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SWISS MICROFINANCE & IMPACT INVESTMENTS REPORT

An overview of the Swiss specialized impact investment fund managers' contribution to SDG financing

symbiotics

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Symbiotics and the State Secretariat for Economic Affairs (SECO) wish, by co-sponsoring this report, to present an overview of the Swiss microfinance and impact investing fund managers, and more generally to promote the practice of private sector development finance in Switzerland.

FOREWORD

We believe microfinance and impact investing funds serve as an important channel to contribute to the financing of the Sustainable Development Goals (SDGs). The acceleration of private sector development finance investments brought about by this new paradigm is helping to connect such specialized funds and fund managers to mainstream wealth management practice, and align the SDGs with the necessary means to mobilize private sector capital to finance them. This mobilization is a tremendous opportunity to bridge the financing gap for the SDGs, as Official Development Assistance cannot do it alone.

The data sets behind this report stem from the survey and research work Symbiotics has been performing in the past decade, namely the *Microfinance Investment Vehicle (MIV) Surveys* starting in 2007 for the Consultative Group to Assist the Poor (CGAP) hosted at the World Bank, and the *Private Debt Impact Fund (PDIF) Surveys* starting in 2016 for the Global Impact Investing Network (GIIN). This report is the third edition of a Swiss subsection of such research, with the first edition dating from 2011 co-sponsored by the Swiss Agency for Development and Cooperation (SDC), and the second dating from 2015 co-sponsored with the University of Zurich. We hope this third edition will further our goal to shed light on the growth, variety and depth of our sector.

This paper also aims to clarify for a wider audience the specificities of private sector development finance, and the difference between sustainable finance, inclusive finance and impact investing approaches, all inscribed in their investment philosophy. In particular on the latter, it tries to map SDGs to sub-segments of investment strategies furthered by such funds.

Ultimately, we hope this report will help promote private finance for the SDGs in developing countries, to support the sector at home and abroad, to position Switzerland as a leading financial center for SDG financing, as well as to help impact investors align their pension contributions and personal savings to their values and aspirations.

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CEO, Symbiotics	Head Private Sector Development, SECO

EXECUTIVE SUMMARY

IMPACT INVESTMENTS

- **Global market share:** With USD 9.3 billion invested in diverse impact investing themes, Swiss specialized impact investment fund managers have a leading role in the global impact investing space as they manage or advise one third (32%) of global for-profit fund managers' capital in emerging markets.
- **Top 3:** Out of the 10 fund managers active as of December 2018, six have headquarters in Geneva, two in Zurich, one in Bern and one in Zug. In terms of assets under management (AUM), BlueOrchard, responsAbility and Symbiotics remain the top 3 leading Swiss fund managers, managing or advising the bulk of impact investing assets (86%).
- **Growth:** Impact AUM managed by Swiss fund managers has quadrupled since 2010 and registered an 18.5% compound annual growth rate (CAGR).
- **Number of products (see Table 1):** If many products today remain focused on microfinance, the number of those focused on energy, agriculture and SMEs has nearly doubled since 2014 and new ones have emerged in topics such as health care, fintech and climate.
- **Primary investment sectors:** Historically, microfinance has been and remains, despite a declining trend, the main investment sector (73.5%). The three specific impact themes attracting the highest funding volume beyond microfinance are energy and climate (7.4% in terms of volume), agriculture (5%) and SMEs (2.7%). Multi-sector products, with a diversified portfolio across several themes, also represent an important strategy for Swiss fund managers in terms of volumes (10.9%).
- **Type of investees:** Most impact products invest through financial institutions. However, with the rise of private equity funds, the number of investment products focusing their investment strategy on direct investments, i.e., investments in project and corporate finance, has quadrupled since 2010.
- **Investment products mapping to the SDGs:** Based on the impact themes targeted within their investment products, Swiss fund managers contribute to Sustainable Development Goals 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14 and 15.

Table 1

Swiss Impact Investment Products[1]

Swiss impact investment managers & product names	Product type	Asset class	Inception date	Incorporation place	Impact investment sector	Investee profile
AlphaMundi						
SocialAlpha Investment Fund – Bastion	Investment fund	Mixed	2009	Luxembourg	SME	Direct investments
Bamboo Capital Partners						
Bamboo Financial Inclusion Fund	Investment fund	Private Equity	2007	Luxembourg	Microfinance	Financial institutions
Oasis Fund	Investment fund	Private Equity	2007	Luxembourg	Multi-sector	Direct investments
Bamboo Financial Inclusion Fund II	Investment fund	Private Equity	2015	Luxembourg	Microfinance	Financial institutions
Bamboo Energy Access Multiplier	Investment fund	Private Equity	2017	Luxembourg	Energy	Direct investments
Agri-Business Capital Fund	Investment fund	Private Equity	2018	Luxembourg	Agriculture	Direct investments
Bamboo Healthcare Access Fund	Investment fund	Private Equity	2018	Luxembourg	Healthcare	Direct investments
Bamboo UNCDF Impact for the Least Developed Countries Fund	Investment fund	Private Equity	2018	Luxembourg	SME	Mixed
BlueOrchard						
BlueOrchard Microfinance Fund	Investment fund	Private Debt	1998	Luxembourg	Microfinance	Financial institutions
Enabling Microfinance Fund	Investment fund	Private Debt	2008	Liechtenstein	Microfinance	Financial institutions
Microfinance Initiative for Asia Debt Fund	Investment fund	Private Debt	2012	Luxembourg	Microfinance	Financial institutions
Regional Education Finance Fund for Africa	Investment fund	Private Debt	2012	Luxembourg	Education	Financial institutions
Insuresilience Investment Fund	Investment fund	Mixed	2015	Luxembourg	Climate	Financial institutions
Japan ASEAN Women Empowerment Fund	Investment fund	Private Debt	2016	Luxembourg	Microfinance	Financial institutions
BlueOrchard/responsAbility/Symbiotics						
Microfinance Enhancement Facility	Investment fund	Private Debt	2009	Luxembourg	Microfinance	Financial institutions
Impact Finance						
Impact Finance Fund	Investment fund	Private Debt	2011	Luxembourg	Agriculture	Direct investments
INOKS Capital						
Commodity Value Chain Sustainable Investment Fund	Investment fund	Private Debt	2014	Luxembourg	Agriculture	Direct investments
Obviam						
Swiss Investment Fund for Emerging Markets	Investment fund	Mixed	2005	Switzerland	Multi-sector	Funds
Impact Investing SME Focus Fund	Investment fund	Private Equity	2013	Switzerland	SME	Funds
PG Impact Investments						
PG Impact Investments I	Investment fund	Mixed	2018	Guernsey	Multi-sector	Mixed
Philea						
Philea	Cooperative	Private Debt	1996	Switzerland	Microfinance	Financial institutions
responsAbility						
responsAbility Micro and SME Finance Fund	Investment fund	Private Debt	2003	Luxembourg	Microfinance	Financial institutions
responsAbility Micro and SME Finance Leaders	Investment fund	Mixed	2006	Luxembourg	Microfinance	Financial institutions
responsAbility BOP Investments	Investment fund	Private Equity	2007	Luxembourg	SME	Funds
responsAbility Micro and SME Finance Debt Fund	Investment fund	Private Debt	2007	Luxembourg	Microfinance	Financial institutions
responsAbility Ventures I	Investment fund	Mixed	2010	Switzerland	SME	Direct investments
Global Climate Partnership Fund	Investment fund	Private Debt	2011	Luxembourg	Energy	Financial institutions
responsAbility Fair Agriculture Fund	Investment fund	Private Debt	2011	Switzerland	Agriculture	Direct investments
responsAbility Financial Inclusion Fund	Investment fund	Private Debt	2011	Luxembourg	Microfinance	Financial institutions
responsAbility Participations	Investment fund	Private Equity	2012	Switzerland	Microfinance	Financial institutions
responsAbility Renewable Energy Holding	Investment fund	Private Equity	2013	Mauritius	Energy	Direct investments
responsAbility Energy Acces Fund	Investment fund	Private Debt	2015	Luxembourg	Energy	Direct investments
responsAbility Agriculture I	Investment fund	Private Equity	2017	Luxembourg	Agriculture	Direct investments
responsAbility Agriculture Fund	Investment fund	Private Debt	2018	Luxembourg	Agriculture	Direct investments
Symbiotics						
Dual Return Fund – Vision Microfinance	Investment fund	Private Debt	2005	Luxembourg	Microfinance	Financial institutions
Finethic Microfinance	Investment fund	Private Debt	2006	Luxembourg	Microfinance	Financial institutions
Dual Return Fund – Vision Microfinance Local Currency	Investment fund	Private Debt	2010	Luxembourg	Microfinance	Financial institutions
Regional MSME Investment Fund for Sub-Saharan Africa	Investment fund	Private Debt	2010	Luxembourg	Microfinance	Financial institutions
Global Microfinance Fund	Investment fund	Private Debt	2013	Luxembourg	Microfinance	Financial institutions
SEB Microfinance Fund II	Investment fund	Private Debt	2014	Luxembourg	Microfinance	Financial institutions
SEB Microfinance Fund III	Investment fund	Private Debt	2015	Luxembourg	Microfinance	Financial institutions
Emerging Impact Bond Fund	Investment fund	Private Debt	2015	Luxembourg	Microfinance	Financial institutions
Finethic Microfinance II	Investment fund	Private Debt	2016	Luxembourg	SME	Financial institutions
SME Finance Loans for Growth	Investment fund	Private Debt	2016	Luxembourg	SME	Financial institutions
SEB Microfinance Fund IV	Investment fund	Private Debt	2016	Luxembourg	Microfinance	Financial institutions
Global Financial Inclusion Fund	Investment fund	Private Debt	2016	Luxembourg	Microfinance	Financial institutions
SEB Microfinance Fund V	Investment fund	Private Debt	2017	Luxembourg	Microfinance	Financial institutions
SEB Microfinance Life	Investment fund	Private Debt	2017	Luxembourg	Microfinance	Financial institutions
SEB Impact Opportunity Fund	Investment fund	Private Debt	2018	Luxembourg	Multi-sector	Mixed
SEB Microfinance Fund VI	Investment fund	Private Debt	2018	Luxembourg	Microfinance	Financial institutions

1 Active as of 31.12.2018

MICROFINANCE INVESTMENTS

- **Asset size:** The total assets of Swiss microfinance investment funds increased from USD 4.1 billion to USD 6.8 billion in 4 years (CAGR: 14%), maintaining a significant share of the global microfinance investment vehicle (MIV) market at 41% on average over the years.
- **Asset managers:** BlueOrchard, responsAbility and Symbiotics remain the top 3 fund managers, accounting for 99% of all Swiss microfinance AUM.
- **Geographical allocation:** Latin America and the Caribbean continue to attract the highest funding volumes (37%), followed by Eastern Europe and Central Asia (20%), East Asia and Pacific (17%), South Asia (16%), sub-Saharan Africa (8%) and MENA (2%).
- **Investees:** Swiss MIVs have increased their exposure to larger investees (i.e., those with a balance sheet above USD 100 million) since 2014, from 58% to 78% as of December 2018, showing an up-market move towards financing larger financial institutions that generally have broader financial products and greater diversity in their client-base.
- **Type of investors:** Throughout the years, Swiss fund managers have mostly leveraged institutional capital (29% CAGR), signaling rising interest among banks, pension funds, foundations and insurers willing to access the real economy while contributing to growth and prosperity in emerging and frontier markets.
- **Local currency debt investments:** Since 2014, Swiss MIVs have grown their share of local currency investments from 32 to 50% of the debt microfinance portfolio.
- **Costs:** Swiss MIV management fees have been stable at around 1.5% of total assets under management over the period, with other operating expenses at about 0.4%. Thanks to their relatively large fund size, they benefit from economies of scale and a lower total expense ratio than their foreign microfinance peers.
- **Net returns:** On average, Swiss MIVs recorded 3% net returns in USD and slightly lower returns in EUR, at 2.4%.
- **Social performance:** The average number of borrowers by Swiss MIV has significantly increased over the last years. A Swiss MIV today indirectly finances about 540,000 borrowers, whose average credit size amounts to USD 1,800.
- **SDG mapping:** The most recurring SDGs against which Swiss MIVs map their investment portfolios are, among others, Goal 1: No Poverty, Goal 8: Decent Work and Economic Growth, Goal 5: Gender Equality, and Goal 10: Reduced Inequalities.

1.

