Annual Impact Report 2024

SDGs Credit Fund

dwm

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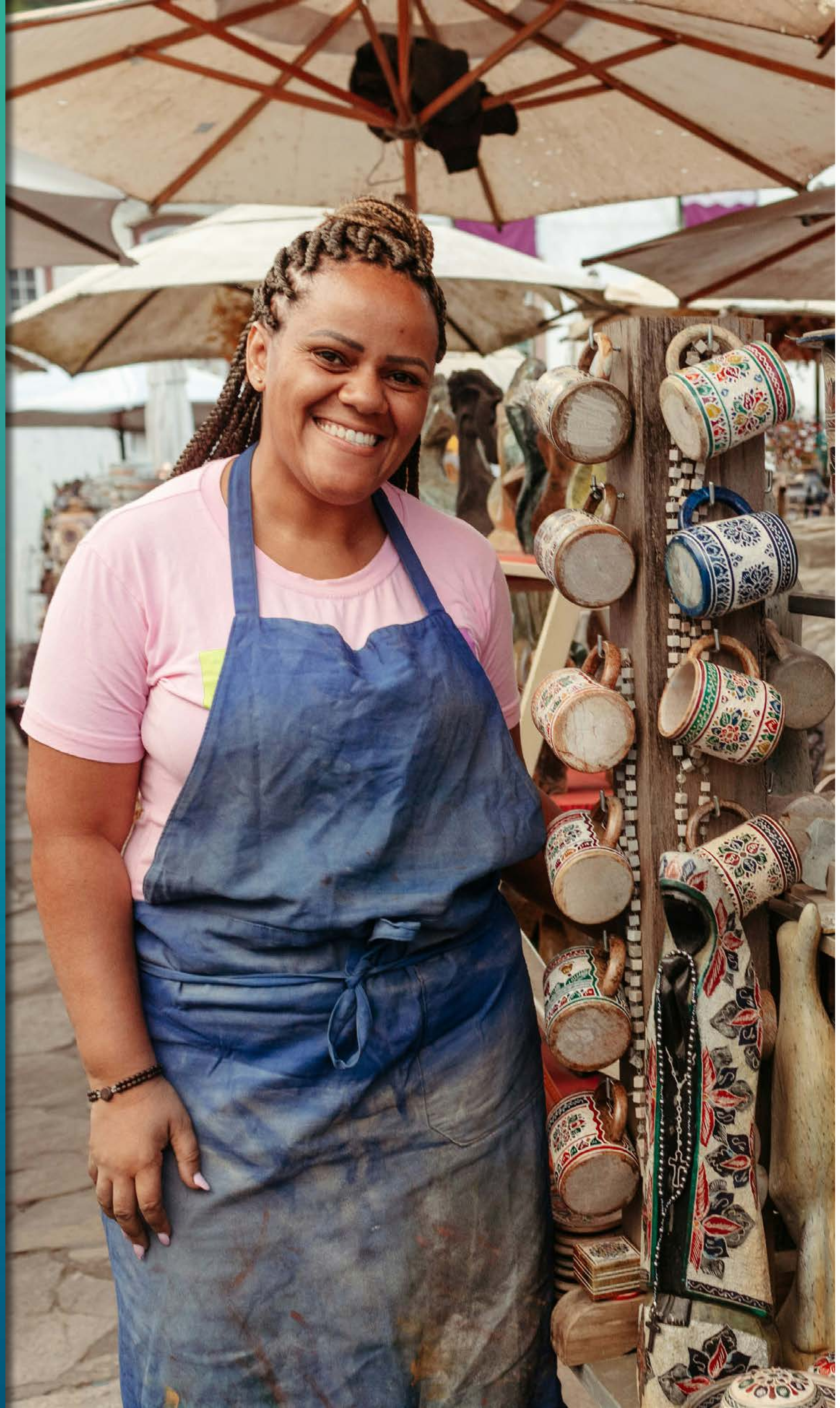


Introduction

The SDGs Credit Fund makes loans to institutions that provide financial services to individuals and micro, small, and medium-sized enterprises (MSMEs) in emerging and frontier markets.

The strategy offers investors an opportunity to achieve market-rate returns and impact by providing financial access to millions of low-income people and MSMEs in the parts of the world where it is needed most. Moreover, these investments are also an effective means to advance gender equity, enable investments in livelihoods and job creation for the poor, and contribute to climate change mitigation and adaptation.

The following report details the portfolio's social and environmental results achieved in 2023 and provides insight into the direct and indirect contributions to the Sustainable Development Goals (SDGs).

