MEF
Microfinance
Enhancement
Facility

Annual Report 2022

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LETTER OF THE CHAIR

Dear stakeholders,

We are pleased to share with you the MEF Annual Report 2022. As per the previous year, this report combines an overview of last year's activities and achievements, both from a financial and impact perspective. In particular, the report highlights how MEF achieved its global impact finance mission: to improve the livelihood of microentrepreneurs and low-income households in developing countries around the globe.

The year 2022 started on a positive note as the impact of the COVID-19 pandemic diminished. Yet, Russia's war against Ukraine, launched in February 2022, introduced new challenges with global repercussions – in particular a rise in global commodity prices, higher inflation, and increased interest rate volatility.

For MEF, the overall portfolio increased by 4% year-on-year, reaching USD 570 million at year-end, against USD 545 million in 2021. This reflected a higher level of disbursements in the last quarter while, compared to the previous year, the outstanding portfolio was moderately lower at the end of the third quarter.

The number of loans increased slightly to 203 – versus 198 at the end of 2021 – to a total of 145 MEF Partner MFIs. MEF's Partner MFIs were spread across 47 countries, increasing from 42 countries at the end of 2021. Notably, 21 Partner MFIs received MEF funding for the first time, and the Fund extended its outreach to five more countries: Bangladesh, Nepal, the Philippines, Timor-Leste, and Uganda. This continued expansion also demonstrates MEF's commitment to providing financing in countries that are perceived as higher risk based on the Fund's development mandate to provide liquidity where it is most needed.

MEF was less successful in growing the local currency share of its portfolio. Increased market volatility put additional pressure on hedging costs and margins, leading partner MFIs in some countries to favour USD. As a result, the share of local currency – including countries where USD and EUR are legal tender – decreased to 50% at the end of 2022, slightly below the 53% at the end of 2021. However, for all financing disbursed in hard currency, the potential currency risk to MFIs' clients is assessed and mitigated, as needed.

The Fund's portfolio quality stayed at a satisfactory level. Additional impairments of USD 5.8 million were well below the 2021 level of USD 12.9 million. In Asia, two countries were particularly affected by macroeconomic challenges: Myanmar still suffered the effects of the military coup, and Sri Lanka faced a severe economic and political crisis in 2022.

On the liability side, A and B shares are currently set to mature latest in February 2025. MEF has worked closely with shareholders on a potential prolongation with a new strategy. This is expected to result in a decreased portfolio linked to decreasing maturities as loans cannot be extended beyond the final maturity of the B shares. In this context, despite continued interest from investors – and with one private investor renewing their notes in November 2022 – the Fund repaid notes and redeemed shares from two other private investors, all maturing at the end of 2022. This reduced liquidity levels and anticipates subdued portfolio growth in 2023. Shares held by the OPEC Fund for International Development (OFID) were also redeemed as of 31 December 2022 in good cooperation before their maturity date but were only paid out in the first quarter of 2023. Total assets slightly increased to USD 721 million as of year-end 2022, compared to USD 715 million in the preceding year.

Intense consultations have taken place with the founding shareholders to transition MEF into a gender-smart investment fund in combination with the existing financial inclusion mandate. As part of this new strategy, the Fund's governance structure is expected to change. This process is ongoing at the time of writing and is expected to be finalised in 2023.

The Fund's operating efficiency remained good with a total expense ratio of 1.56% in 2022 versus 1.60% in 2021. Despite global challenges and pressure on the overall return of MEF, the Fund was suitably positioned to pay both target and complementary dividends to shareholders.

Following MEF joining the Impact Principles as a signatory in 2021, the Fund completed its first independent verification in 2022, demonstrating its impact management process aligned with the Principles. MEF's introduction of disclosure as a fund designated to sustainable investments, as set out in Article 9 of the EU Sustainable Finance Disclosure Regulation (SFDR), further demonstrates the dedication to transparency and accountability in sustainable investing. MEF continues to rigorously assess ESG considerations as well as sustainability risks as integral to its decision-making process. The Fund also ensures that its investments do not significantly harm any sustainable investment objectives, in particular through the assessment of Principal Adverse Indicators (PAIs), which MEF has started to collect and report on in line with SFDR regulations. The Fund will further develop its impact measurement and monitoring in 2023 in support of the Fund's expected new gender-smart impact mandate.

On behalf of the board, I would like to extend our warmest thanks to our investors for their continuous engagement with MEF and their strong support. We also recognise the precious commitment and engagement of the investment advisors, the service providers, and the general secretary for backing the progress of MEF and the advancement of the Fund's existing and new mission. I also thank my board colleagues for the significant additional time and energy that you devoted to guiding the Fund towards its new mandate.

Above all, our gratitude goes to our Partner MFIs, as they ultimately deliver the impact in the countries where it is needed.