DEVELOPMENT FINANCE TAXONOMY

A. Micro-credit, microfinance, inclusive finance, impact investing, SDG financing: is it all the same thing?

In the development aid and policy space, multilateral banks initiated the microfinance movement in the 1980s as an alternative to the massive government indebtedness programs in the South following the decolonization era of the 1960s. It was seen as a bottom-up private sector solution meant to complement, or maybe one day replace, top-down public aid while essentially finding ways to service the needs of low-income households and their livelihoods in high population growth countries that were both underdeveloped and underserved. The value chain has remained unchanged since then but has evolved quite a bit in its underlying framework, which can sometimes be confusing for the outside observer.

The narrative has moved from an initial focus on microcredit in the 1990s – a small loan to a poor individual engaged in small income generating activities with little or no collateral to offer, and usually jointly bound to self-selected peers to raise its credit profile – to microfinance by the time the United Nations celebrated the industry in 2005. The focus had then moved to bankers – successful microfinance institutions that enable small loans and, increasingly, savings, insurance and payment systems of all kinds. After the first micro-bank IPOs in India and Mexico, policy-makers shifted to a more systemic discourse of *building inclusive financial systems*. When the global financial crisis hit, the underlying framework evolved again, towards *outcome* or *impact*. While industry experts eventually settled into using the term *impact investing*, it remains a somewhat abstract idea to everyday savers and pensioners. More recently, the model has increasingly been talked about using the lens of the United Nations Sustainable Development Goals (SDGs).

Microcredit, microfinance, inclusive finance, impact investing and SDG financing are to a certain extent all the same thing: reaching far into the base of the social pyramid (BOP) in developing markets, into micro, small and medium enterprises and low- and middle-income households. From a focus on a more emotional narrative of a poor household or microentrepreneur to a more institution-building financial success story or taking an economist's systemic approach to capital flows and the need for them to be inclusive; or focusing on measuring results and their outcomes; or eventually telling how money is put to work, which goods and services of first necessity they fulfill. They try to address the same aspiration, just using different lenses.

B. Defining the investment universe and value chain

The investment universe – and the value chain it entails – of private sector development finance funds is straightforward, irrespective of the lens chosen: investors investing through a range of investment products, themselves focusing solely on emerging and frontier markets, with a view to reaching the base of the population, either indirectly through financial intermediaries or directly through small businesses, or in some cases through larger corporations or projects.

- **Investors:** Any capital accumulation scheme, whether through collective pension contributions, insurance plans, or directly through savings from private or retail banking accounts, or through more sophisticated foundations or other wealth management vehicles, but driven by a double bottom line approach of sound financial return and positive development impact.
- **Investment funds:** Any type of collective investment scheme and vehicles, either dedicated or specialized, or more generic partially targeting development finance.
- **Emerging and frontier markets:** In the sense of targeting primarily upper middle, lower middle and low-income countries, as defined by the World Bank.
- **Financial intermediaries:** Any type of financial institutions (banks, non-bank financial institutions, cooperatives, leasing schemes, insurance plans, etc.) or local intermediary (vehicles, funds, etc.), addressing the base of the pyramid.
- **Micro-, small and medium enterprises (MSMEs):** Small businesses that employ respectively up to 5 employees, between 5 and 50 employees, and between 50 and 250 employees.
- **Corporations:** Any larger companies addressing the base of the pyramid.
- **Projects:** Any project finance addressing the base of the pyramid.
- **Low- and middle-income households (LMIHs):** Households with a net disposable income that is average or below average, ranging from extremely poor to moderately poor and vulnerable non-poor levels, as defined by the World Bank.
- **Base of the pyramid (BOP):** Low and middle-income households and MSMEs in underserved economies.

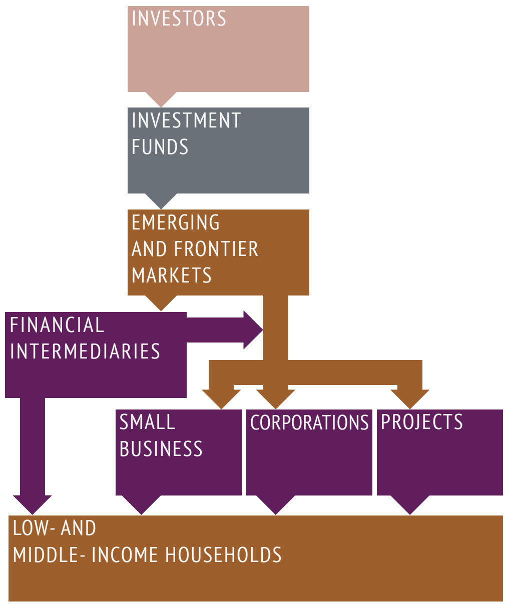


Figure 1
Investment Value Chain

C. Defining the development narrative and approach

Private sector development finance has emerged in the wake of development finance institutions, multilateral development banks and more general public sector financing of private sector business with a development impact purpose. Its practice can be defined as offering private debt and private equity investments into the real economy in emerging and frontier markets, with a view to creating both sound financial return and positive sustainable development impact. It includes topics such as microfinance, small business finance, sustainable agriculture, community development (affordable housing, sustainable infrastructure, clean utilities, etc.), renewable energy (hydro, solar, waste, wind, etc.), affordable healthcare and education, etc.

Specialized asset managers and dedicated investment funds represent private sector development finance. They stand out, by seeking to pursue an investment philosophy geared towards sustainable, inclusive and impact finance in emerging and frontier markets. This more complex approach and narrative for the investor, entails a triple promise or commitment, alongside the other risk, return, regulatory and cost elements that build their practice.

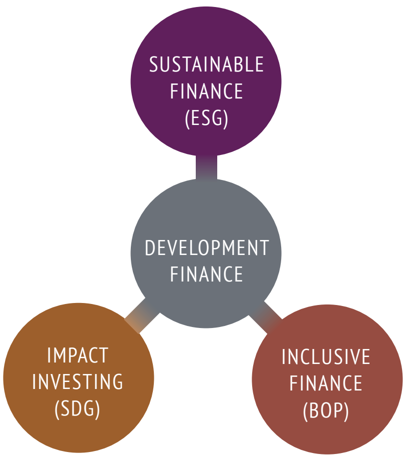


Figure 2
Investment Approach and Methodology

- **Sustainable finance:** In the sense of following environmental, social and governance (ESG) principles, as illustrated by the principles for responsible investing (PRI).
- **Impact investing:** In the sense of positively addressing a range of global challenges, as currently illustrated by the SDGs (i.e., no poverty, zero hunger, good health and well-being, quality education, gender equality, clean water and sanitation, affordable and clean energy, decent work and economic growth, etc.).
- **Inclusive finance:** In the sense of following an investment strategy that serves the base of the pyramid, investing with a view to create inclusive growth for the benefit of low and middle-income households and MSMEs.

Development finance, at least as practiced in the private sector, is part of the wider sustainable finance space as it seeks to contribute to a sustainable and prosperous economy in emerging and frontier markets. In the same vein, it is part of impact investing in its wider definition. And inclusive finance is part of what it tries to achieve. If that image is true from a market size and investment universe perspective, from an investment approach and methodology perspective, sustainable finance, impact investing and inclusive finance are different approaches or lenses to a same overarching goal – that of achieving a sustainable and prosperous economy focusing on (a) integrating and engaging on social, environmental and good governance practice, (b) targeting specific themes or SDGs and monitoring and measuring their implementation and outcome, or (c) focusing on the base of the pyramid population and measuring the breadth and depth of outreach through access to finance and goods and services of first necessity for low- and middle-income households in emerging and frontier markets.

As a result, development finance investments stand out from mainstream investments because they integrate these filters and drivers in their decision-making process, added value and monitoring work. They typically implement their development narrative and theories of change through upstream stated intent, transactional engagements and downstream measurement centered on either the social or environmental objectives they seek to achieve.

This includes a range of tools, policies and procedures, such as: **(1) pre-investment ratings and evaluations**, typically centered on sustainable finance principles (environmental, social and governance – ESG); **(2) transactional covenants or engagements**, binding or furthering the use of funds to the targeted goals and intent of their investments, typically using a range of impact topics or SDGs; and **(3) post-investment reporting** on (a) the investment output produced in terms of volumes, risk and return, (b) the investment outreach achieved, measuring inclusion in terms of breadth and depth into populations at the base of the pyramid and, in some cases, (c) on the ex-post outcome results delivered attached to their specific stated intent, which today can use the subset indicators underlying each SDG to produce effective impact measurement.

Figure 3
Investment Universe

D. Mapping the SDGs to specific investment strategies

Private sector development finance investment funds overwhelmingly started with microfinance strategies. They eventually grew with new small business finance strategies. More recently a growing number of funds offer tailored thematic investment strategies, either through local financial institutions and intermediaries, or directly into small businesses or larger projects and corporations, grouped into food and agriculture, community development, climate and energy, health care or education investment strategies.

1. Microfinance, addressing household consumption and financial security

Microfinance refers to the provision of and access to financial services (mainly credit, savings, insurance and payments) at the base of the pyramid in underserved economies. It primarily addresses a household finance need, either in terms of financial security (credit lines, savings, insurance, payments), or in terms of household consumption (loans and targeted savings programs). It also contributes to financing small household income streams (working capital loans for small entrepreneurial or employment activities). They distinguish themselves by offering capital, that is generally not formally secured or collateralized, in very small amounts, starting at around USD 100 to USD 1,000 and up to a maximum of USD 10,000 in certain countries, and going as deep as a couple dollars for some mobile fintech solutions. Most microfinance institutions or banks offering microfinance services try to cater for all financial needs of their target clientele, with a multi-sector or sector agnostic approach. Some nevertheless target a specific theme, market or product such as energy finance (e.g. off-grid home solar panel leasing), housing finance (e.g. small loans for home refurbishments) or education finance (e.g. student loan facilities), etc.

Investments in microfinance take place primarily through three types of counterparties:

› **Microfinance institutions**, or MFIs (whether banks, non-bank financial institutions, credit and savings cooperatives or non-profit / non-governmental organizations) designated as first tier (above a total loan book of USD 100 million), second tier (between USD 10-100 million) or third tier (below USD 10 million) institutions.
› **Commercial banks** orienting part or all of their services to the base of the pyramid, targeting either in full with a majority of such target clients, or through portfolio carve-outs or use of funds, specifically targeting such client segments.
› **Fintechs** (financial technology companies), targeting base of the pyramid clientele through technology solutions, mobile operators, online

applications and other software enabling the delivery of microfinance services.

Microfinance models primarily address SDG 1 (No Poverty), 5 (Gender Equality) and 10 (Reduced Inequalities). They tend to focus on the poorest categories of clients, are positively biased towards women, and intend by design to reduce income, consumption and access to finance gaps. They can nevertheless also be looked at through the lens of other specific goals.

2. Small business finance, addressing employment and entrepreneurship

Small business finance refers to the financing of small and medium enterprises, which are broadly defined as employing respectively 5 to 50 and 50 to 250 employees.[2] Small business finance, as with microfinance, can be sector agnostic, adopt a diversified multi-sector approach or work through specialized intermediaries targeting a specific theme, clientele, market or product, such as: agricultural finance (e.g., loans for food producers), energy finance (e.g., rooftop solar business solutions), transportation finance (e.g., electric vehicle leasing for taxi drivers), etc. Small business finance nevertheless differs from microfinance by the nature of its counterparts, larger financing sizes, usually longer maturities, and credit methodologies that rely more on collateral and security agreements than on unsecured and informal guarantee schemes. In addition, small business finance tends to be more exposed to macro-economic dynamics, thus more correlated to the general economy and somewhat less resilient to financial market volatility, even if more secure as more formalized.

Investments in small business finance take place primarily through three types of counterparts:

› **SME banks,** which have a majority of clients and assets focusing on small and medium enterprises.
› **Specialized financial institutions**, regardless of their legal status and registration setup, working off their own balance sheet or as originators and servicers for others, focused by design on small businesses, whether through lending, leasing, factoring, insurance or other financing mechanisms.
› **Investment funds and vehicles**, whether local, regional or global, focusing on investments into small and medium enterprises, in target markets, either using debt or equity instruments.

2 The European Union defines a small enterprise as less than 50 employees, EUR 10 million in turnover or assets, and a medium enterprise as less than 250 employees, EUR 50 million in turnover or assets. Financing of SMEs might vary widely in size, from for instance EUR 10,000 to 10 million. These metrics might differ significantly in emerging or frontier markets.

Small business finance models primarily address SDG 8 (Decent Work and Economic Growth) and SDG 12 (Responsible Consumption and Production). Small business finance is principally about employment and entrepreneurship as vehicles of growth and economic development. As they typically represent the vast majority of formalized companies and the largest share of employment and contributions to GDP, they are also a very valuable means to address new normative developments in responsibly producing and consuming the goods and services put forth to the public.