MICROFINANCE LUXFLAG

The SDGs Credit Fund has been awarded the LuxFLAG Microfinance label in recognition of its rigorous impact and ESG processes.

dwm IMPACT INVESTING

Theory of Change for Financial Inclusion Investments

Problem

- Lack of access to finance for the underserved, especially women and low-income people, prevents investment in livelihoods and resilience to economic shocks

Outputs

- Loans provided for investment in micro, small, and medium enterprises
- Other financial services (e.g., savings) to better manage periods of financial stress

Outcomes

- Increased access to finance for women and rural microentrepreneurs
- Increased ability to invest in income-generating activities
- Reduced reliance on expensive, informal financial services
- Job creation
- Skills development
- Uptake of technology

Impact

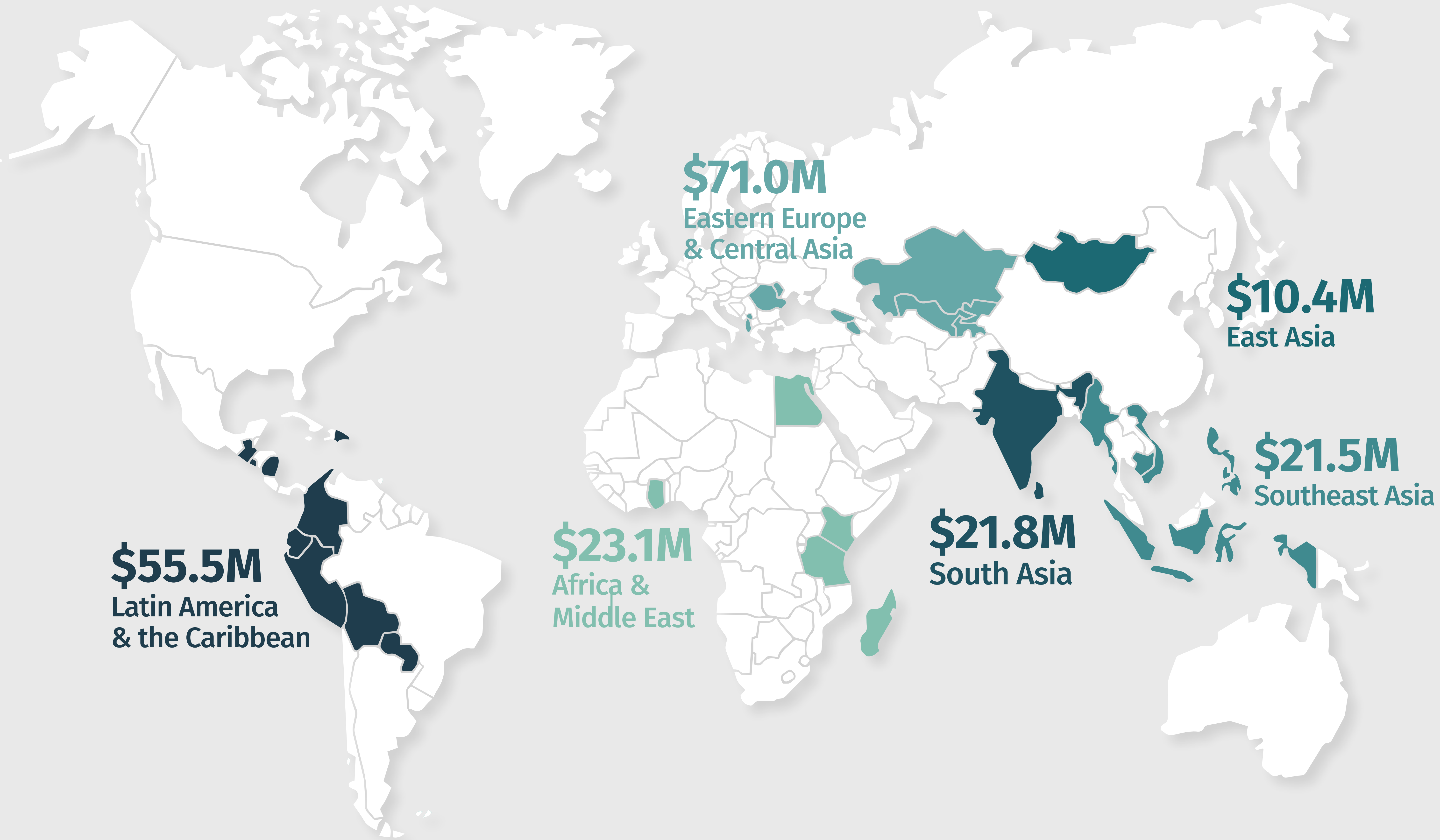
- Increased household income and business revenue
- Reduced unemployment
- Enhanced gender equity
- Improved sustainability outcomes

SDG Linkages

- 1: Increasing access to basic services
- 5: Inclusion of women in the economic sphere
- 8: Supporting job creation through MSME growth
- 9: Increasing access to affordable credit for small-scale enterprises
- 13: Financing greenhouse gas reductions

