

BlueOrchard
Impact Investment Managers
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BLUEORCHARD EMERGING MARKET MSME FINANCE OUTLOOK

RESILIENCE, SCALE AND INNOVATION IN A TURBULENT WORLD

October 2026

Marketing material for professional clients and qualified investors.

In an environment of ongoing uncertainty, investors continue to seek sources of return that can remain resilient during periods of market volatility. In our view, financing micro, small and medium-sized enterprises (MSMEs) in emerging markets presents a differentiated return profile anchored in the real economy. With its local orientation, borrower-level diversification and typically short duration, MSME finance has, in our experience, historically exhibited characteristics that differ from those of traditional asset classes during periods of market stress[1]. While outcomes are strategy- and manager-dependent, we have seen this segment of private debt historically demonstrating resilience during multiple market cycles.



[1] BlueOrchard Finance Ltd. (2025, October). Rethinking diversification: Accessing resilience and liquidity beyond traditional private markets strategies. https://www. blueorchard.com/wp-content/uploads/2026/04/Whitepaper-Microfinance_October 2025-.pdf

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Resilience rooted in the real economy

MSME finance is closely tied to day-to-day economic activity. Many microbusinesses operate in sectors serving local demand, including food distribution, small retail, local transport and basic manufacturing, and are less directly integrated into global markets and production chains. This local orientation can provide a degree of resilience to global economic and financial shocks and has historically contributed to the diversification characteristics associated with microfinance private debt portfolios. The extent of this resilience varies across institutions, markets and types of shocks

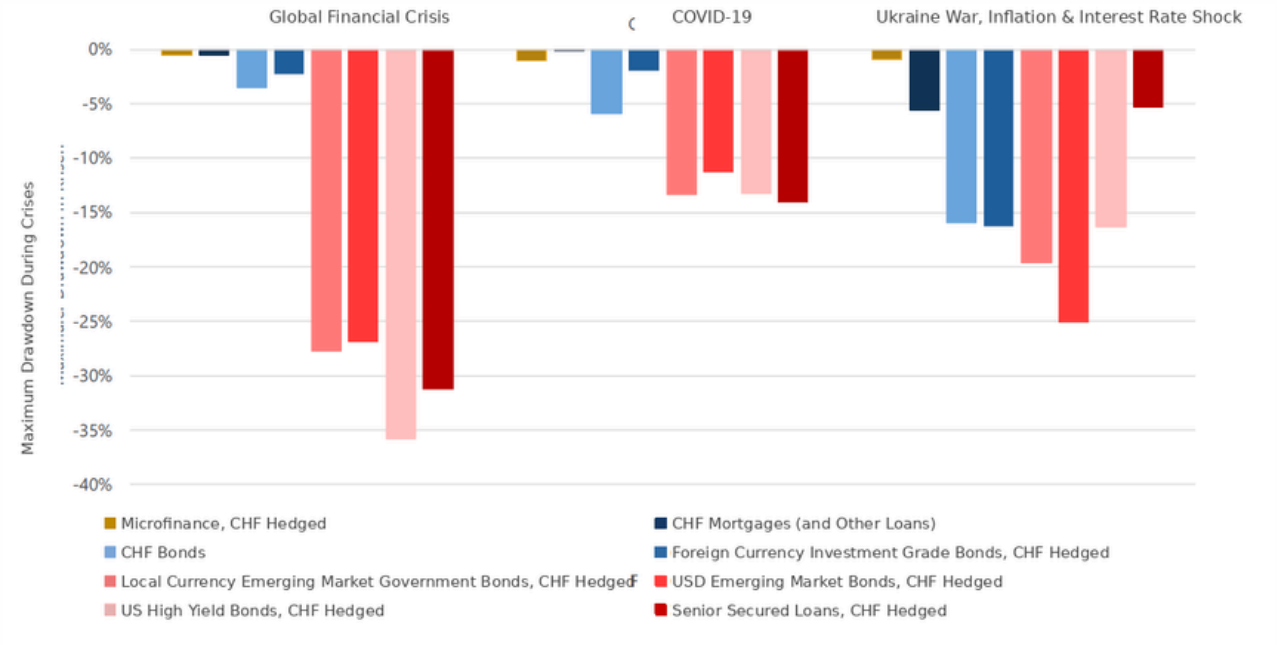
We believe that portfolio construction is a key part of the resilience case. MSME lending tends to be highly granular: exposures are spread across many individual borrowers, sectors and geographies.