3. Thematic investment strategies

Impact investments can also be channeled directly to projects or corporations, without going through a local financing intermediary, generally on a stand-alone basis, typically using larger investment volumes and longer transaction maturities. By nature, such investments do not necessarily benefit from a diversified pool of similar investments and may use a blend or range of instruments and structures that expose the investor to higher risk and return profiles. Investments in projects and companies can nevertheless cater more directly for certain specific goals covering a number of activities, segments and topics.

New impact investment strategies and funds typically include:

› **Food & agriculture**. Agricultural value chain financing, whether production, trade, distribution or other models, focus on businesses that increasingly adopt a sustainable approach to the extraction and harvesting of natural products from the planet, whether crops, cattle, fisheries or other plants and animals. With a sustainability intentionality attached to it, the businesses engaged in these sectors address SDG 2 (Zero Hunger), 14 (Life below Water) and 15 (Life on Land).

› **Community development**. Community development financing involves housing, utilities and infrastructure investments, and the industries that develop, support and construct them, with a bias towards sustainable innovation to, for instance, provide green buildings, clean energy, transportation or water systems that are accessible to and affordable for populations at the base of the pyramid, also integrating a particular emphasis on rapid urbanization and congestion on the one hand and rural exodus and scarcity of services on the other. This investment segment best addresses SDG 6 (Clean Water and Sanitation), 9 (Industry, Innovation and Infrastructure) and 11 (Sustainable Cities and Communities).

› **Climate & energy**. Energy financing with a sustainable bias will include strategies to reduce energy use and save energy in a more efficient manner and/or use renewable energy and clean technologies for alternative production and consumption schemes, or a combination of both. They include a range of taxonomy, which includes hydro, solar, wind and waste. This category can extend to forestry, land use and conservation, as well as insurance schemes to, for instance, address climate preservation. Overall, the multiplicity of models and businesses in this segment best address SDG 7 (Affordable and Clean Energy) and 13 (Climate Action).

- **Health & education**. Financing hospitals and clinics, health care plans, services and insurance, and the production and distribution of health products contribute to SDG 3 (Good Health and Well-being). Providing student and school loans or financing innovative digital learning solutions or, more generally, knowledge transfer and management contribute to SDG 4 (Quality Education).

Figure 4
SDG Mapping of
Investment Strategies

2.

SWISS IMPACT INVESTING MARKET

2.1 MARKET SIZE

The Global Impact Investing Network's (GIIN) Annual Impact Investor Survey estimated that the market size for impact investing was USD 131 billion at the end of 2018, of which USD 61 billion were exclusively allocated to emerging markets.[3] When looking into assets under management (AUM) by type of organization, for-profit fund managers manage or advise the majority of investments in emerging markets, i.e., USD 29 billion (48%, Table 2).[4] In terms of geographical representation, 81% of volume management stems from Western, Northern and Southern Europe, 15% from the U.S. and Canada, and the remaining by fund managers headquartered in emerging markets.

Table 2
Global Impact AUM in Emerging Markets

Type of Organization	Global AUM in USD million allocated to emerging markets (2018)	% of global AUM allocated to emerging markets (2018)
Bank/diversified financial institution	1,550	3%
Development finance institutions	18,898	31%
Endowment	–	–
Family office	99	0%
Foundation	1,402	2%
Fund manager: for-profit	29,489	48%
Fund manager: not-for-profit	7,112	12%
Pension fund	484	1%
Permanent investment company	569	1%
Other	1,758	3%
Total capital allocated to Emerging Markets	**61,359**	**100%**

Note on methodology
The following sections focus exclusively on Swiss specialized impact investment fund managers, with impact investments as a core focus (more than 50% of total assets under management).

In order to provide the most accurate estimation of their impact investing assets and avoid double counting, the research team aggregated 1) the asset size of their legally independent investment funds under management/advisory as well as 2) investments through managed/advised portfolios. Regarding funds of funds, only the portfolio invested in non-Swiss impact funds was taken into account.

Overall data was collected through publicly available sources while for microfinance products specifically, data was sourced from the annual Symbiotics MIV surveys.*

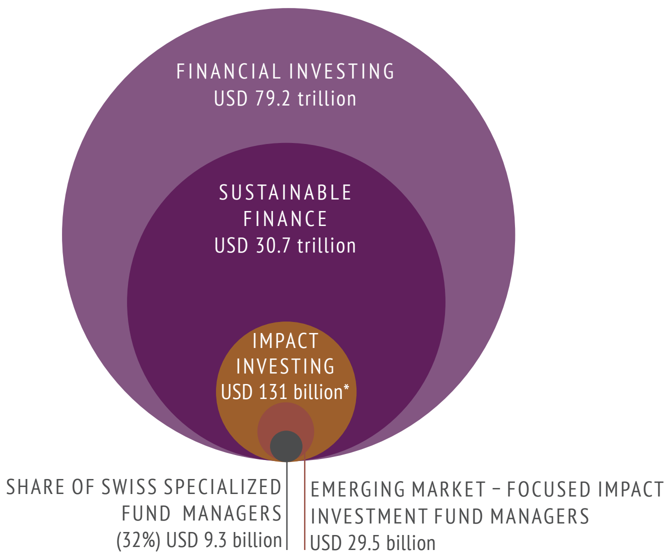
*The Symbiotics Microfinance Investment Vehicle survey, produced on an annual basis since 2007 and available on syminvest.com, aims to provide comprehensive market trends and peer group analysis on microfinance offshore investments.

3 Global Impact Investor Network, 2019, The Annual Impact Investor Survey 2019. The market size including three outliers is estimated at USD 239 billion.

4 Estimates for emerging markets by type of organization provided by GIIN.

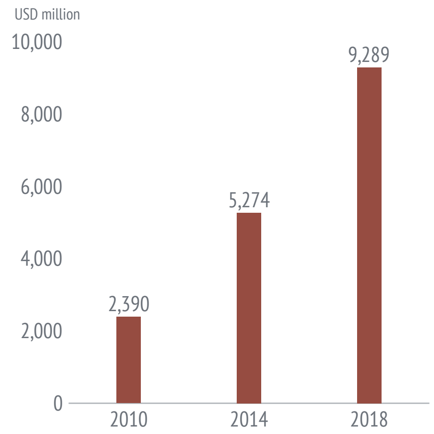
With a combined USD 9.3 billion of assets under management, Swiss specialized impact investment fund managers play a leading role in the global impact investing space as they manage or advise 32% of the global for-profit fund managers' share of impact investing in emerging markets (Figure 5).

Figure 5
Impact Investing Market Size



* For more information on the total impact investing market size, please see footnote 3 on page 15.

Figure 6
Swiss Impact Investing Growth



Since 2010, the Swiss market's asset size quadrupled, with a compound annual growth rate (CAGR) of 18.5% on a moving sample and 14.7% on a constant sample basis (Figure 6).

2.2 PROFILE OF SWISS SPECIALIZED IMPACT INVESTMENT FUND MANAGERS

The ecosystem of Swiss specialized impact investment fund managers has not changed radically over the past decade mainly due to their cost-intensive business models in terms of capital investments and solid headcounts in evaluating and structuring investment opportunities with a social benefit.[5]

Of the 10 fund managers active as of December 2018, BlueOrchard, responsAbility and Symbiotics are the three largest, managing or advising the bulk of impact investing assets (86% of total Swiss AUM). These three companies have a large track record in the microfinance investment space, which has been their historical core area of focus. Over time, they have developed new impact products, such as SME, agriculture, education, as well as energy and climate funds.

Obviam and Bamboo Capital Partners have their own specialties in terms of investor base and financial instruments: the first one was a spinoff of the Swiss Investment Fund for Emerging Markets (SIFEM) that Obviam took management of in 2010; the second one is specialized in seed and growth funding across several impact sectors, including fintech, energy and healthcare. PG Impact Investments, launched in 2015, is the only newcomer to the field in the last nine years, investing both debt and equity across a multitude of sectors.

5 Symbiotics, 2015, Microfinance Funds: 10 Years of Research & Practice.

Impact Finance, launched back in 2010, is investing directly in small and medium agribusinesses while INOKS Capital provides capital to commodity value chains. AlphaMundi, founded in 2007, uses a gender lens approach to invest in a diversified portfolio with principal exposure in microfinance, agriculture and energy. Last but not least, Philea, previously Fonds International de Garantie, is a cooperative that provides working capital to agricultural cooperatives (see Table 3 for more information on each Swiss specialized impact investment fund manager).

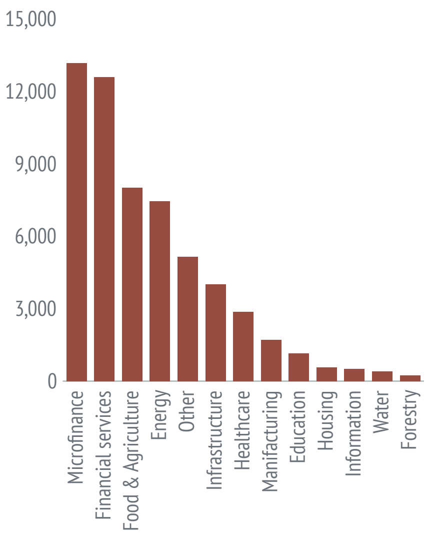
Table 3
Descriptive Profiles of Swiss Specialized Impact Investment Fund Managers[6]

Organization	Inception year	Offices	Headquarters	Staff	Impact investment themes	No. of past and present impact mandates	Disbursed impact investments since inception (USD m)
AlphaMundi	2007	3	Geneva	13	Microfinance, SME, Agriculture, Energy, Education	1	≈45
Bamboo Capital Partners	2007	5	Geneva	41	Microfinance, SME, Fintech, Energy, Healthcare	7	≈400
BlueOrchard	2001	8	Zurich	100	Microfinance, SME, Education, Infrastructure, Climate	14	≈6000
Impact Finance	2010	2	Geneva	16	Agriculture, SME	1	≈160
INOKS Capital	2004	3	Geneva	21	Agriculture, SME	1[7]	≈20[7]
Obviam	2010	1	Bern	31	Microfinance, SME, Infrastrucutre, Education, Agriculture	3	≈ 800
PG Impact Investments	2015	4	Zug	16	Microfinance, SME, Housing, Energy, Agriculture, Healthcare, Education	1	≈100
Philea	1996	1	Geneva	5	Agriculture, Microfinance	1	≈50
responsAbility	2003	10	Zurich	244	Microfinance, SME, Energy, Agriculture	15	≈9000
Symbiotics	2005	8	Geneva	157	Microfinance, SME	35	≈5000

6 Data based on respective websites and other public sources of information.

7 Although INOKS Capital has launched four funds since its inception, only one is promoted as an impact investing fund. Across all its mandates, INOKS Capital has disbursed more than USD 3600 million.

Figure 7
2018 Asset Allocation by Sector – Emerging Market-Focused Global Investors



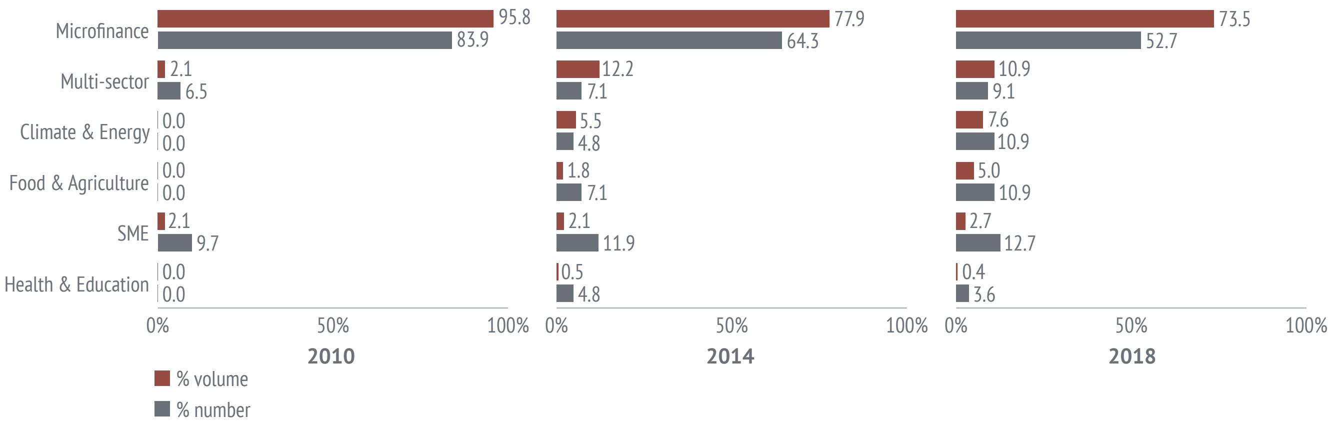
2.3 KEY DATA ON SWISS IMPACT INVESTMENT PRODUCTS

A. Investment sectors

At a global level, microfinance investments in emerging countries amount to 23% of impact investments[8] (a number that can rise up to 45% when including other financial services, see Figure 7). In the case of Swiss specialized impact investment fund managers, this share lies at 73.5% of their total AUM, with about half of their product offering having a focus on microfinance by the end of 2018 (Figure 8).

