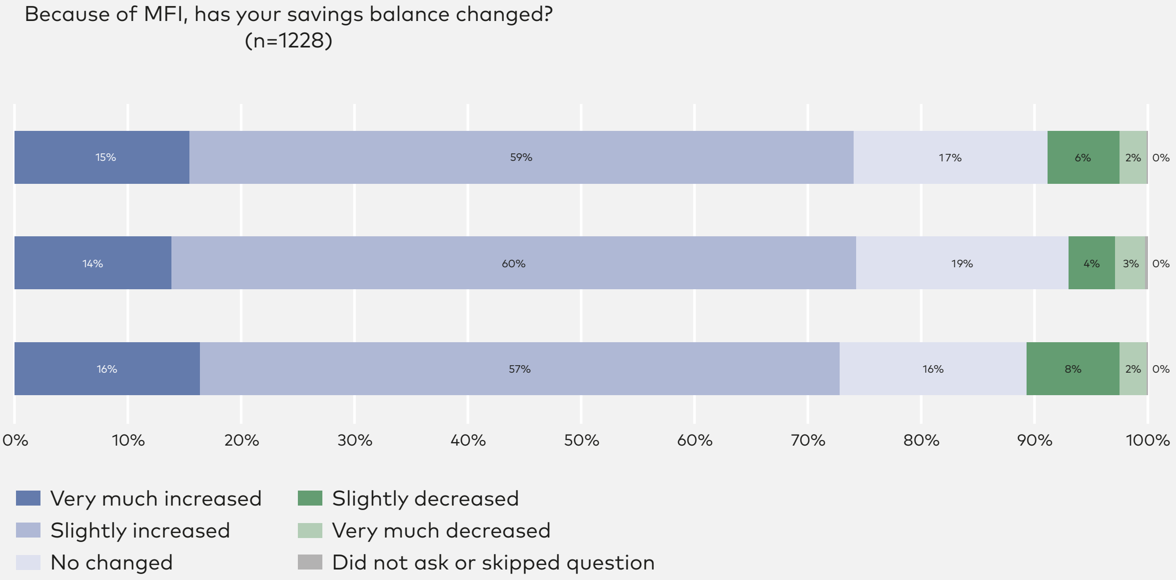
RESILIENCE: COMPARISON TO THE MICROFINANCE INDEX BENCHMARK
TABLE 7

Indicator	Microfinance Index Benchmark	REGMIFA's investees average results
% 'very much increased' savings balance	18%	15%
% 'very much improved' resilience thanks to company	72%	75%
% who 'never' cut food consumption to make payments	20%	19%

As we saw during the Covid-19 pandemic, millions of households fell into poverty due to the financial consequences of the pandemic because they did not have savings to fall back on, or access to emergency loans. One of the most important outcomes that microfinance aims to achieve is financial resilience so that low-income households can cope with shocks and smooth their consumption. Therefore, in the final dimension of the MFI index, we analyze whether borrowers are prepared to deal with a shock, how their savings have been affected by microfinance, and if they need to make any sacrifices to repay their loans. Institutions in the sample perform very well in all indicators measuring Financial Management.

More than 70% of end-borrowers indicate an increase in savings because of the services they receive from the MFI (Fig. 24). The five MFIs in this sample offer savings products to their clients, however, we find that end-borrowers from Ghana and Uganda, were the least likely to report increases in savings compared those in Burkina Faso.

SAVINGS BALANCE
FIGURE 24

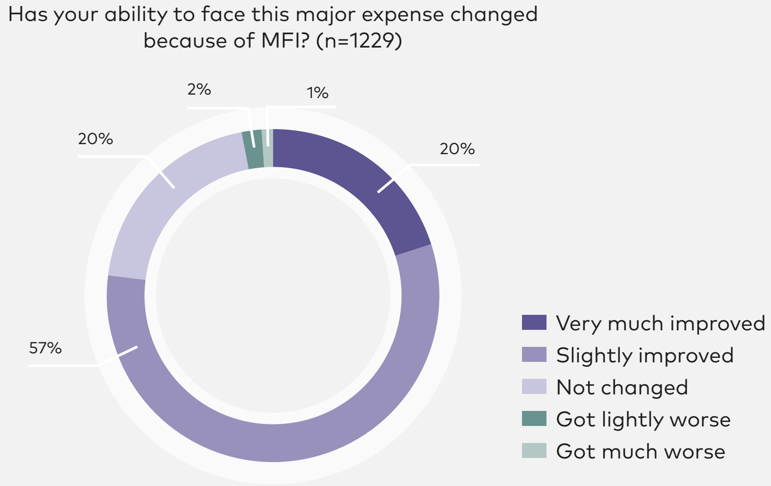


Despite increasing their savings, when borrowers are asked about how easy or difficult it would be for them to come up with enough money to face an emergency within the next month, only about a third said that it would be easy to come up with this money (about 1/20 of the GNI per capita in each country, as suggested by the Global Findex), suggesting that they are still relatively vulnerable.