2023 Portfolio Overview

Figure 1 - Loan exposures by region as of December 31, 2023



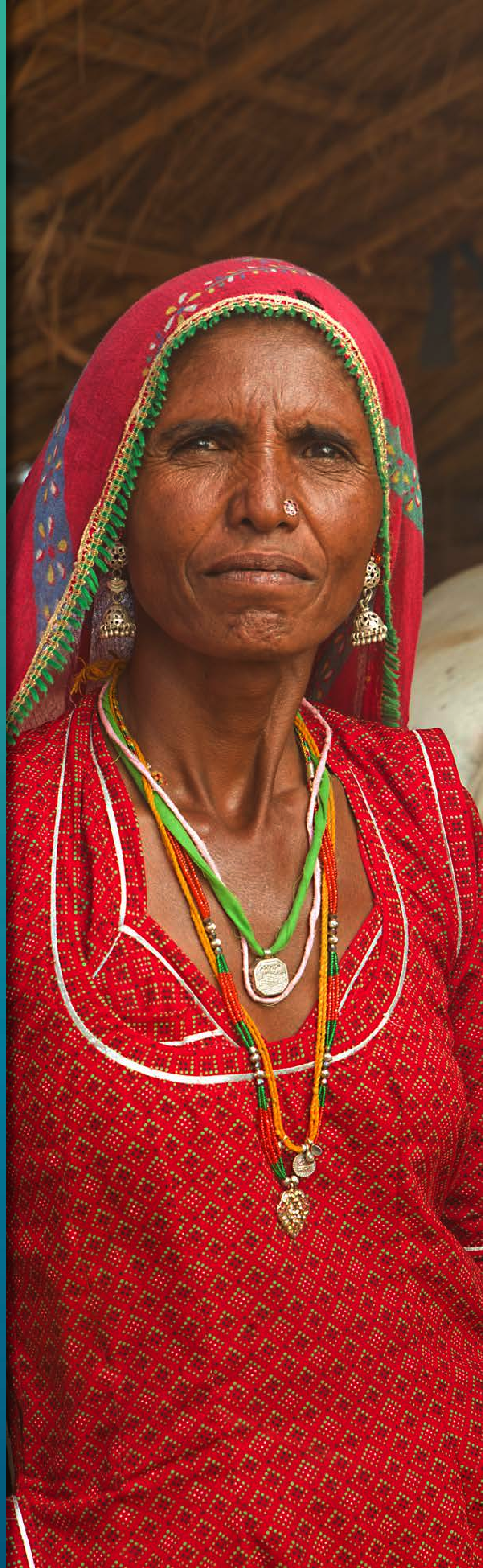
Impact data is gathered annually. The report reflects the impact of the portfolio as of the end of 2023, which included:

- 59 inclusive finance institutions (microfinance institutions, banks, SME lenders, cooperatives, and specialized financial institutions)
- 32 countries
- 18.8 million total end-clients

Countries of Investment in 2023:

New countries in bold.

Albania	Ecuador	Kazakhstan	Paraguay
Armenia	Egypt	Kenya	Peru
Bolivia	El Salvador	**Kosovo**	Romania
Burkina Faso	Georgia	**Kyrgyzstan**	Tajikistan
Cambodia	Ghana	**Madagascar**	Tanzania
Colombia	Guatemala	Moldova	Uganda
Dominican Republic	India	Mongolia	Uzbekistan
	Indonesia	Nicaragua	Vietnam



Supporting the Sustainable Development Goals

Aggregate results from 2023 portfolio companies.

1 NO POVERTY

4.7 million
poor and low-income clients provided access to finance and other basic services

2 ZERO HUNGER

3.8 million
agricultural loans

4 QUALITY EDUCATION

16.1 thousand
education loans

5 GENDER EQUALITY

67%
women end-clients

6 CLEAN WATER AND SANITATION

44.8 thousand
water and sanitation loans

7 AFFORDABLE AND CLEAN ENERGY

8.7 thousand
clean energy and energy efficiency loans

8 DECENT WORK AND ECONOMIC GROWTH

5,840
more jobs at portfolio companies than last year

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

5.5 million
MSMEs financed

11 SUSTAINABLE CITIES AND COMMUNITIES

159.5 thousand
housing loans

13 CLIMATE ACTION

$396 million
gross loan portfolio for environmental or sustainable activities

Growing Impact

Since inception, the Fund has steadily expanded its reach and impact through inclusive financial institutions. These companies provide beneficial services for people and businesses, enabling poor and low-income people (especially women) to earn incomes and access employment opportunities.

	2021	2022	2023
Number of portfolio companies	31	45	59
Number of countries	21	28	32
Outstanding AUM ($M)	$130.5	$186.5	$203.3
Aggregate number of end-clients	6.0M	13.6M	18.8M
Attributable number of end-clients	112,299	179,177	201,184
Average loan size to end-clients	$1,449	$2,375	$1,990
Aggregate percent women clients	66%	59%	67%
Aggregate percent micro, small, and medium-sized enterprise clients (MSMEs)	33%	37%	48%
Aggregate percent poor and low-income clients	72%	81%	82%

Methodology note: "Aggregate" results are calculated by summing the total results from each portfolio company. "Attributable" results are calculated by multiplying each portfolio company's individual result by the ratio of the Fund's outstanding investment to the total assets of the company and then summing those pro-rated results.

Key Impact Metrics for 2023

The portfolio companies serve mainly individuals and microenterprises. Two-thirds of total end-clients are women.