This share has, however, been continuously declining in favor of other sectors since 2010. In particular, excluding microfinance investments, the three specific impact themes attracting the highest funding volume are energy and climate (7.4% in terms of volume), agriculture (5%), and SME finance (2.7%). Multi-sector investment products, which most of the time have a diversified portfolio across the above-mentioned themes, with eventually some transactions in other, less mature sectors such as education and health care, still represent an important strategy for specialized Swiss impact investment fund managers in terms of volumes (10.9%).

Figure 8
Swiss Impact Investment Products by Sector



8 Global Impact Investor Network, 2019, The Annual Impact Investor Survey 2019. The market size estimation excludes outliers

B. Asset class

According to the GIIN, at a global level (and including investments in developed markets), private debt impact investments account for 39% of assets, far above other instruments such as private equity (18%), public equity (16%) and public debt (12%).[9]

For Swiss specialized impact investment fund managers, private debt also represents the dominant asset class (Figure 9). An important evolution since 2010 has been the establishment of several equity impact funds, which have tripled in number since 2010. Mixed investment products, which are third in line, mostly invest through a blend of private debt and private equity.

Figure 9
Swiss Impact Investment Products by Asset Class

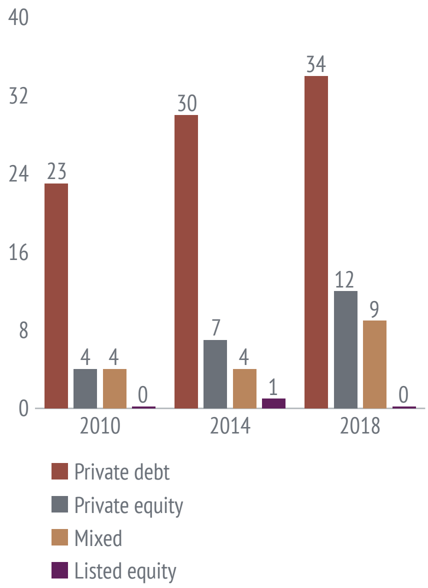
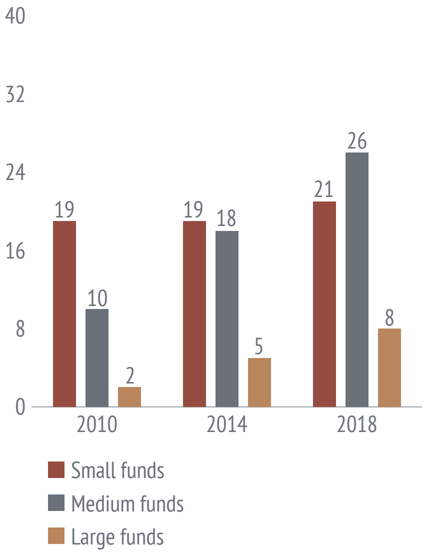


Figure 10
Swiss Impact Investment Products by Size



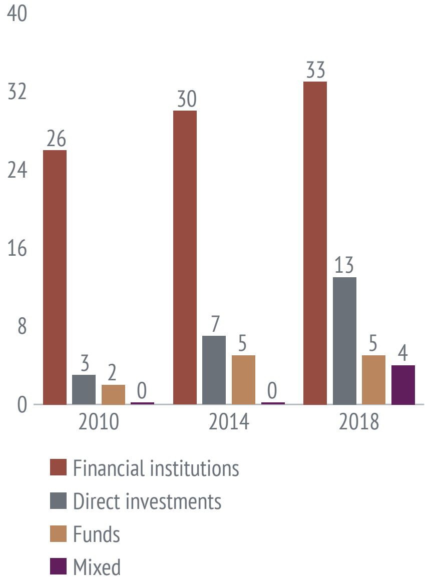
C. Size of investment products

In terms of size, products that Swiss specialized impact investment fund managers are offering consist of different tiers: large (>USD 250 million in AUM), mid-size (USD 50-250 million) and small (<USD 50 million).

As of December 2018, about half of investment products are of medium size (Figure 10). This is explained both by the growth of previously small funds over the period, as well as the launch of new investment products of this size range.

9 GIIN, 2019, Annual Impact Investor Survey.

Figure 11
Swiss Impact Investment Products by Investee Profile



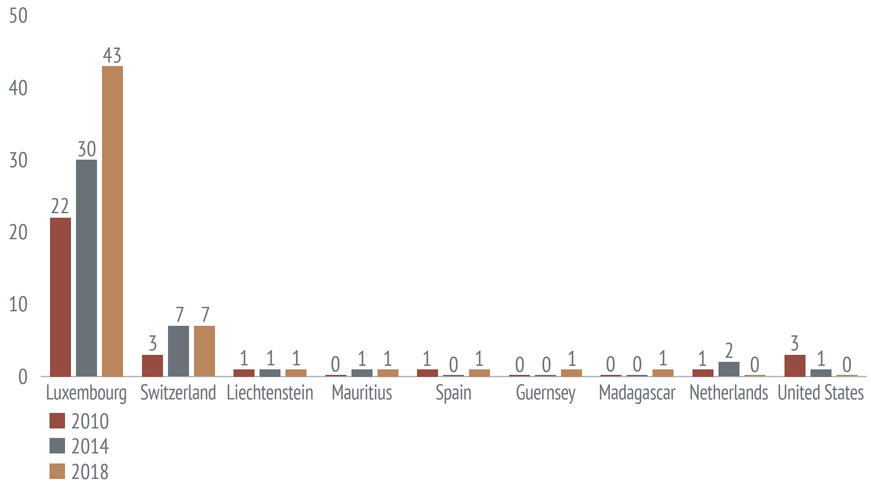
Furthermore, in terms of volumes, whereas in 2010 only two products had AUM of more than USD 250 million, this number has now risen to eight.

D. Investee profile

Most of the Swiss products studied channel impact investments through financial institutions (Figure 11). This high share is mostly due to the historical prevalence of microfinance investments in Switzerland and by the fact that financial institutions can also represent a 'de-risked' strategy to invest indirectly in themes such as SMEs and energy-efficient projects.

Aligned with the rise of private equity funds, but not only, the number of investment products focusing their investment strategy on direct investments, i.e. investments in project and corporate finance, has quadrupled since 2010.

Figure 12
Swiss Impact Investment Products by Incorporation Place



E. Incorporation place

Almost all investment fund structures are registered in Luxembourg, with only a few registered in Switzerland (Figure 12). Guernsey, Liechtenstein and Mauritius each represent the domicile for one fund (whereas the Netherlands was also a site in the past for two funds).

Other countries refer to privately managed or advised portfolios for entities based outside of Switzerland, such as foundations.

F. Inception and closing dates

The first purely commercial product launched by a Swiss specialized impact investment fund manager took place in 1998[10] (Figure 13) in the form of a microfinance investment vehicle. However, the peak of newly launched impact investment products, mostly microfinance funds, was in 2007, following the United Nations International Year of Microcredit. Interestingly, 2018 was the year with the highest launch of non-microfinance impact products (6 out of 7, compared to 4 out of 9 in 2015, 3 out of 7 in 2012, and 1 out of 7 in 2007), showing that the Swiss impact investing market is evolving towards higher thematic diversification. There is a good balance between open-ended and closed-end funds (55% vs. 45% in terms of number of funds) which respectively results in different liquidity management strategies.

G. Product type

Investment funds have historically represented the bulk of investment products in terms of number and volumes. Their share has risen even more since 2010, with the decline of collateralized debt obligations (CDOs) and the constant number of non-governmental organizations (NGOs)/cooperatives categorized as impact investment managers (Figure 14). In addition to investment funds, some Swiss specialized impact investment fund managers operate portfolio accounts on behalf of single investors, e.g., foundations and/or high-net-worth individuals.

Figure 13
Swiss Impact Investment Products by Inception and Closing Year

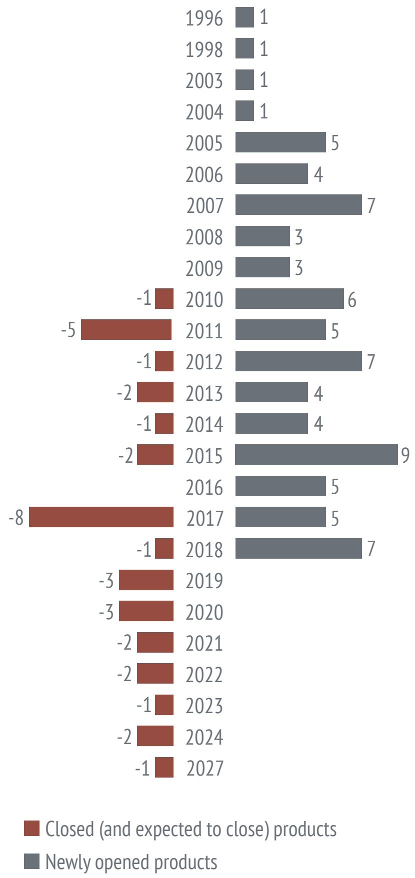
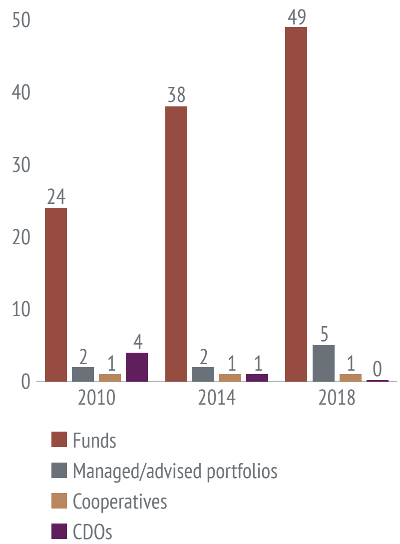


Figure 14
Swiss Impact Investment Products by Type



10 Philea, previously Fonds International de Garantie, launched in 1996 as a cooperative and not an independent investment fund.

3.

MICROFINANCE: THE PRIME IMPACT SECTOR

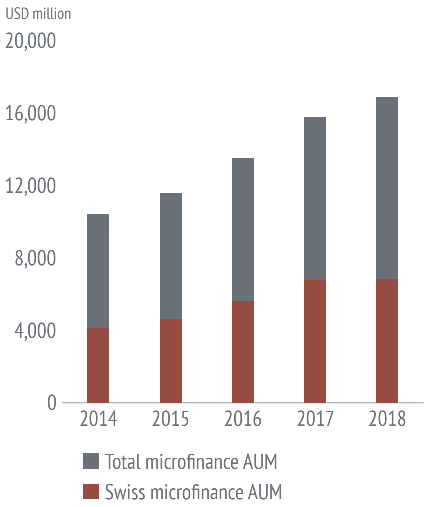


Figure 15
Microfinance AUM

With a track record of more than 20 years, microfinance remains today the most mature sector within the entire impact investing industry. It benefitted from mainstream exposure in 1998 when the United Nations proclaimed that 2005 would be the International Year of Microcredit, aiming to promote microfinance's contribution to the Millennium Development Goals. This was already a decade before the terminology impact investing actually saw light.

Building on its international visibility, microfinance attracted a growing amount of private sector investments in the late 1990s, a period when the first commercial microfinance investment vehicles were created. Today, more than 120 MIVs exist in the market, offering an entry point for investing in microfinance for offshore investors, generally through debt and equity capital in microfinance institutions (MFIs) that on-lend to an underserved segment of the population, generally micro, small and medium enterprises (MSMEs) and low-income households based in developing countries.