Maturities are also relatively short, typically a few months to around 1.5 years for MSME working capital financing and up to 3 years for asset finance, which keeps total portfolio weighted average life close to two years. Combined with granularity, this can support capital preservation and downside resilience by limiting single-name concentration and allowing portfolios to reprice and rebalance more frequently as macro conditions evolve. Research indicates that, during episodes of market stress, MSME finance has shown low correlation to traditional listed asset classes[2] - an attribute that is particularly relevant for investors focused on overall portfolio resilience (see Figure 1).



[2] BlueOrchard Finance Ltd. (2025, October). Rethinking diversification: Accessing resilience and liquidity beyond traditional private markets strategies. https://www.blueorchard.com/wp-content/uploads/2026/04/Whitepaper-Microfinance_October 2025-.pdf

Figure 1: Crisis response in microfinance



Source: c-alm's own representation, translated and reproduced by BlueOrchard based on the chart published in c-alm's study "Analyse einer Anlageklasse – Mikrofinanz: Kleine Kredite, grosse Stabilität (21 August 2026)". Data source: Tameo Impact Fund Solutions and LSEG, 31 December 2003–31 December 2025.

Notes: Financial crisis: 28 February 2006–31 March 2010; Covid-19: 31 December 2019–31 December 2020; Ukraine war, interest-rate and inflation shock: 31 December 2021–31 December 2022. Investment-grade bonds are shown in blue; bonds with a sub-investment-grade component in red. The asset classes and their benchmarks are described in Appendix A2.

Resilience, however, is not automatic. Strong underwriting and careful management of market, regulatory and currency risks remain essential. In frontier markets, hedging costs can absorb a meaningful share of the local lending rate, with lending only viable where the cost of hedging leaves a return consistent with investor expectations while remaining affordable for the borrower.

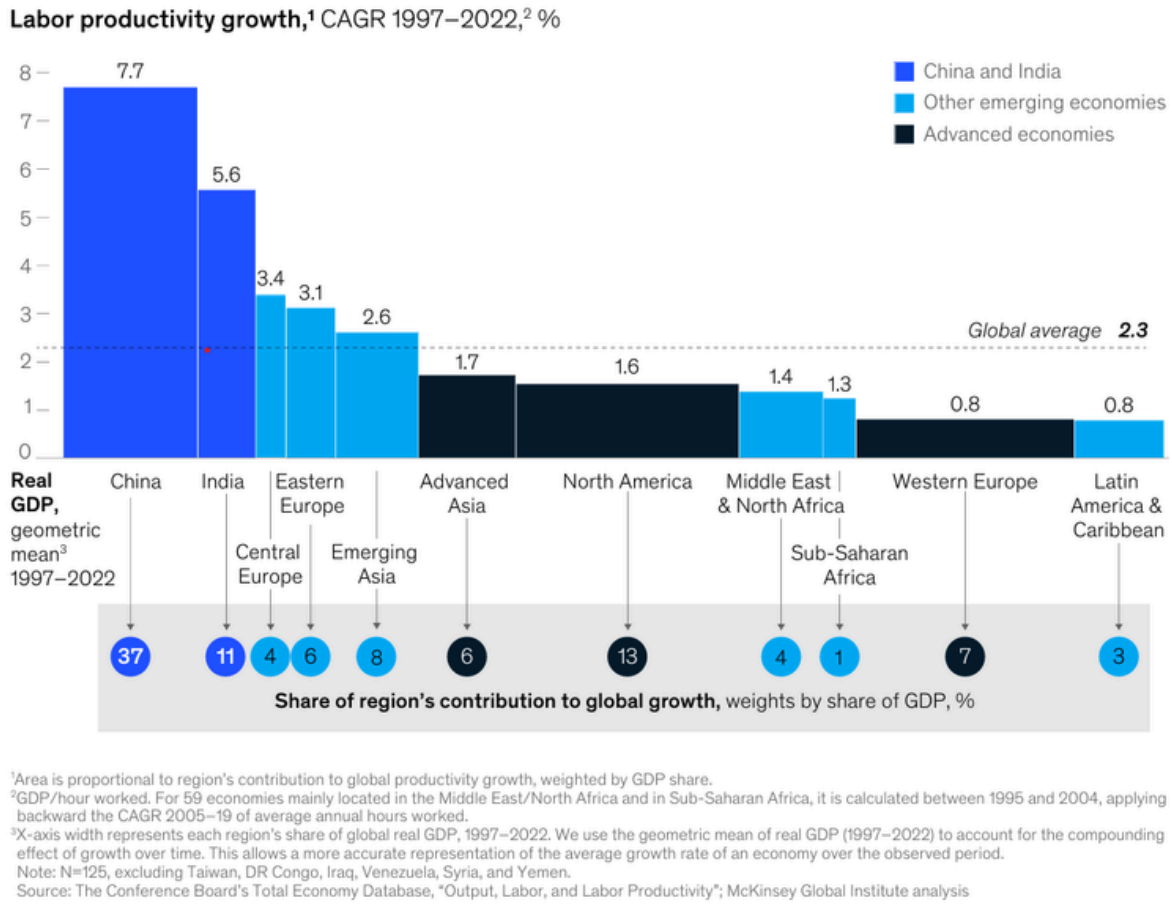
Strategy selection is therefore critical. Originating opportunities with compelling risk-return outcomes, alongside robust risk and FX management frameworks, supports predictable cash flows from hedged interest and principal payments, and, where relevant, asset-liability matching.