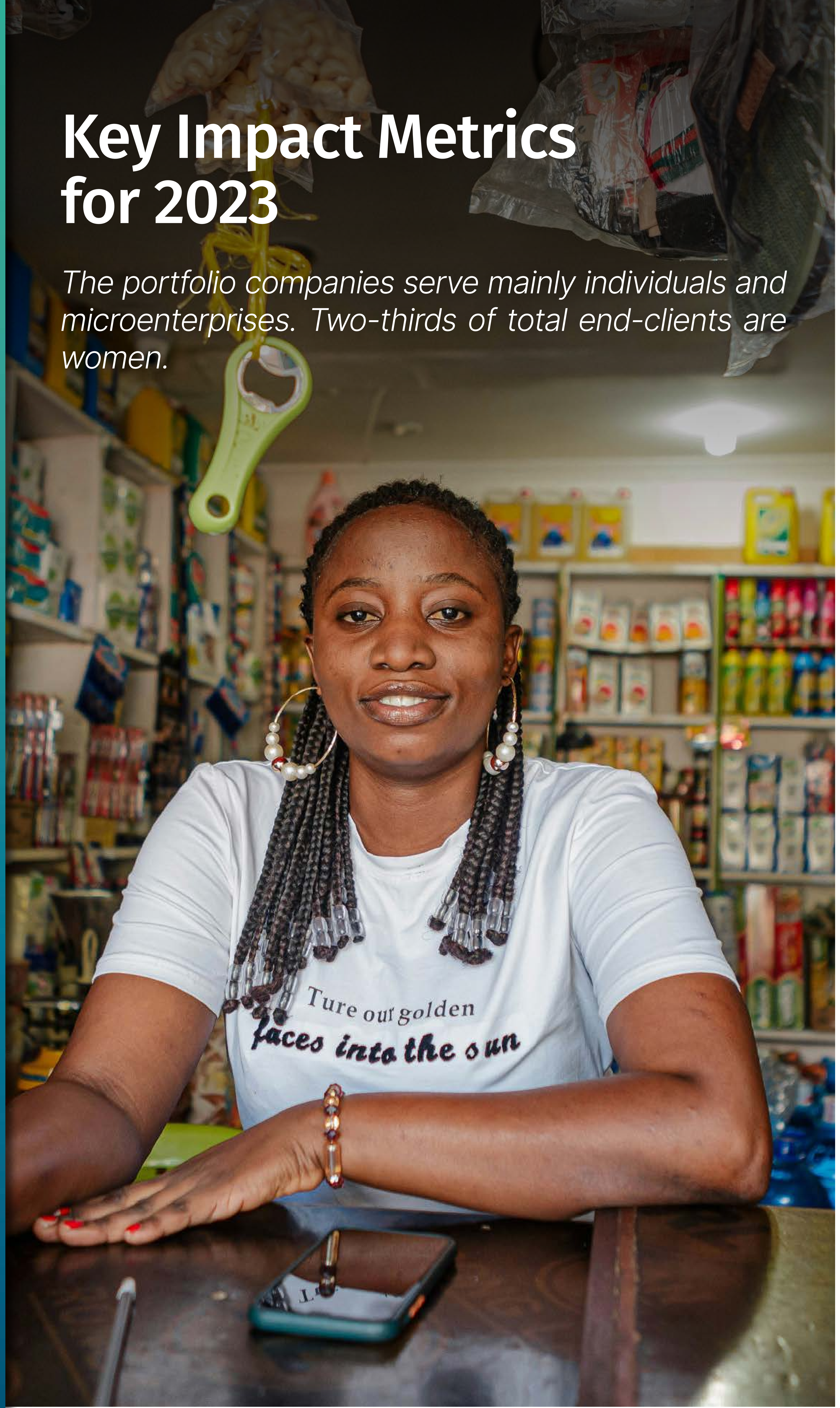


Figure 2 - Enabling financial inclusion for individuals and MSMEs