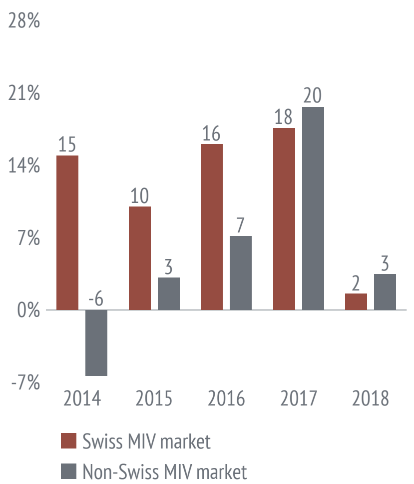
This chapter looks at the market trends for MIVs associated with Swiss specialized impact investment fund managers.[11]

3.1 ASSETS

A. Swiss market share and growth

As of December 2018, the global MIV market was estimated at USD 16.9 billion[12], up from USD 10.4 billion in 2014, implying a CAGR of 13%. Swiss MIVs have kept a stable and significant share of these total assets, at an average of 41% over the years (Figure 15). Their assets increased from USD 4.1 billion to USD 6.8 billion in 4 years (CAGR: 14%).

Figure 16
Yearly Growth of MIV Market



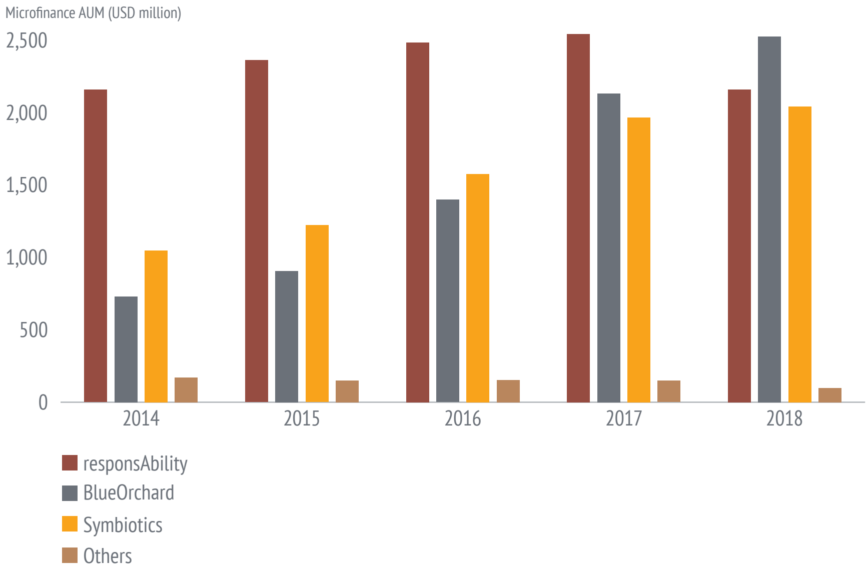
When looking at market growth on a yearly basis (Figure 16) and based on a constant sample of MIVs year-on-year, Swiss MIVs have witnessed double-digit growth every year except in 2018 (+1.6%). Due to a difficult year in emerging and frontier markets, some of the main fund managers were negatively impacted by capital outflows. This resulted in a flat growth, which was also observed for non-Swiss MIVs (+3.5%).

11 This chapter refers to these MIVs as Swiss MIVs throughout.
12 Symbiotics, 2019, MIV Survey.

B. Largest Swiss players

When considering only the Swiss MIV sample, the top three specialized MIV managers are BlueOrchard, responsAbility and Symbiotics (Figure 17), a result aligned with the findings for the impact investment market globally. Together, these three MIV managers account for 99% of all Swiss microfinance AUM as of December 2018, a ratio that grew by 5 percentage points from 2014.

Figure 17
Top 3 Swiss MIV Managers



3.2 MICROFINANCE PORTFOLIO

With microfinance as their core investment segment, MIV assets are largely comprised of the microfinance portfolio, consistently around the 80% mark since 2014, with liquidities and the 'other portfolio' completing asset composition (Figure 18). The 'other portfolio' composed generally of investments into the more up-market SME segment (but not only, i.e., energy, agriculture and housing) has grown gradually since 2016 and today accounts for 12% of Swiss MIV assets or 15% of their overall lending portfolio (Figure 19).[13]

Figure 18
MIV Asset Structure

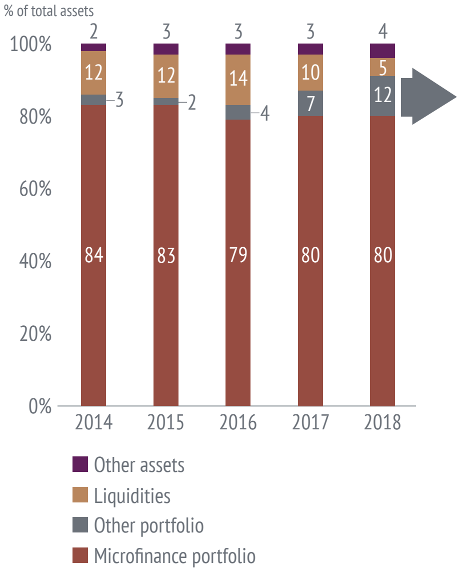
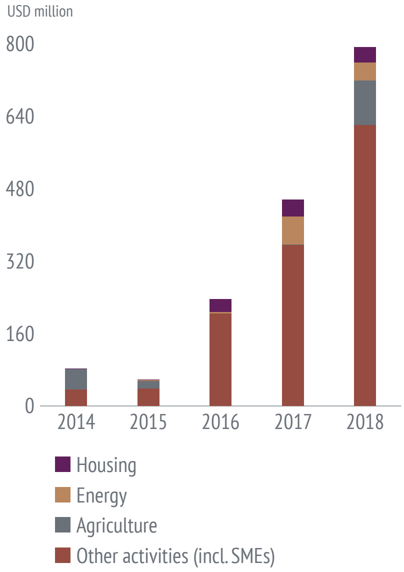


Figure 19
MIVs' Other Portfolio



A. Breakdown by investee size

MIVs in most cases reach-out to MSMEs and low-income households through financial institutions that are located in emerging and frontier markets. Over 95% of the MIV microfinance portfolio is invested through these financial institutions, the rest being allocated through other means like investment funds or microfinance holdings in some cases.

The financial institutions financed by MIVs vary in size. Some of them are small, with total assets below USD 10 million equivalent, while others are bigger, at over USD 100 million in total assets. Looking at the breakdown of MIV microfinance portfolios within these financial institutions shows that Swiss MIVs have increased their exposure to larger investees (i.e., those with a balance sheet above USD 100 million) since 2014, from 58% to 78%

13 Variation and growth are partially due to changes in reporting methodologies.

as of December 2018 (Figure 20). This shows an up-market move towards financing larger financial institutions that generally have a broader range of financial products and more diversity in their client base. In comparison, non-Swiss MIVs have a more balanced exposure in terms of investee size, with 56% and 40% respectively in large and medium financial institutions today.

B. Investment Instruments

The portfolio in financial institutions is, for Swiss MIVs, almost exclusively (95% on average) structured through private debt transactions (Figure 21). MIV managers from other countries also rely principally on this asset class, albeit at a lower level with a substantially higher fraction of their microfinance portfolio (24% on average) in private equity (Figure 22).

Figure 20
Investee Size – Swiss MIVs

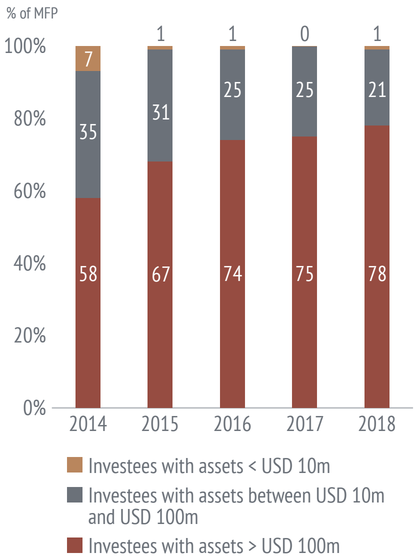


Figure 21
Investment Instruments – Swiss MIVs

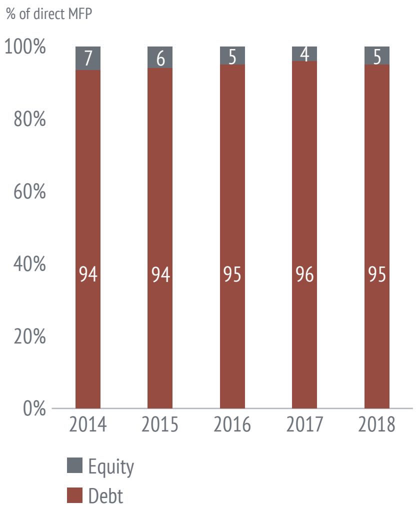
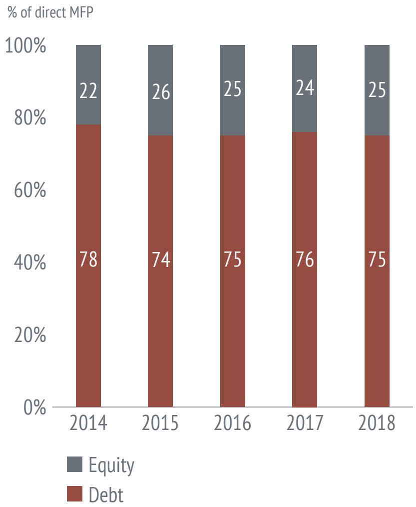


Figure 22
Investment Instruments – Non-Swiss MIVs



C. Regional trends

Swiss MIVs display a good mix of investments in emerging and frontier markets. Latin America and the Caribbean (LAC) has historically been a prime region of focus for Swiss MIVs. Today, it continues to attract the highest volumes of funding (37%), followed by Eastern Europe and Central Asia (EECA, 20%), and East Asia and Pacific (EAP, 17%) (Figure 23). South Asia (SAS, 16%), which falls just behind EAP, is the region that has recorded the highest CAGR since 2014, at +43% (Figure 24). A more enabling investing environment in India following the Andhra Pradesh crisis has been a major driver of this trend, which is reflected in high volumes flowing into that country for microfinancing purposes. The share of investments in sub-Saharan Africa for Swiss MIVs has declined in relative terms, from 11% in 2014 to 8% in 2018. Annual growth remains positive, however, but is lower compared to non-Swiss MIVs (4% vs. 10% for the latter).

EECA is the only region that has recorded a flat or declining pattern in funding volumes since 2014, due to the macroeconomic downturn in Russia that has had a spillover effect on neighboring microfinance markets from 2015 onwards. Many central Asian countries have recovered, except for Azerbaijan, which remains a challenging environment for MIV investments. The EECA region overall witnessed a more favorable pattern in 2018.

Figure 23
Regional Diversification - Swiss MIVs

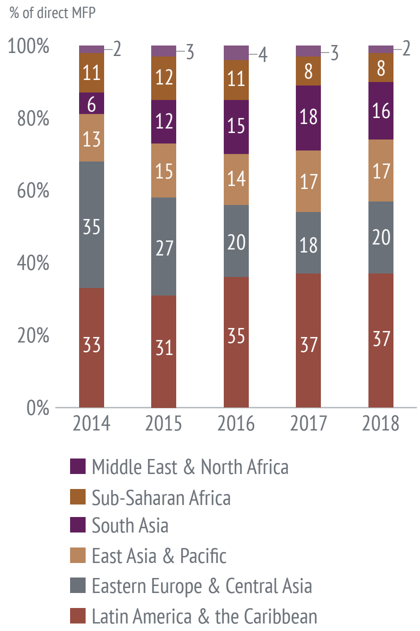
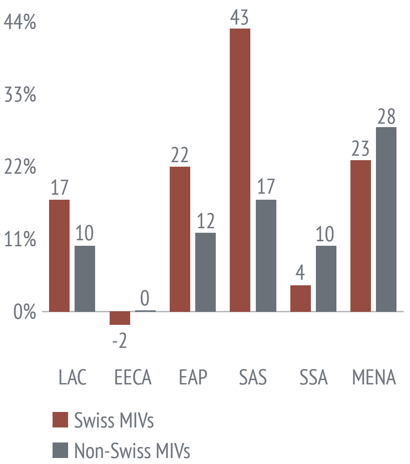


Figure 24
CAGR of Regional Portfolio (2014-2018)



D. Top country exposures

As of December 2018, the top five countries attracting the highest volumes from Swiss MIVs are India, Cambodia, Georgia, Ecuador and Costa Rica (Figure 25). Compared to 2014, Honduras, Mexico, Panama, Sri Lanka, El Salvador, China and Indonesia have made it into the top 20. On the contrary, Azerbaijan, Tajikistan, Kyrgyzstan, Bolivia, Nigeria, Bosnia and Herzegovina and Tanzania left the top 20 ranking of Swiss MIVs. The first three countries were notably affected by the drop in oil prices in 2015, with spillover effects on the performance of domestic MFIs and a subsequent reduction of MIV funding.