At a time when the world faces increasing geopolitical and economic instability, MEF aims to be a stable and trustworthy partner that continues to be at the forefront of the impact finance industry with regard to ESG considerations and sustainable investments.

On behalf of the MEF Board of Directors
Ruurd Brouwer | Chair

MISSION

MEF supports economic development and prosperity globally, through the provision of additional development finance to microenterprises and low-income households via qualified financial institutions.

In pursuing this mission, MEF observes principles of sustainability and additionality, combining development and market orientation.

The Microfinance Enhancement Facility S.A., SICAV-SIF (MEF) was set up in February 2009 to provide short and medium-term financing to financial institutions which support microfinance and microenterprises (MFIs). The fund was originally conceived with a focus on securing financing to MFIs in the wake of the 2008/2009 global financial crisis. As the microfinance market has matured and deepened, MEF has been a stable and reliable source of funding to MFIs, not only in challenging or crisis situations. The Fund has thereby strengthened the provision of responsible financial services to micro and small enterprises. This has contributed to the financial resiliency of entrepreneurs and low-income households as well as to economic growth and job creation, helping to reduce poverty in developing countries around the globe.

MEF is structured as a flexible vehicle, designed to meet the needs of MFIs whilst catalysing private sector investors in the Fund. With its focus on local currency debt financing, MEF continues to de-risk many of its MFIs and their clients from currency fluctuations. This, and the adherence to constantly evolving social performance standards, are core components of MEF's approach to responsible finance.

Operating as an efficient and demand-oriented microfinance debt fund, MEF seeks to respond to the needs of the market and of individual MFIs, and provides an important market signalling effect. Since inception, MEF has supported low-income borrowers by providing over USD 2.9 billion to 312 financial institutions providing microfinance in 64 developing countries.

MEF's founding shareholders include KfW (German state-owned Development Bank), IFC (the International Finance Corporation, a member of the World Bank Group), and the Development Bank of Austria (OeEB). The Fund is supported by Innpact as general secretary and co-advised on its investments by four leading private investment advisors (BlueOrchard Finance AG, Incofin Investment Management, responsAbility Investments AG, and Symbiotics SA). The investment advisors present funding proposals to MEF's Investment Committee, convened monthly and composed of reputable professionals in the microfinance industry.

The Fund's global mandate, investments sourced through four leading investment advisors, the support of committed DFI shareholders, and catalysing private investors combine to position MEF as a mainstay of the microfinance industry.

KEY PORTFOLIO FIGURES

USD 721 M
+1%
USD 715 M
USD 760 M
total assets

USD 570 M
+5%
USD 545 M
USD 584 M
loan portfolio

79%
↗
76%
77%
portfolio in total assets

145
+2
143
139
Partner MFIs financed

47
+5
42
45
countries

50%
↘
53%
63%
share of local currency in portfolio*

17 months
↘
19 months
20 months
average outstanding maturity

USD 4.3 M
↗
USD 4.2 M
USD 4.5 M
average exposure

26
+1
25
25
local currencies provided

- 2022
- Δ 2021 to 2022
- 2021
- 2020

*including EUR and USD loans when legal tender

SINCE INCEPTION

USD 2.9 BILLION
INVESTED

64
COUNTRIES

312
PARTNER MFIs FINANCED

869
LOANS

MEF IMPACT AT A GLANCE

as of 31 December 2022

740,000
final borrowers
reached by MEF funding

USD 1,627 average
USD 2,245 median
loan size to final borrowers

78%
women

69%
rural

LuxFLAG Microfinance Label
since 2011

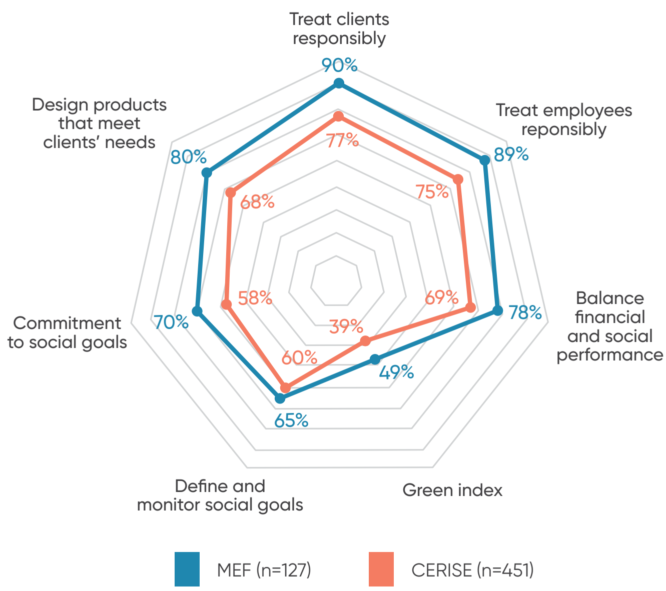
signatory of the Impact Principles
since 2021

Social performance analysis ALINUS

MEF Portfolio Average SPI4-ALINUS Score 74%

With an overall ALINUS score of 74%, MEF Partner MFIs demonstrate stronger social performance than their peers (64%) and outscore the CERISE benchmark in all dimensions.