> ***"I previously had my store robbed; I was completely out of the game. Thanks to the loan, I was able to get back up and even go further."***

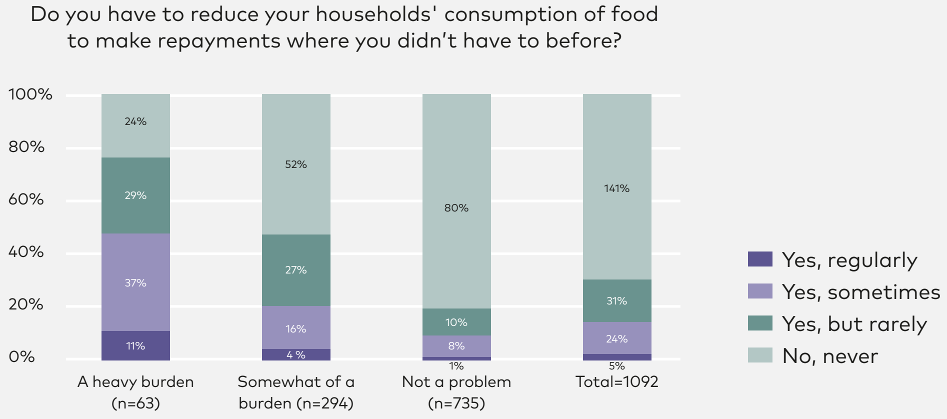
However, **77% of respondents indicated that their ability to face this major expense has improved thanks to the financial services provided by the MFI, demonstrating that the MFIs have been able to act as a source of emergency loans for clients** when they need it (Fig.25).

CHANGE IN ABILITY TO FACE MAJOR EXPENSE
FIGURE 25



Finally, when asked if they had to reduce their household's food consumption to make loan repayments, 70% of borrowers mentioned that they never had to do so and 16% only rarely did this, whereas the remaining 15% resorted to reducing their consumption. Unsurprisingly, borrowers who find loan repayments to be a heavy burden and have indicated an important decrease in income are significantly more likely to reduce their food consumption to make repayments. Reducing food consumption for loan repayments demonstrates the risks of over-indebtedness and the importance of appropriate lending terms to support microfinance borrowers.

REDUCING FOOD CONSUMPTION AND LOAN REPAYMENT BURDEN
FIGURE 26



MAIN TAKEAWAYS

The 60 Decibels MFI Index enables us to understand how end-borrowers' lives and businesses are being impacted by having access to finance, as well as areas of improvement. Compared to the benchmarks, REGMIFA investees in the sample perform very well across all dimensions, particularly in the access and business impact dimensions.

MFIs in the sample are mainly serving a client base that was previously excluded from the financial system with women having an increased likelihood of accessing a loan for the first time. We also see that borrowers are mainly using their loans for business purposes including purchasing inventory, machinery, livestock and to a lower extent, starting a new business.

Most respondents indicated an increase of income as a result from the loans granted. While we don't see major effects on employment, a quarter of microenterprises could nevertheless increase their number of employees. We also found a positive relationship between increases in business income and improvements in borrowers' quality of life.

We also see significant progress in borrowers' ability to manage their finances, increases in savings and an improve ability to reach their financial goals. Finally, in terms of financial management, borrowers generally do not find their loans to be a burden. However, one in ten customers indicate not fully understanding the loans' terms and conditions and almost a third consider the loan to be a burden. In the future, greater efforts can be made to reduce this proportion of end-clients.

Overall, most end-borrowers in the sample are benefitting from access to finance with significant improvements in quality of life, income and financial resilience.

SYMBIOTICS SA
Investment Manager and TA
Facility Manager of REGMIFA

Geneva

Rue de la Synagogue 31
CH-1204 Geneva
Switzerland

T. +41 22 338 15 40
F. +41 22 338 15 41
E-mail: info@regmifa.com

Cape Town

4 Loop St, Studio 502
Cape Town 8001
South Africa

T. +27 21 425 51 19
T. +27 21 425 51 20
F. +27 21 425 51 21

Fund registered office

31, Z.A. Bourmicht
L-8070 Bertrange
Grand-Duchy of Luxembourg