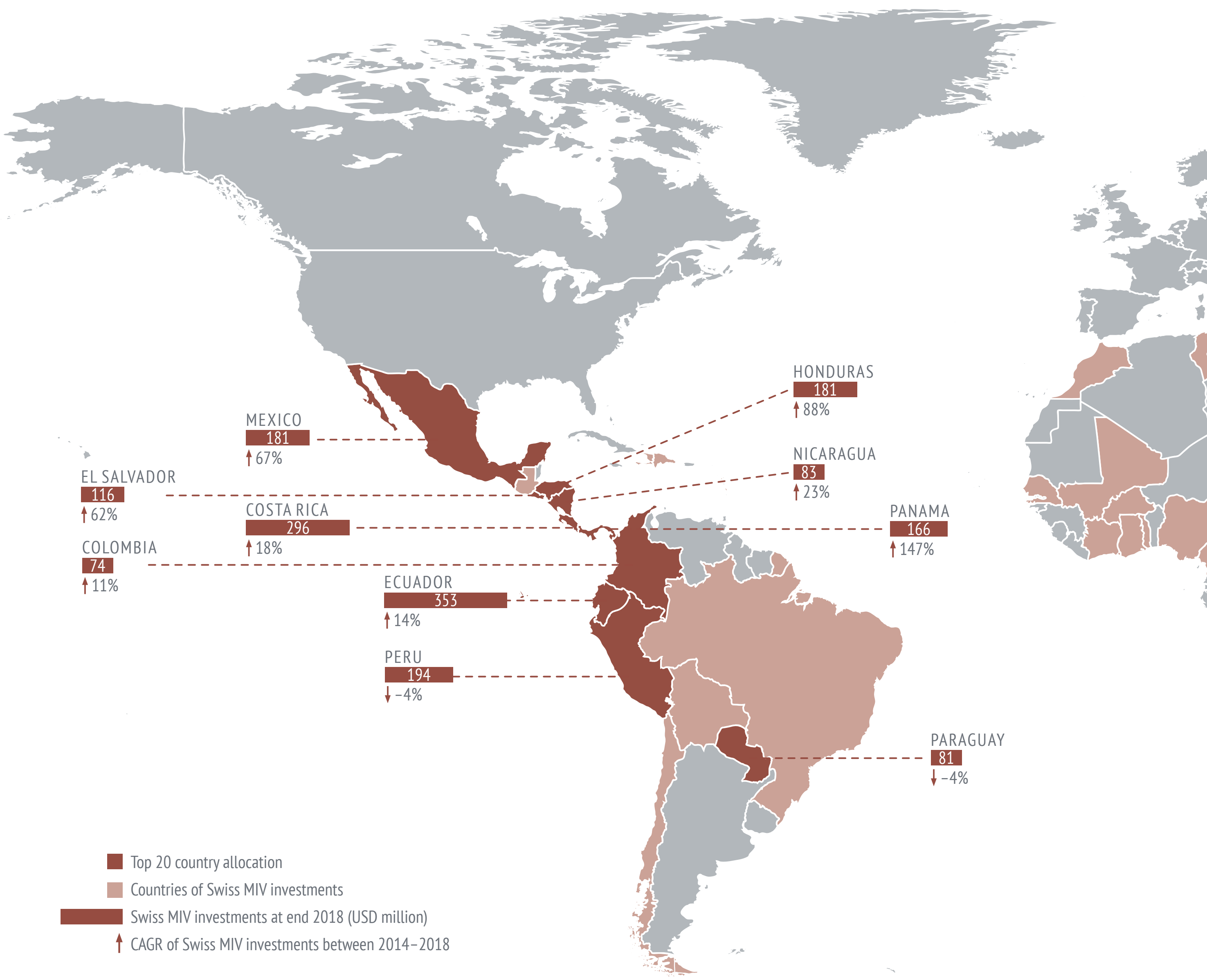
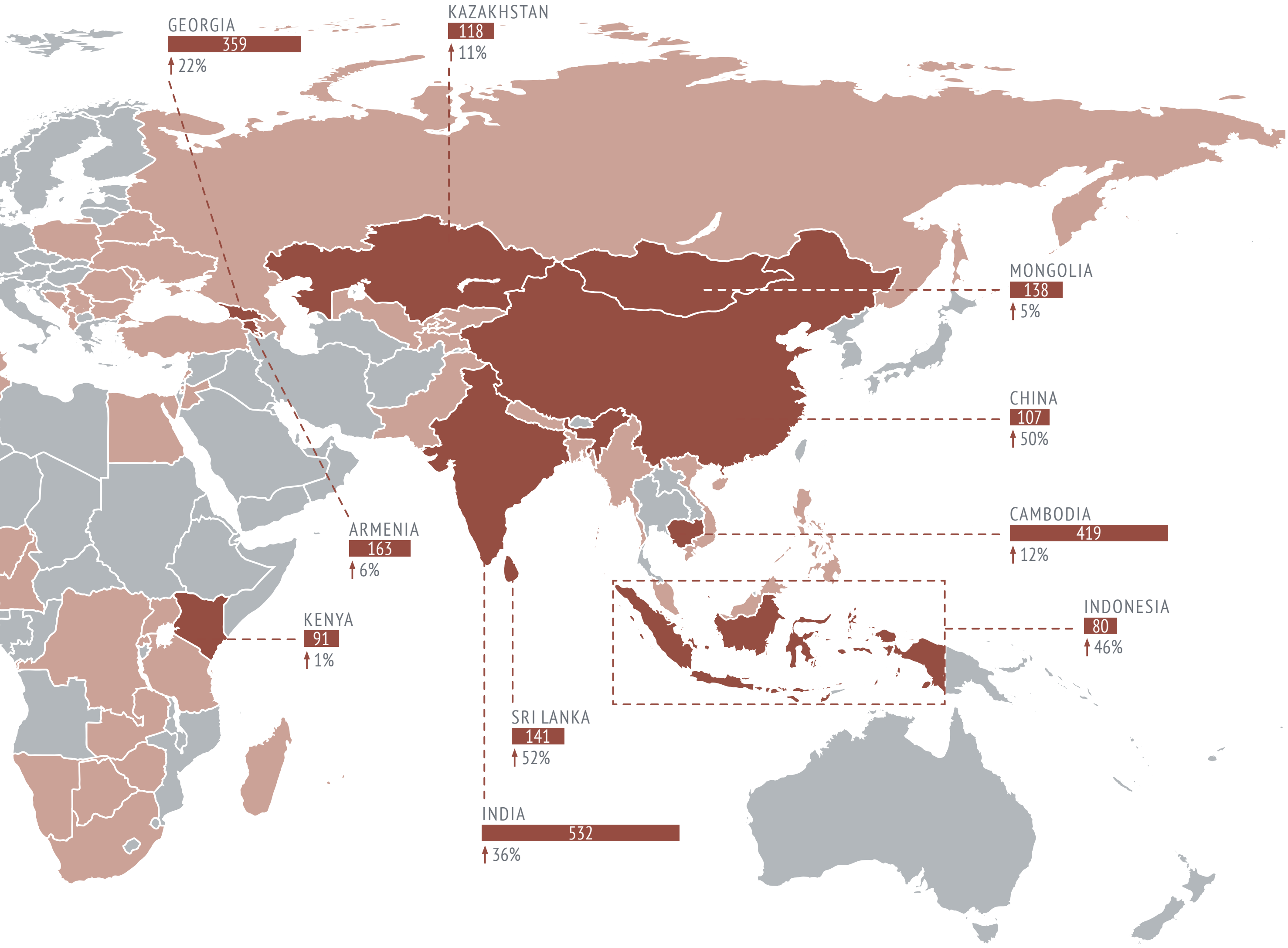


Figure 25
Top 20 Country Exposure (2018)


GEORGIA
359
22%
KAZAKHSTAN
118
11%
MONGOLIA
138
5%
CHINA
107
50%
CAMBODIA
419
12%
INDONESIA
80
46%
ARMENIA
163
6%
KENYA
91
1%
SRI LANKA
141
52%
INDIA
532
36%

E. Risk concentration

Interestingly enough, Swiss MIVs appear to have a less concentrated portfolio in terms of top region (Figure 26), top 5 countries (Figure 27) and top 5 investees (Figure 28).

Generally larger in size compared to their non-Swiss counterparts, Swiss MIVs are able to better diversify their microfinance portfolio, which enables them to mitigate risks more effectively.

Figure 26

Risk Concentration – Top Region

% of direct MFP

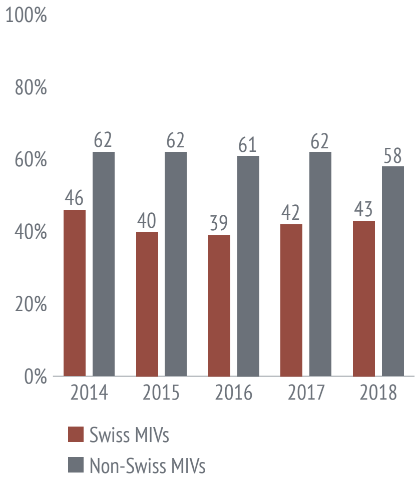


Figure 27

Risk Concentration – Top 5 Countries

% of direct MFP

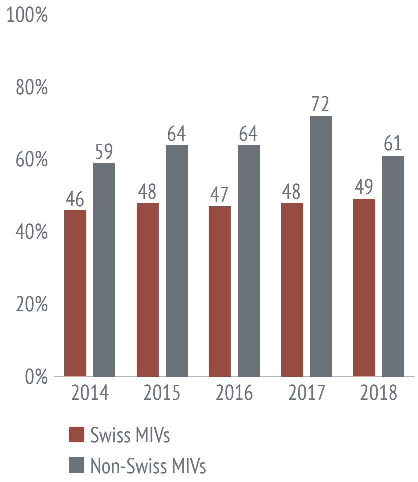


Figure 28

Risk Concentration – Top 5 Investees

% of direct MFP

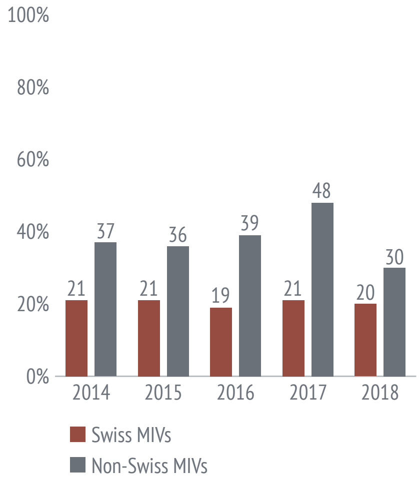


Figure 29
Debt Size and Tenor – Swiss MIVs

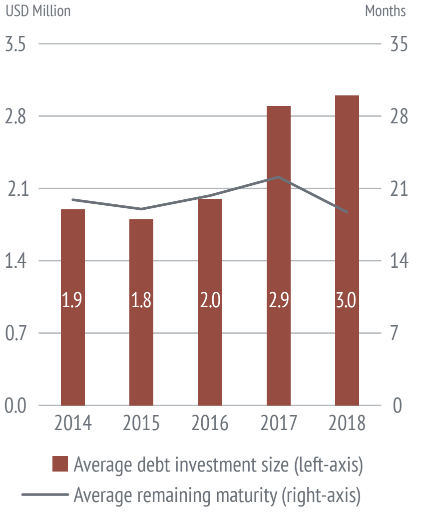


Figure 30
Debt Size and Tenor – Non-Swiss MIVs

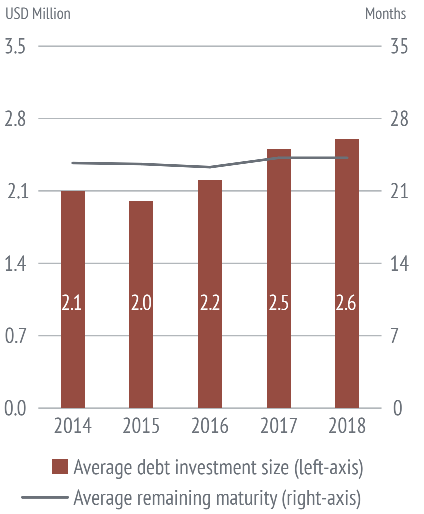
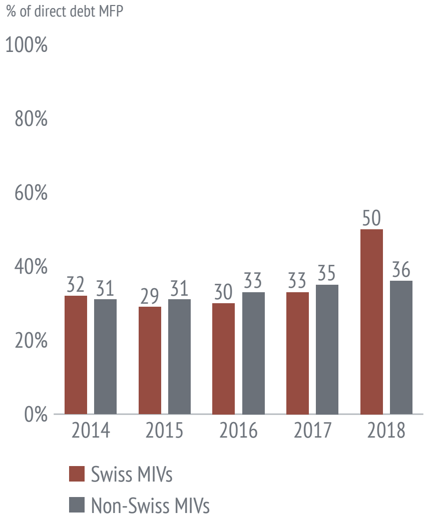


Figure 31
Share of Local Currency



3.3 MICROFINANCE DEBT PORTFOLIO

This section dives into the specific characteristics of Swiss MIV debt portfolios, highlighting their investment terms, investment currency strategies and risk patterns.