Scale through structural growth tailwinds

Beyond resilience, our view is that the opportunity set in emerging markets continues to be supported by structural growth. Emerging markets benefit from favorable demographics[3], higher productivity growth and also significant potential for further productivity gains[4], and comparatively low levels of private-sector credit penetration[5], implying runway for responsible credit expansion as financial systems deepen.

Figure 2: Productivity growth



[1]Area is proportional to region's contribution to global productivity growth, weighted by GDP share.
[2]GDP/hour worked. For 59 economies mainly located in the Middle East/North Africa and in Sub-Saharan Africa, it is calculated between 1995 and 2004, applying backward the CAGR 2005–19 of average annual hours worked.
[3]X-axis width represents each region's share of global real GDP, 1997–2022. We use the geometric mean of real GDP (1997–2022) to account for the compounding effect of growth over time. This allows a more accurate representation of the average growth rate of an economy over the observed period.
Note: N=125, excluding Taiwan, DR Congo, Iraq, Venezuela, Syria, and Yemen.
Source: The Conference Board's Total Economy Database, "Output, Labor, and Labor Productivity"; McKinsey Global Institute analysis

Source: McKinsey Global Institute. (2024). Investing in productivity growth. McKinsey & Company. (Investing in productivity growth | McKinsey).

[3] World Bank. (2026). The global jobs challenge. World Bank.
[4] Dabla-Norris, E., Ho, G., & Kyobe, A. (2016). Structural reforms and productivity growth in emerging market and developing economies. IMF Working Papers, 2016(015). [4] Source: MSCI and iShares, BlueOrchard. Data as of Jul-2025 and May-2025 respectively.
[5] World Bank. (n.d.). Domestic credit to private sector (% of GDP) [Data set]. World Development Indicators. Retrieved August 28, 2026, from [4] Source: MSCI and iShares, BlueOrchard. Data as of Jul-2025 and May-2025 respectively.

Over the long term, productivity has been a key differentiator: Between 1997 and 2022, productivity growth in advanced economies averaged around 1% annually. A group of 30 emerging economies with a combined population of 1.3 billion achieved average annual productivity growth of 2.1% - around twice the advanced-economy rate. Emerging Asian economies feature prominently in this group, alongside Tanzania, Kenya and Uganda in Sub-Saharan Africa and Peru, Costa Rica and the Dominican Republic in Latin America and the Caribbean (see Figure 2).[6]

In our view, this productivity momentum supports a constructive macro backdrop for enterprise formation and expansion, which in turn can drive demand for working capital, inventory finance and equipment investment - areas where MSME lenders play a central role.

Looking forward, emerging markets are expected to continue growing substantially faster than advanced economies, although performance varies considerably across countries and regions.[7] Sub-Saharan Africa is projected to maintain growth above 4% over the medium term, with significant dispersion across individual economies.[8]

For investors, we believe these macro-dynamics matter because MSME credit performance is closely tied to local employment, household income trends and the health of domestic commerce. Structural growth (see Table 1) does not remove cyclical risk, but it can improve the medium-term opportunity set and expand the pipeline of viable, creditworthy borrowers and financial institutions.