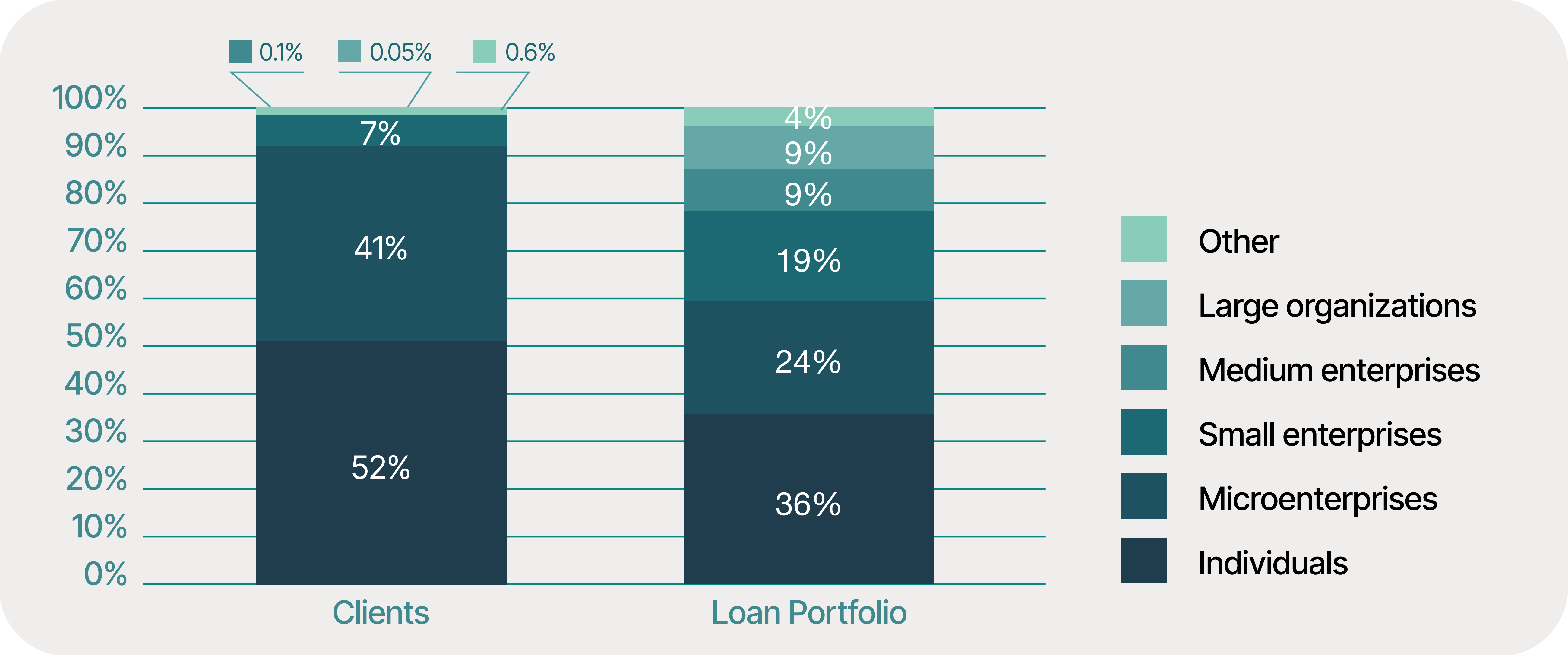
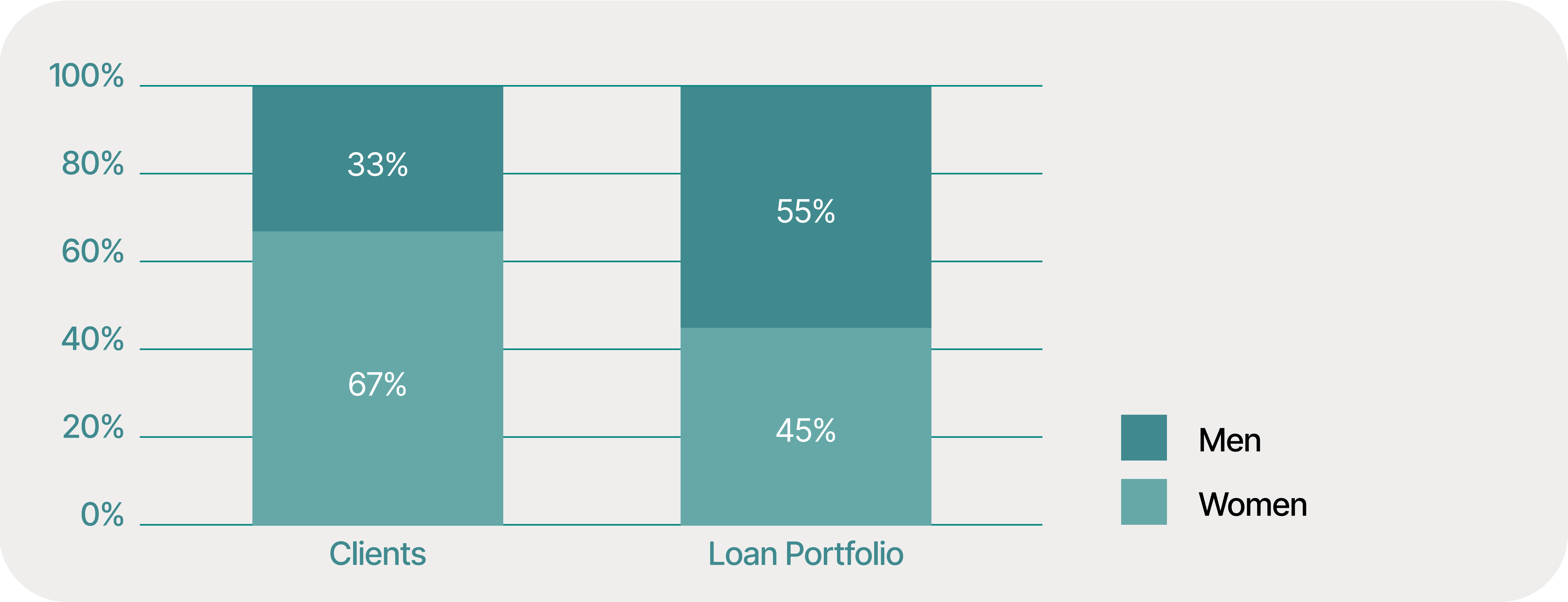