A. Debt investment size & tenor

Until end of 2016, Swiss MIVs had a lower debt exposure per financial institution than their global peers. This pattern has switched over the last two years, with Swiss MIVs presently showing an exposure of about USD 3 million outstanding per investee, compared to USD 2.6 million for the rest of the world (Figure 29 and Figure 30). These higher investments seem to be associated with the evolution in Swiss MIV investee profiles, which are generally larger in size (Figure 20). MIVs generally consider these financial institutions to be less risky counterparts. They will typically be able to absorb larger debt amounts attached with lower interest rates.

Looking at the remaining maturity of these debt investments shows that the trend line sits at around 24 months for non-Swiss MIVs and 20 months for Swiss MIVs on average since 2014. The recent drop observed in 2018 for Swiss MIVs is linked to the rhythm of microfinance transactions, which has slowed down given the low growth witnessed by the MIV market,

B. Local currency debt investments & hedging strategy

Since 2014, Swiss MIVs have grown their share of local currency investments from 32 to 50% of the debt microfinance portfolio (Figure 31). An upward trend is also observable for non-Swiss MIVs, although at a slower pace.

Local currency investments are typically associated with lower repayment distress for end-borrowers, offering the latter more protection against foreign exchange shocks.

Also, from MIVs' perspective, it appears that a material premium could be awarded to investors when a diversified basket of local currency investments remains unhedged.[14] Such investment strategy has seen more traction in the MIV market in recent years, especially within Swiss MIVs, some of which go fully unhedged in terms of local currency investments. As illustrated, the Swiss MIV share of unhedged local currency investments has increased from 10% to 14% of their direct debt microfinance portfolio (Figure 32). This is a remarkable performance considering that non-Swiss MIVs have presented an inverse pattern, dropping from 22% to 10% over the same period.

14 Symbiotics, 2018, Going Unhedged in Frontier Markets.

C. Yield on debt portfolio

Focusing on yields in USD, Swiss MIVs have averaged 6.3% aligned with the type of institutions they invest in (Figure 20). Starting in 2016, yields slightly increased, generally linked to more local currency investments in countries offering attractive domestic rates in a stable currency environment (Figure 33). Non-Swiss MIVs registered a higher average yield of 7.3% as they invest in smaller institutions associated with higher risks.

When looking at another proxy for the interest rates charged by Swiss and Non-Swiss MIVs to their investees, USD transactions have averaged a slightly higher yield of 6.8% over the period, with a similar overall trend behavior over the period under review (see dashed line in Figure 33).[15]

Finally, yields for fully unhedged Swiss MIVs, a majority of which saw light between 2014 and 2018, are much higher than those for fully hedged funds, 10.3% on average but also witnessing higher volatility.

Figure 32
Unhedged Local Currency Investments

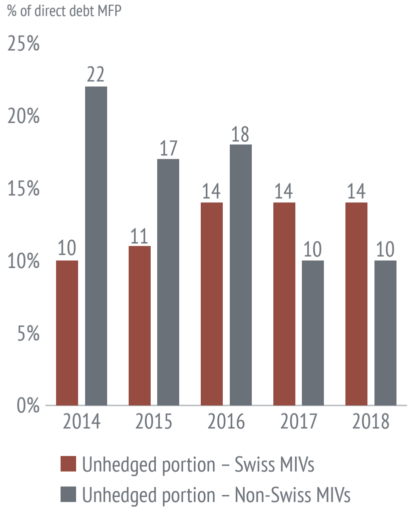
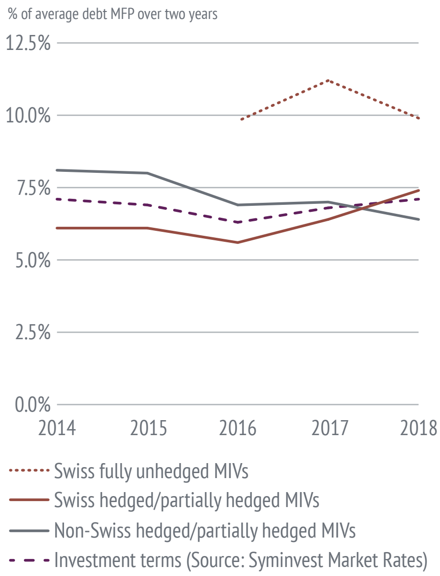


Figure 33
Portfolio Yields



Note on methodology
Portfolio yields presented here are derived from self-reported data by MIV survey participants (a non-exhaustive list of Swiss MIVs) on their level of net income on their direct debt microfinance portfolio. These portfolio yields thus offer an approximate indication of the level of returns generated by MIVs on their debt portfolio, before incurring operational costs related to management and other operating fees. They also represent a proxy for the interest rates charged by MIVs to their investees, translated in USD terms for MIVs with a partially or fully hedged currency strategy. With more and more Swiss investment products opting for a fully unhedged currency approach, those specific MIVs yields from the Swiss sub-sample sit higher on the graph, translating rates in local currency (Figure 33).

15 Symbiotics derived investment terms and data points from confidential information reported by its network of microfinance institutions. Source: Syminvest.com. Data extracted on 9 September 2019.

D. Provisions & write-offs

Every year since 2014, Swiss MIVs have had lower outstanding loan loss provisions (Figure 34) and yearly write offs (Figure 35) compared to their peers. Provisions outstanding have been rising since 2017, with the highest in 2018 for both Swiss and non-Swiss MIVs following challenging political and economic markets in a couple of countries, including Nicaragua and Nigeria. Write-offs remain low in comparison, signaling positive recovery rates for the MIV market in its entirety.

Figure 34
Outstanding Loan Loss Provisions at Year End

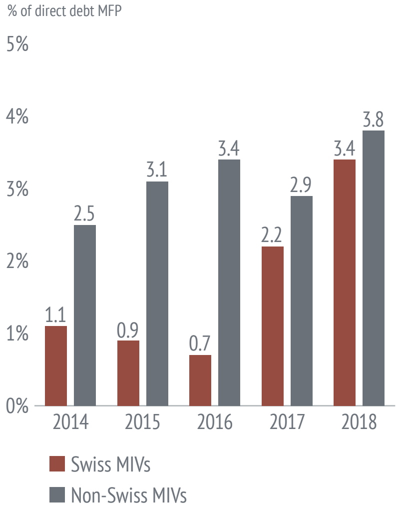
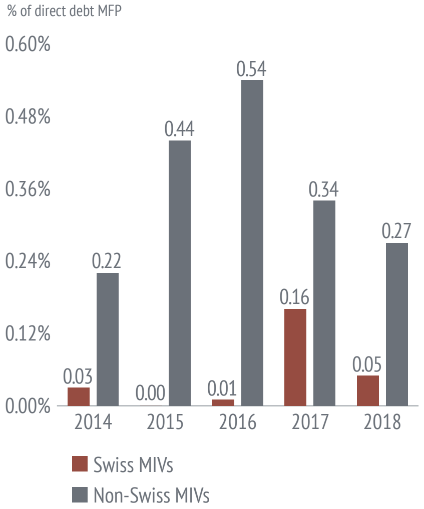


Figure 35
Yearly Write-offs



3.4 INVESTOR TYPOLOGY

Investors in Swiss MIVs, either through fund shares or notes, are today primarily private institutional investors, mostly pension funds and banks (Figure 36). The share of this investor group has risen from 40% to 65% over the past five years, growing by 29% in absolute terms (Figure 37). High-net-worth individuals recorded the second largest growth in absolute terms, although from a lower volume basis. Contrary to what could have been expected in the past, the share of retail investors has decreased from 38% to 21% in relative terms (investments from this group have even decreased in absolute terms), whereas the share of public funders has also declined, from 18% to 11%.

In comparison, foreign microfinance asset managers have known much higher absolute growth in the retail segment (which now represents a similar share as for Swiss MIVs, at 19%) and benefit from greater support from public funders (at 22%, although this share has declined from 30% in 2014).

Figure 36
Investor Typology – Swiss MIVs

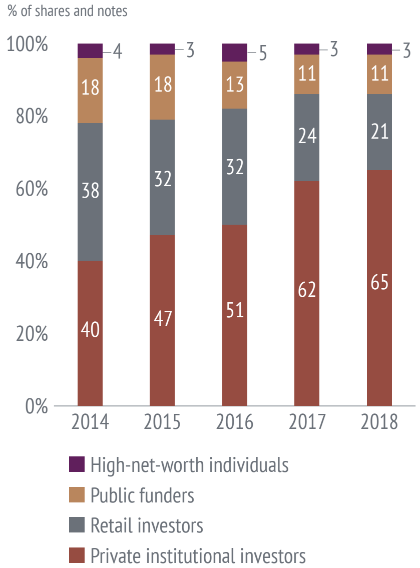


Figure 37
CAGR of Investor Types (2014–2018)

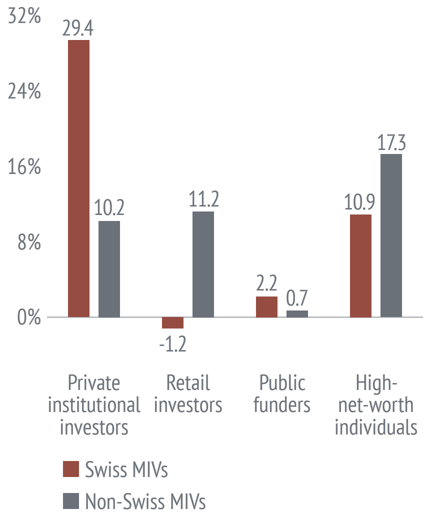


Figure 38
Total Expense Ratio

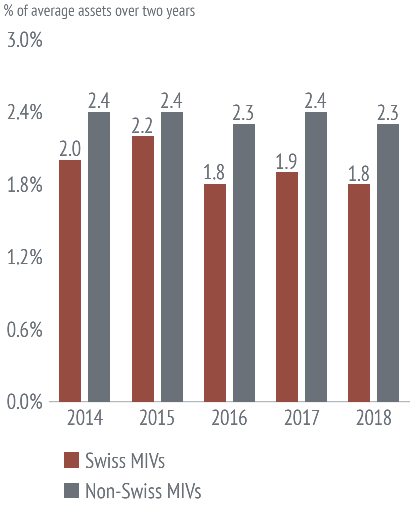
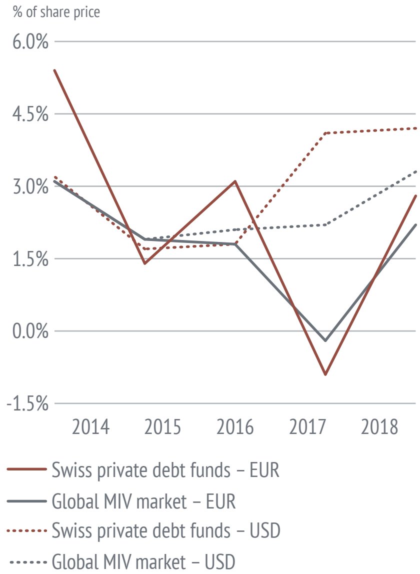


Figure 39
Net Returns (Private Debt Funds)



3.5 COSTS & RETURNS

A. Cost structure

Swiss MIV management fees have been stable at around 1.5% of total assets under management over the period, with other operating expenses at about 0.4%. Thanks to their relatively large fund size, they benefit from economies of scale and lower total expense ratios than their foreign microfinance peers, with similar management fees (1.6%) but higher operating costs (0.8%). On aggregate, the latter have a higher total expense ratio (2.4% versus 1.9% for their Swiss peers, Figure 38).