Table 1: Regional growth outlook and key drivers (2026-2027)

Region	Expected GDP Growth FY 2026 / 2027*	Key Drivers
Asia	4.9% / 4.8%[9]	Domestic demand, digitalisation / geopolitical tensions
Central Asia, Caucasus and CEE	CCA: 4.8% / 4.5%, CEE: 2.8% / 2.5[10]	Domestic demand, investment / energy prices, remittances
Africa	4.3% / 4.4%[11]	Demographics, digitalisation / currency volatility, sovereign debt
Latin America	2.3% / 2.7%[12]	Commodities / energy and food prices, US policy

*This material may contain "forward-looking" information, such as forecasts or projections. Any forecasts stated in this material are not guaranteed and are provided for information purposes only.

[6] McKinsey Global Institute. (2024). Investing in productivity growth. McKinsey & Company.
[7] Robeco. (2025). Why emerging markets are back in focus. Robeco.
[8] International Monetary Fund. (2026). World economic outlook, April 2026: Global economy in the shadow of war. International Monetary Fund.
[9] IMF (April 2026), Regional Economic Outlook for Asia and Pacific. Emerging and Developing Asia grouping.
[10] Lower range based on EBRD Central Europe and Baltic States aggregates. EBRD (June 2026), Regional Economic Prospects. Upper range based on IMF Caucasus and Central Asia aggregates. IMF (April 2026), Regional Economic Outlook for the Middle East and Central Asia.
[11] IMF (April 2026), Regional Economic Outlook for Sub-Saharan Africa.
[12] IMF (April 2026), Regional Economic Outlook for the Western Hemisphere



Expanding the opportunity set through innovation

We see the MSME financing landscape evolving beyond traditional microfinance institutions (MFIs), with a broader range of lenders and origination channels - and increasingly new use cases aligned with the energy transition and digitalisation.

First, MFIs and specialised lenders are gaining wider access to capital markets[13], which can improve funding diversification and support growth, provided it is matched by strong governance and risk management. Second, fintech is accelerating financial inclusion and operational efficiency. Africa's fintech ecosystem has expanded rapidly, with the number of fintech firms rising from 450 in 2020 to 1,263 at the beginning of 2024. Activity remains geographically concentrated: around 70% of African fintech companies are located in Nigeria, South Africa, Kenya and Egypt, which together attract approximately 80% of fintech funding- highlighting both the momentum and the importance of selectivity.[14]

Third, decarbonisation and green finance are creating tangible, investable themes within micro and SME lending.[15] Examples include solar home systems in parts of Africa and Latin America, and e-mobility financing in India. In parallel, the growth of local value chains - particularly payments infrastructure - supports both formalisation and credit assessment. Payment companies enabling local and cross-border transfers (for example, Wave Mobile in Africa and TerraPay across Africa and Southeast Asia) can strengthen transaction data, reduce friction in commerce and open additional pathways to serve underserved enterprises.

In our view, innovation can translate into new sources of yield and impact. It also introduces new risk considerations - such as faster growth, model risk in digital underwriting, cybersecurity, and evolving regulatory frameworks - which require careful due diligence and ongoing monitoring.

[13] documents1.worldbank.org/curated/en/270221582271669731/pdf/Capital-Markets-and-SMEs-in-Emerging-Markets-and-Developing-Economies-Can-They-Go-the-Distance.pdf

[14] European Investment Bank. (2024). Finance in Africa: Unlocking investment in an era of digital transformation and climate transition. European Investment Bank.

[15] OECD. (2024). Financing SMEs and entrepreneurs 2024: An OECD scoreboard. OECD Publishing. https://doi.org/10.1787/fa521246-en and International Finance Corporation. (2023). Sustainable MSME finance reference guide. International Finance Corporation.



Regional perspectives

Asia: Domestic growth engines and digital momentum

Asia's MSME finance market continues to benefit from robust domestic demand, increasing digitalisation, and significant unmet financing needs. We see opportunities in India, Indonesia, and Vietnam, where financial institutions are expanding access to underserved borrowers while improving operational efficiency.