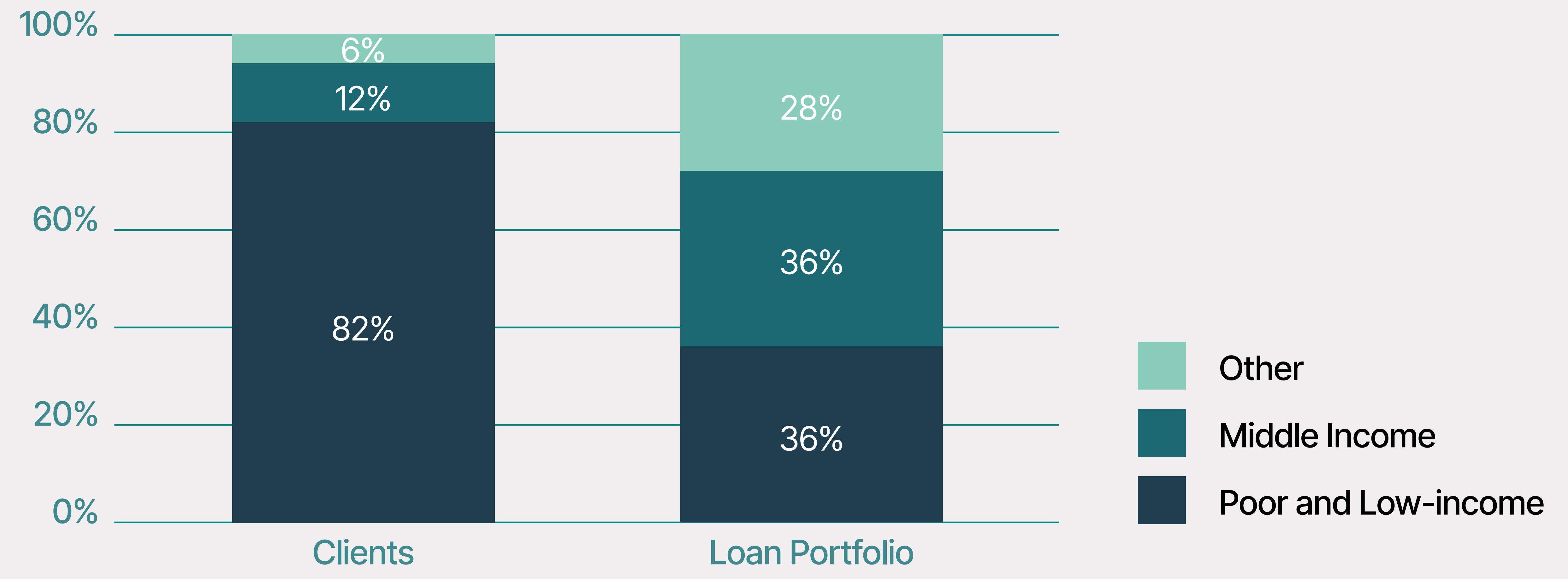
Figure 3 - Providing Access to Services for Women



Key Impact Metrics for 2023

The Fund's emphasis on meeting the needs of poor and low-income populations is reflected in the client composition. Since these clients tend to have smaller loan sizes, the makeup of gross loan portfolio by income level is more balanced across groups.

Figure 4 - Majority poor and low-income clients



*Excludes clients whose income levels are not known.

Expanding Access to Finance and Other Basic Services for the Poor

- Accessing responsible and affordable financial services remains a challenge in the developing world, especially for underserved populations such as women and people who live in rural areas.
- Inclusive financial institutions help to fill this gap by providing loans and other critical services that help people and businesses invest in opportunities, manage their finances and recover from shocks.
- Financial services also play a critical role in enabling access to other vital services such as education, energy, and water and sanitation.
- The fund's investments in these financial institutions directly contributes to SDG 1, No Poverty and facilitates contributions to SDGs 2, 4, 6, and 7 by expanding access to basic services.

SDG Targets and Indicators

1 NO POVERTY

Target 1.4: Ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance

Indicator 1.4.1: Proportion of population living in households with access to basic services

How the Fund Supports the Goal

Global gap: 1.4 billion unbanked adults
Gap in portfolio countries: 558 million unbanked adults

Portfolio contribution:

18.8 million end-clients

3.5 million previously unbanked

3.5 million poor and low-income clients

Other basic services facilitated:

- 3.8 million agricultural loans
- 16.1 thousand education loans
- 159.5 thousand housing loans
- 44.8 thousand water and sanitation loans
- 8.7 thousand clean energy and energy efficiency loans

2 ZERO HUNGER
4 QUALITY EDUCATION
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY

*Portfolio contributions are not investment-weighted.


Pamoja Group

Case Study: ASA Tanzania

Expanding access to finance and other basic services for the poor

Close to 45% of Tanzania's population lives in poverty, according to the World Bank. Access to financial services remains a major barrier for large swaths of the population, especially women, who struggle to earn livelihoods and save for basic needs such as healthcare and their children's education. Group lending is a powerful method of combating some key barriers to access to finance, as it lessens the risk of default and enables members to save and borrow together, learning from each other along the way.

ASA Tanzania uses the group lending model throughout the country to expand access to financial services for low-income women. For example, in the Kisutu neighborhood of the country's major city Dar es Salaam, the Pamoja Group was formed in 2023 and has 21 members. Loans are granted on an individual basis, but the group meets weekly together with an ASA Tanzania loan officer and is governed by a chairman, group accountant, and a group deputy.