B. Net returns

Swiss MIV returns in USD have averaged 3% since 2014 compared to slightly lower returns in EUR, at 2.4%. Returns were volatile throughout the period. For instance, in 2015 and 2016, markets worried about continuous pressure in Russia, the Caucasus and Central Asia – a prime microfinance region – due to the effects of currency devaluation and low oil prices. While most financial institutions have shown resiliency in light of the adverse economic conditions, this conjuncture negatively impacted institutions in Azerbaijan, Tajikistan and Kazakhstan, which is reflected in the net returns of private debt funds in both currencies, USD and EUR (Figure 39). Africa and Latin America also suffered during this period, with major exporters such as Nigeria, Bolivia, Colombia and Peru experiencing decreasing commodity prices. The next two years (2017–2018) witnessed a stabilization of MFI operations across the main investment regions, as reflected in the much higher performance of Swiss MIV net returns in USD (4.1% and 4.2%) compared to their global peers (2.2% and 3.3%). Only EUR share classes registered negative returns in 2017 (–0.9%), hampered by high hedging costs but improving the year after (2.8%).

3.6 SOCIAL PERFORMANCE & SDGs

In line with their growing portfolio, the average number of Swiss MIV borrowers has significantly increased over the last years. An average Swiss MIV today indirectly finances about 540,000 borrowers (Figure 40).

Borrowers' average credit with the MFI remains low, at less than USD 1,800 (Figure 40), showing the commitment of Swiss MIVs (as well as that of their partner MFIs) to serving the low-income segment of the population.

The MFIs financed by Swiss MIVs have on average a more woman-oriented clientele, representing about 75% of total borrowers, a share that is higher than foreign asset manager MIVs (67%) (Figure 41). Similarly, rural borrowers represent about 65% of the clientele of MFIs financed by Swiss MIVs, whereas their share amounts at 54% for non-Swiss MIVs.

Figure 40
Breadth and Depth of Outreach – Swiss MIVs

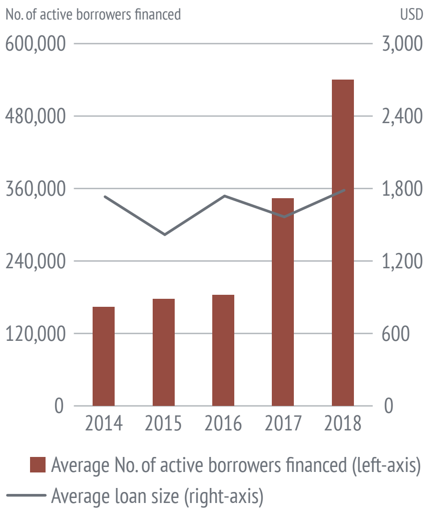


Figure 41
Borrowers' Gender and Location

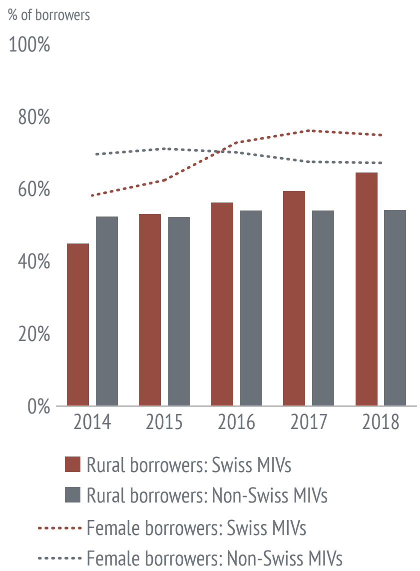
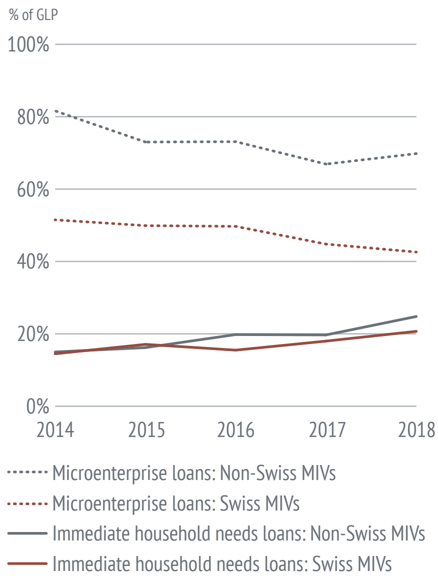


Figure 42
Investees' Loan Portfolio



Through the years, Swiss MIVs have increased their exposure to financial institutions with a more diversified clientele, notably SMEs, although keeping a focus on the micro-segment. As a result, from the perspective of Swiss MIV investees, microenterprise loan volumes have decreased to 43% (Figure 42), although this share remains much higher when looking at number of clients.

In addition to credit-only products, more than 50% of MFIs in Swiss MIV portfolios also offer savings, insurance, other financial products and non-financial products. This ratio is generally higher in comparison to their non-Swiss counterparts, illustrating a more sophisticated, if not a more inclusive product range for investees from Swiss MIVs (Figure 43).

Figure 44
Mapping of Social Goals against the SDGs

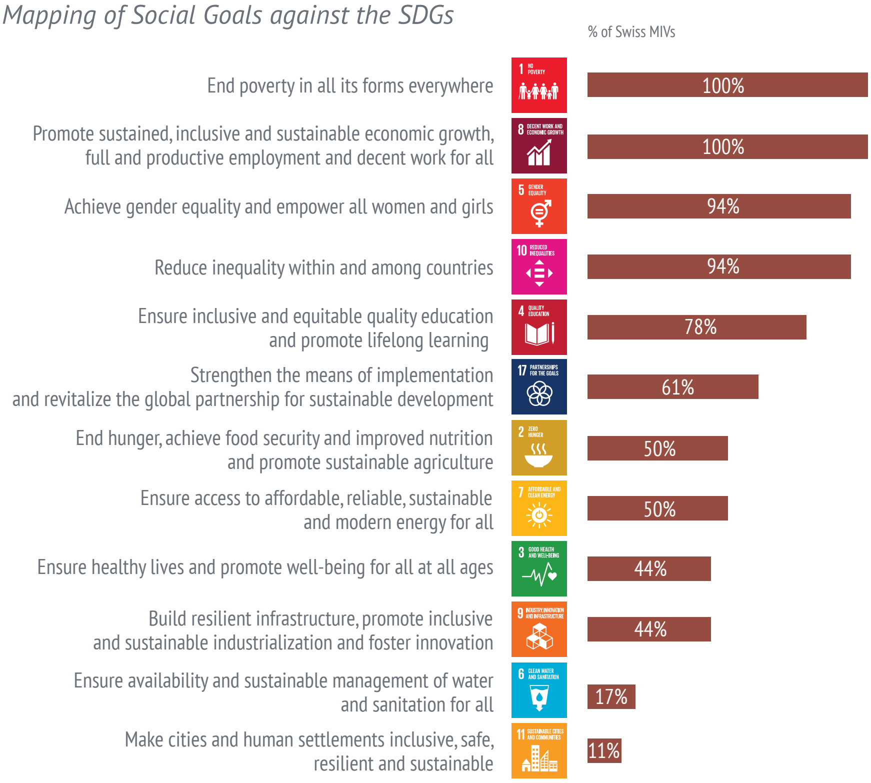
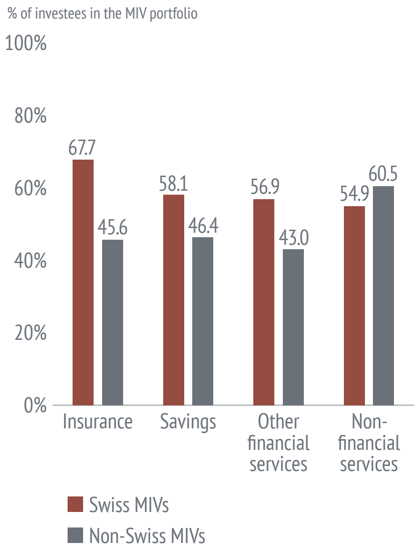


Figure 43
MFI Non-Credit Products (2018)



Last but not least, the most recurring SDGs against which MIVs map their investment portfolios are, among others: Goal 1: End poverty in all its forms everywhere; Goal 8: Promote inclusive and sustainable economic growth, employment and decent work for all; Goal 5: Achieve gender equality and empower all women and girls; and Goal 10: Reduce inequality within and among countries (Figure 44).

4.

OUTLOOK

With one of the longest track records in microfinance and impact investing, Swiss specialized impact investment fund managers play a leading role in private sector development finance by managing and advising one third (32%) of global fund managers' capital, with volumes that have quadrupled since 2010, from USD 2.4 billion to USD 9.3 billion.

Thus, Swiss fund managers constitute a major contributor to the SDGs. They channel their impact investments in emerging markets through financial intermediaries or directly in projects or corporations. They have launched a multitude of impact investment products targeting sectors such as microfinance, SMEs, energy and climate, food and agriculture, as well as health and education.

Overall, they will continue to diversify their investment approach in terms of:

› **Impact themes:** Fund managers are increasing investment volumes in current themes and expanding to new horizons, such as community development, forestry and water;
› **Investment instruments:** Following market developments in some regions, such as Latin America, traditional senior debt lenders are increasingly inclined to diversify their financial instruments with riskier products, such as subordinated debt;
› **Partnerships:** Some current fund managers are initiating new blended finance structures in partnership with international development institutions;
› **Structuring:** Microfinance collateralized loan obligations that saw light 10 years ago, are witnessing a renewed push through improved structuring features, most recently by a leading Swiss fund manager.

Under the new paradigm shift in the global economy, developed countries are facing declining populations, flat growth perspectives and negative interest rates.[16] There is a massive opportunity for capital savings to flow out of these saturated markets, into highly underserved and growing economies. Impact investing products offer unique means for private sector development finance investors to play a crucial role in bridging the SDG financing gap, currently estimated at USD 2.5 trillion per year.

16 Symbiotics, 2017, Why Microfinance Matters to Investors.

5.

APPENDICES

ACRONYMS

AM	asset manager
AUM	assets under management
CAGR	compound annual growth rate
CDO	collateralized debt obligation
EAP	East Asia & Pacific
EECA	Eastern Europe & Central Asia
ESG	environmental, social and governance
EUR	Euro
GIIN	Global Impact Investing Network
GLP	gross loan portfolio
IPO	initial public offering
LAC	Latin America & the Caribbean
MFIs	microfinance institutions
MFP	microfinance portfolio
MIVs	microfinance investment vehicles
MSMEs	micro, small and medium-sized enterprises
NGO	non-governmental organization
SAS	South Asia
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SIFEM	Swiss Investment Fund for Emerging Markets
SMEs	small and medium enterprises
SSA	sub-Saharan Africa
USD	United States dollar

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ABOUT SYMBIOTICS

Symbiotics is the leading market access platform for impact investing. Over the past decade, the company has originated and structured nearly 4,000 investment transactions, worth more than USD 5.3 billion, on behalf of 450 companies in 83 emerging and frontier markets, all serving a measurable sustainable and inclusive finance objective, purchased by 50 different investment funds and institutional investors. Symbiotics is a registered asset manager in Switzerland, a registered investment adviser in the United Kingdom, and has further office presence in Mexico, the Netherlands, Singapore, South Africa and the United States, regrouping more than 150 employees worldwide.

ABOUT THE STATE SECRETARIAT FOR ECONOMIC AFFAIRS SECO

Centre of expertise for economic development

The Economic Cooperation and Development division is part of SECO's economic competence. We use this expertise specifically for international cooperation, benefiting from direct access to leading economic organisations, government offices and central banks. We focus on advanced developing and transition countries facing specific challenges in regard to development policy. Our programmes are aligned with national and international development strategies. We systematically apply quality assurance, risk monitoring and results driven management as part of our programmes. This is how we make sure that our measures actually have an impact. We obtained ISO 9001 certification in 2001.

Since 2007 we have also contributed to efforts to reduce social and economic disparities in the enlarged EU. This contribution falls under Switzerland's European policy and is not part of development cooperation.

Reducing poverty through sustainable growth

Our mission is to help achieve sustainable economic growth that reaches all segments of the population in our partner countries, using a range of economic and trade policy measures. In doing so, we aim to reduce poverty and the impact of global risks. Growth should address economic as well as social and environmental aspects, without compromising the well-being of future generations. It enables the private sector to create more jobs and the government to deliver central public services.

To achieve our objective, we have defined four target outcomes:

› Effective institutions and services
› Trade and competitiveness
› More and better jobs
› Climate-friendly growth

These form our contribution to implementing the United Nations' 2030 Agenda and its 17 goals for sustainable development. We systematically take into account the cross-cutting themes of good governance and gender equality in all areas of our work.

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