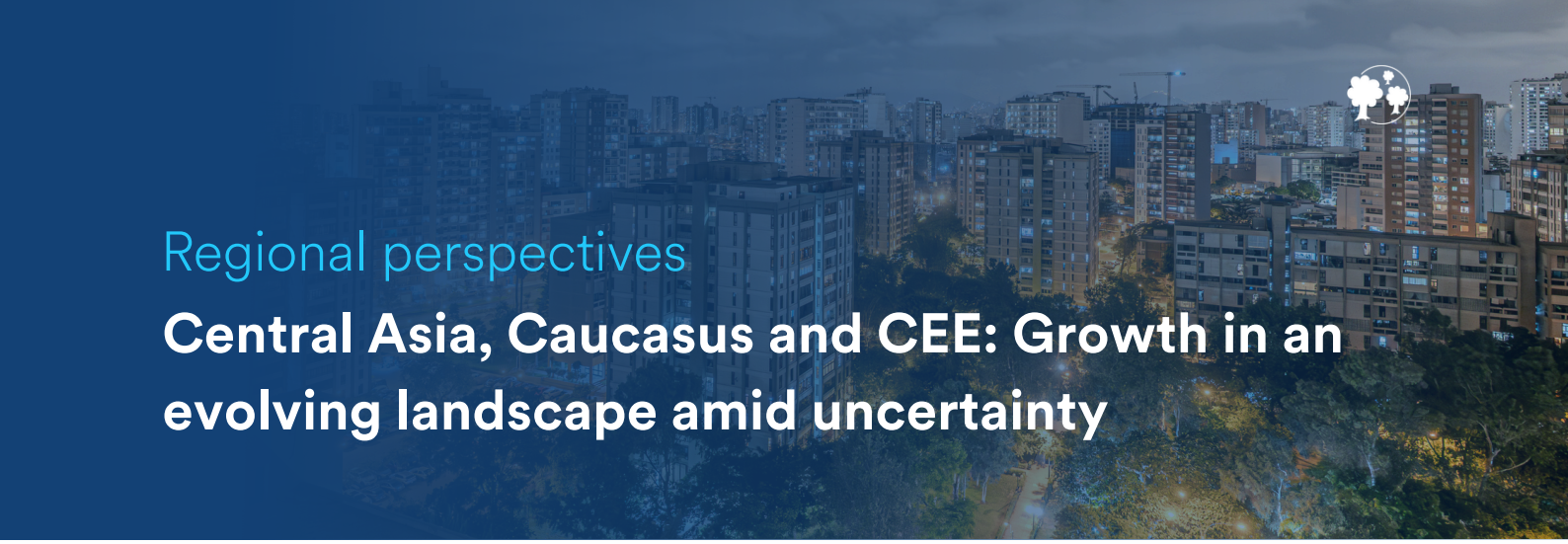
Recent portfolio quality trend across our India exposures suggests that conditions in the microfinance sector in India are gradually stabilising. Industry data indicate that delinquency trends have become less volatile, while tighter underwriting processes, enhanced borrower monitoring, and continued regulatory focus on responsible lending remain important features of the operating environment.[16]

At the same time, we see many institutions diversifying their product offerings beyond traditional group lending, supporting a more balanced growth profile.

We note that geopolitical uncertainty and funding market volatility will remain. Against this backdrop, our approach is to focus on institutions demonstrating strong governance, disciplined risk management, and sustainable growth prospects.



[16] Microfinance Industry Network: Micrometer for Q1 FY 26-27 based on the industry data as on June 30, 2026.



Regional perspectives

Central Asia, Caucasus and CEE: Growth in an evolving landscape amid uncertainty

Our view on the MSME sector across the Caucasus and Central Asia remains constructive, although the growth outlook has become more differentiated. Following stronger-than-expected regional expansion in 2025, the IMF projects Caucasus and Central Asia growth to moderate to approximately 4.8% in 2026[17]. Downside risks have increased, reflecting geopolitical tensions, commodity-price volatility and potential disruptions to trade, tourism and remittance flows. At the same time, MSMEs remain an important source of employment, entrepreneurship and economic diversification across the region. More broadly, the scale of the MSME sector and continued financing gaps support the case for further financial deepening. Across the 26 Asian and Pacific economies covered by the ADB's latest SME Monitor, MSMEs represent an average of 99.8% of enterprises, 67.6% of the workforce and 38.7% of national economic output[18]. Financing remains concentrated in traditional services and smaller-scale trade, agriculture and manufacturing, leaving scope for the further development of local-currency working-capital finance, leasing, factoring and technology-enabled lending.