The group members utilize their loans for a variety of purposes. One member, Zena took out a loan for her child's education, illustrating her commitment to investing in the future. Ayesha expanded her business by transitioning from a food vendor to selling cold drinks. Rachel has successfully opened her third salon shop using group loans from ASA Tanzania. Another member, Mwanaidi, took a loan to renovate her spa shop, further enhancing her business.

Dar es Salaam, Tanzania

Enabling Economic Development and Job Creation by Growing MSMEs

- Micro, small and medium-sized enterprises (MSMEs) are major engines of economic growth and broad-based job creation in developing countries, but they face high barriers to accessing the capital they need to thrive, leading to a multi-trillion-dollar gap in financing for this segment.
- These businesses also provide needed goods and services in their local communities.
- The Fund's investments help meet the unmet financing need by providing loans and other services to MSMEs at appropriate terms and prices.
- This activity contributes to SDGs 8 and 9 by expanding access to financial services for MSMEs.

SDG Targets and Indicators

8 DECENT WORK AND ECONOMIC GROWTH

Target 8.3 Support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Target 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets

Indicator 9.3.2: Proportion of small-scale industries with a loan or line of credit

How the Fund Supports the Goal

Global gap:

- 130.7 million credit-constrained MSMEs with $4.8 trillion in unmet financing needs

Gap in portfolio countries:

- 63.1 million credit-constrained MSMEs with $714 billion financing gap

Portfolio contribution:

5.5 million MSMEs financed

$10.7 billion gross loan portfolio to MSMEs

*Portfolio contributions are not investment-weighted.

Tamara Ismailova

Case Study: Bailyk Finance

Enabling Economic Development and Job Creation by Growing MSMEs

Kyrgyzstan is a mountainous, landlocked country in Central Asia of roughly 6.6 million people, of whom 22% live below the poverty line. Bailyk Finance was created in 2011 to support entrepreneurs and small businesses, especially women and those in rural areas where traditional banking services are scarce. It currently serves more than 51,000 clients through its 50 branches.

One of Bailyk's clients is Tamara Ismailova, a former government employee in the capital region of Chuy with a lifelong passion for sewing and clothing design inspired by her grandmother. Tamara has been working as a seamstress for 10 years, but the need to earn an independent income to support herself and her two daughters became especially acute after her divorce in 2021. Tamara took her first loan from Bailyk to purchase professional sewing machines and an ironing table to expand her sewing and tailoring business. She had heard of Bailyk from friends who noted their fast loan application process, favorable conditions, and polite and helpful staff.

In the past three years, with support from Bailyk, Tamara has expanded her workshop from her own home to a basement space of a neighboring house, where she and her daughters work. She has grown her tailoring volumes and production, successfully expanding beyond Kyrgyzstan into the regional market.

Chuy, Kyrgyzstan

Advancing Gender Equity

- Women around the world face higher structural and norm-related barriers than men in accessing various services through mainstream institutions, along with barriers to formal employment and economic opportunity more broadly.
- The Fund's investments advance gender equity by serving majority women clients, tailoring products and services for women entrepreneurs, and by employing more women staff and managers than average for their countries.
- In doing so, these investments contribute to SDG 5, Gender Equality.

SDG Targets and Indicators

5 GENDER EQUALITY

Target 5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life

Target 1.4: All men and women have access to financial services

Indicator 5.5.2: Proportion of women in managerial positions

How the Fund Supports the Goal

Global gap: 742 million unbanked women
Gap in portfolio countries: 364.5 million unbanked women

Portfolio contribution:

7.2 million women clients

67% of total clients are women

46% of investees offered services for women

Global gap: 33.5% of senior management roles are held by women
Gap in portfolio countries: 18% population-weighted average

Portfolio contribution:

29% of portfolio company senior managers are women, on average

*Portfolio contributions are not investment-weighted.

Narcisa Pupiales

Case Study:
Banco VisionFund Ecuador

Advancing Gender Equity

Narcisa Pupiales is a master embroiderer, having practiced the craft since she was 12 years old. Now in her sixties, embroidery is her primary source of income. Working from her home in the canton on Ibarra, Narcisa embroiders tablecloths and table runners to sell in local and national artisan markets.

Narcisa has been a client of Banco VisionFund Ecuador, one of the Fund's borrowers, for 20 years. At the time, she had a loan from a major bank, but after falling ill she couldn't repay, causing her credit score to deteriorate. A credit officer from Banco VisionFund Ecuador suggested she join a solidarity group in her area so that she could access a loan to finance inputs for her embroidering business.

Since then, Narcisa has had 15 rounds of credit from Banco VisionFund Ecuador. Her most recent was a loan for $3,000 with a term of 18 months. Her payment record also enabled her to obtain a new source of financing from a cooperative.

With the financing from Banco VisionFund Ecuador, Narcisa has been able to increase her sales and employ four people when orders are high, generating employment in the area.

Ibarra, Ecuador

Alignment with 2X Financing for Women Criteria

The Fund meets three out of four criteria, and data is not available for the fourth. Per the 2X Criteria, funds in which at least 30% of the portfolio companies meet one criterion are 2X eligible.