Recent internal transactions also point to strong institutional demand for MSME finance across, for example, Kazakhstan, Kyrgyzstan, Uzbekistan, Mongolia, Georgia, Armenia, Azerbaijan, Romania and Türkiye.

Conditions in parts of South-Eastern Europe are comparatively softer, with the EBRD identifying weaker-than-expected activity in Romania and Türkiye. Across the EBRD regions more broadly, growth is projected to slow to 3.1% in 2026 before recovering to 3.6% in 2027[19]. Higher energy and food costs, fiscal pressures and weak external demand may constrain MSME margins and investment capacity, particularly in energy-intensive and import-dependent sectors.

Overall, the investment opportunity in the MSME sector remains supported by strong underlying demand for finance, although market conditions require increasing selectivity. Rising domestic liquidity and competition from IFIs[20], MIVs[21] and local lenders are contributing to spread compression in certain markets, while enhanced regulatory oversight, including increased attention to over-indebtedness and real-time credit reporting, is strengthening market discipline. In this context, we favour established MSME lenders with granular portfolios, prudent risk management, sound client-protection practices and robust capitalisation.

[17] IMF: Middle East and Central Asia Region, Spring Meetings 2026. As of April 2026.
[18 Asia Small and Medium-Sized Enterprise Monitor 2025. As of November 2025.
[19] EBRD: Growth in EBRD regions slows as Middle East conflict sparks energy shock and disrupts supply chains. As of June 2026.
[20] IFI = International Financial Institution.
[21] MIV = Microfinance Investment Vehicle.



Regional perspectives

Africa: High growth, high dispersion

In our view, Sub-Saharan Africa remains one of the regions with strong long-term growth fundamentals among emerging markets, underpinned by favourable demographics, rapid urbanisation and a steadily expanding labour force. The region's working-age population is projected to expand by more than 600 million over the next quarter century[22], while the urban population, now around 590 million[23], is growing at roughly 3.6% a year[24].

While the region has largely emerged from the recent period of elevated inflation, currency depreciation and tighter global liquidity, macroeconomic conditions remain uneven across countries. Exchange-rate volatility, inflation, sovereign debt dynamics and the availability and cost of foreign currency funding continue to be key drivers for investment returns and borrower affordability and should therefore remain central to portfolio construction.

We continue to see attractive opportunities across banks, regulated MFIs and fintech platforms, particularly in larger and faster-growing markets such as Kenya, Côte d'Ivoire, Nigeria and South Africa. Financial penetration remains low and demand from MSMEs is largely underserved, supporting strong growth prospects. The sector is benefiting from the rapid adoption of digital payments, mobile money and technology, which are expanding financial inclusion and improving operating efficiency.

However, investors should remain mindful of regulatory developments, governance standards, increasing competition and the sovereign-bank nexus, as many banks continue to maintain significant exposures to government securities due to attractive yields and limited alternative investment opportunities.

[22] World Bank. (2025). Africa's Pulse, No. 32: Pathways to job creation in Africa. World Bank and World Bank. (2024). Africa's Pulse, No. 30. World Bank.
[23] World Bank. (2025). Urban population - Sub-Saharan Africa. Data as of 2025.
[24] World Bank. (2025). Urban population growth (annual %) - Sub-Saharan Africa. Data as of 2025.



Regional perspectives

Latin America: Digitalisation as a productivity lever

In Latin America, moderate economic growth is expected, with commodity prices remaining elevated and national elections recently held in several countries, including Peru, Colombia, Bolivia, Chile, and Honduras. Nevertheless, the trajectory will likely be influenced by the US economy & policy[25], as well as by climate-related risks.

El Niño is expected to intensify toward the end of 2026 and extend into early 2027, potentially impacting food production, hydropower and MSME activity in affected markets. Thus, investment opportunities will likely remain selective, favouring institutions with financial resilience and proven experience in navigating this event.

In this landscape, we currently see opportunities among Banks focused on MSME lending, as well as MFIs with long track records, diversified client segments and strong outreach in rural areas, particularly in Costa Rica, Guatemala, Colombia, and Nicaragua.