The 2X Challenge was launched in 2018 as a commitment by development finance institutions to make investments that advance gender equality and women's economic empowerment. The 2X criteria have continued to evolve since the initial Challenge. The Fund's alignment to the 2023 version of the criteria is assessed in the graphic at right.

Fund Alignment with the 2X Criteria

		Criteria for each Investment/Portfolio Company	Threshold per Company	Share of 2023 Portfolio Companies Aligned
1	Entrepreneur-ship	1A. Share of women ownership	51%	Data not available
		OR		
		1B. Business founded by a woman	Y/N	
2	Leadership	2A. Share of women in senior management	30%	55%
		OR		
		2B. Share of women on the Board or Investment Committee	30%	22%
3	Employment	3A. Share of women in the workforce	40%	54%
		AND		
		3B. One "quality" indicator beyond compliance	Y/N	
4	Consumption	4. Product or service specifically or disproportionately benefits women	Y/N	52%

2X Challenge Criteria: https://www.2xchallenge.org/criteria

Mitigating Climate Change and Building Resilience to its Effects

- The primary end-clients of the Fund's portfolio companies are among the least responsible for climate change and the most vulnerable to its effects. The predominantly poor and low-income people served by the portfolio companies live in places that have frequent climate-related natural disasters paired with inadequate infrastructure and limited safety nets.
- Inclusive financial institutions can play an important role in aiding the transition to a low-carbon economy while also supporting their clients' ability to adapt and build resilience to climate change through financing and other services.

SDG Targets and Indicators

13 CLIMATE ACTION

Target 13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

Target 13.2: Integrate climate change measures into national policies, strategies, and planning

Indicator 13.1.3: Adoption and implementation of local disaster risk reduction strategies

Indicator 13.2.2: Total GHG emissions per year

How the Fund Supports the Goal

Portfolio contribution:

66% of investees provide green financing products

$171.8 million gross loan portfolio to environmental activities

64% of investees have environmental policies for their clients

35.8 thousand MW of renewable energy financed by portfolio companies in 2022

12.8 thousand MT of GHG emissions avoided/reduced by portfolio companies

*Portfolio contributions are not investment-weighted.

Case Study: EVN Finance

Mitigating Climate Change and Building Resilience to its Effects

Expanding sources of clean energy is a particularly important goal for Vietnam, where power outages driven by high summer temperatures and disruptions to power plants increasingly threaten communities and businesses. NDT is a subsidiary of Helio Energy, which is a Vietnamese renewable energy project developer with roughly 40 employees that helps to address this critical need. NDT Vietnam is a client of EVN Finance, a portfolio company in the SDGs Credit Fund.

Established in 2020, Helio energy develops small-scale solar projects that help fuel the energy needs of local businesses. For example, its subsidiary NDT Vietnam generates electric power through rooftop solar projects that power agricultural production. A loan provided by EVN Finance enabled the expansion of this project. EVN Finance provides the features and service NDT needed as a small business—flexibility in the loan amount, a competitive interest rate, and a short turnaround time. EVN Finance's experience in the energy sector also made them a valuable financing partner for the company.

A 7-year loan from EVN Finance enabled NDT to successfully implement a solar power project in Binh Thuận, a province on Vietnam's southeastern coast with a large amount of agricultural land. The project provides electricity to a farm and sells excess capacity to the national grid.

EVN Finance and NDT are putting impact investment to work in support of Vietnam's renewable energy transition and local economic development.

Binh Thuận, Vietnam

Impact Measurement and Management Approach

DWM's impact measurement and management is integrated throughout its entire investment process, as described in detail in our statement of alignment with the Operating Principles for Impact Management. The graphic on the next page illustrates how we target, assess, and track social and environmental results across the investment cycle. Company-level impact and ESG analysis is conducted through desktop research, site visits, and discussions with company management. This robust impact measurement and management system enables DWM to select investments with high potential for impact, manage social and environmental results, and learn from experience to inform future investments.

Initial screening and eligibility analysis

- Impact framework completed to document theory of change, five dimensions, and quantify expected impact on key metrics (aligned with IRIS+)
- Investment must fit with our theory of change and avoid excluded activities

Full due diligence

- DWM Impact IQ completed by potential investee and quality checked by DWM
- Impact score assigned
- Site visit to verify responses and clarify questions

Investment/credit committee review

- Confirm that investment fits with DWM's impact goals
- Flag potential ESG risks
- Identify needed covenants or provisions to strengthen impact or ESG management

Ongoing investment management

- Track impact performance compared to expectations through annual data collection
- Provide feedback and support to portfolio companies to improve impact
- Seek exits that ensure continuity of impact

Portfolio-level analysis

- Aggregate and analyze yearly data
- Benchmark results internally
- Publish annual impact report

About

The SDGs Credit Fund is managed by Developing World Markets, a leading impact investment manager. Developing World Markets ("DWM") has been exclusively focused on investments in frontier and emerging markets since its founding in 1994, and exclusively on impact investments since 1999.

DWM has invested approximately $2.5 billion in private debt and $150 million in private equity, across more than 60 developing countries. As the Fund Manager, DWM sources, structures, underwrites and documents all Fund assets. In addition, DWM manages ongoing monitoring, and reporting at the investee and Fund level, and manages the underlying relationships with the inclusive financial institutions.

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