Financial institutions across the region generally maintain solid capitalisation levels, and businesses are active in increasing digitalisation, which contributes to productivity gains and creates opportunities through improved sourcing, credit assessment, and collections.

While market conditions remain dynamic, our long-term outlook for MSME finance remains constructive. Persistent financing gaps, increasing financial inclusion and continued sector development continue to create attractive opportunities, even as market conditions become more differentiated. In this environment, value creation increasingly depends on disciplined underwriting, rigorous institution selection and active portfolio management. We believe the fragmented nature of MSME finance markets creates an environment in which disciplined underwriting, institution selection and active portfolio management remain important in order t to identify resilient investees and seize opportunities to generate differentiated risk-adjusted returns.

[25] World Bank:Latin America and the Caribbean economic review, April 2026: Slow growth amid global uncertainty and weak investment. World Bank. As of April 2026.

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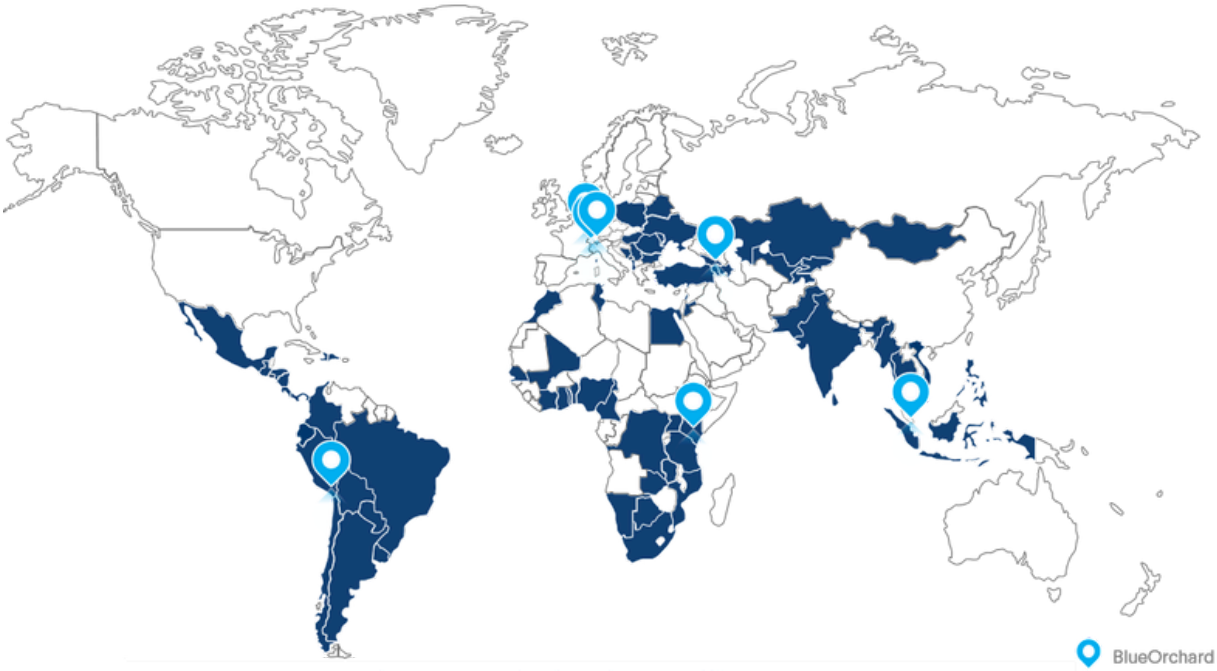
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About BlueOrchard Finance Ltd
BlueOrchard is a leading global impact investment manager with more than two decades of experience partnering with financial institutions in emerging and frontier markets. Established in 2001 as part of a United Nations initiative, the firm has been a pioneer in impact investing and is the manager of the world's largest and oldest commercial microfinance fund.

With deep local expertise and experience across more than 100 countries, BlueOrchard provides flexible, long-term capital solutions tailored to financial institutions serving micro, small and mid-sized enterprises, as well as direct lending to high-impact companies. Beyond financing, the firm works closely with portfolio companies to strengthen efficiency and effectiveness, helping to deepen and scale positive impact in their communities.

As part of Schroders, a global asset manager with a heritage spanning more than 200 years, BlueOrchard combines specialist impact investing capabilities with institutional-grade infrastructure and governance.

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