SPI4-ALINUS is a social performance assessment tool developed by CERISE+SPTF and aligned with the Universal Standards for Social and Environmental Performance Management. ALINUS stands for 'ALigning INvestors due-diligence and reporting with the Universal Standards' and covers 7 dimensions. (More detail in the section 'CERISE | MEF'S PARTNER ON SOCIAL PERFORMANCE DATA')



Based on the latest data reported by the MFIs to CERISE and inconsistent datapoints have been excluded from the samples. Also, variations year-on-year may result from MEF's evolving exposure to specific Partner MFIs entering or exiting the portfolio.

MEF IMPACT AT A GLANCE

Impact management process aligned with the Impact Principles

MEF joined the Impact Principles in January 2021 (originally the Operating Principles for Impact Management (OPIM)).

As a signatory to the Impact Principles, MEF publishes its annual disclosure. In this the Fund describes how each principle is incorporated into its investment process and how its impact management system and processes are aligned with each principle. Moreover, in September 2022, MEF completed its first independent verification, demonstrating that its impact management process is aligned with the Impact Principles.

The annual disclosure and the 2022 independent verification statement are available via www.mef-fund.com/publications.php; for more information on the Impact Principles see www.impactprinciples.org

Labelled to confirm that the investments are made in the microfinance sector

MEF has been granted the LuxFLAG Microfinance Label since inception. Annually reviewed for renewal, in September 2021 the Board of LuxFLAG resolved to renew the use of the LuxFLAG Microfinance Label to Microfinance Enhancement Facility, SA, for the period 1 October 2022 to 30 September 2023.

The primary objective of the LuxFLAG Microfinance Label is to reassure investors that the Microfinance Investment Vehicle (MIV) actually invests, directly or indirectly, in the microfinance sector.

For more information on the LuxFLAG Microfinance Label see https://luxflag.org/labels/microfinance/

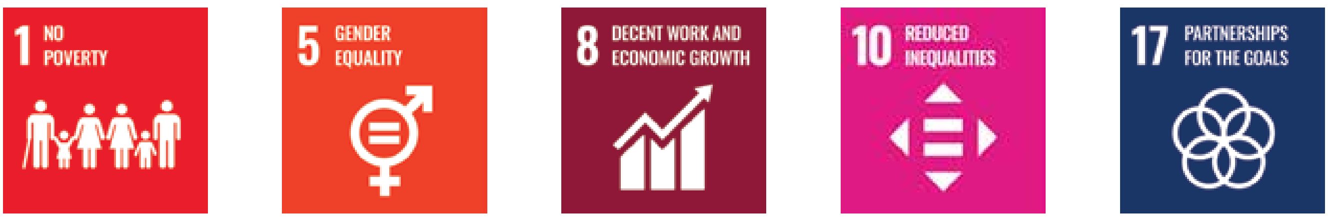
Transparent and benchmarked reporting

For transparent and benchmarked reporting, as well as to contribute to a transparent debate within the impact investing industry, MEF has partnered with CERISE+SPTF since 2019 to coordinate the social performance analysis of MEF Partner the Fund's Partner MFIs. For further information see https://cerise-sptf.org

Regulatory disclosure

MEF introduced disclosure as a fund designated to sustainable investments as set out in the European Union Sustainable Finance Disclosure Regulation (SFDR, Article 9). The Fund's disclosure is available online at www.mef-fund.com/sustainability.php

Contribution to UN Sustainable Development Goals | SDGs



ACTIVITY REPORT

Investor interest

2023 will be the transition year to a new MEF investment strategy, focusing on gender-smart investment within the financial inclusion mandate of the Fund. The governance structure of the Fund may change as well to better support such strategy. Early discussions with investors have confirmed their high interest in a gender-smart fund with a strong impact strategy. While additional funding is not foreseen in 2023, new private investors could be on-boarded in early 2024.

In this context, the Fund redeemed notes of a private investor before year-end (USD 22 million) and shares held by another private investor at maturity as of 31 December 2022 (USD 20 million). In light of the Fund's high liquidity levels, the shares of OFID (USD 39.4 million) were redeemed early, as of 31 December 2022, and paid in 2023. The notes of M&G Investments (USD 30 million), maturing in November 2022, were renewed.

Operating and financial performance

Total assets of the Fund slightly increased to USD 721 million as of year-end 2022, up from USD 715 million as of year-end 2021. The Fund experienced two main events in 2022 with a net impact on total assets: the redemption of USD 22 million of notes; and the increase in cash collateral, due to the growth in value of the derivatives pool held to hedge the portfolio.

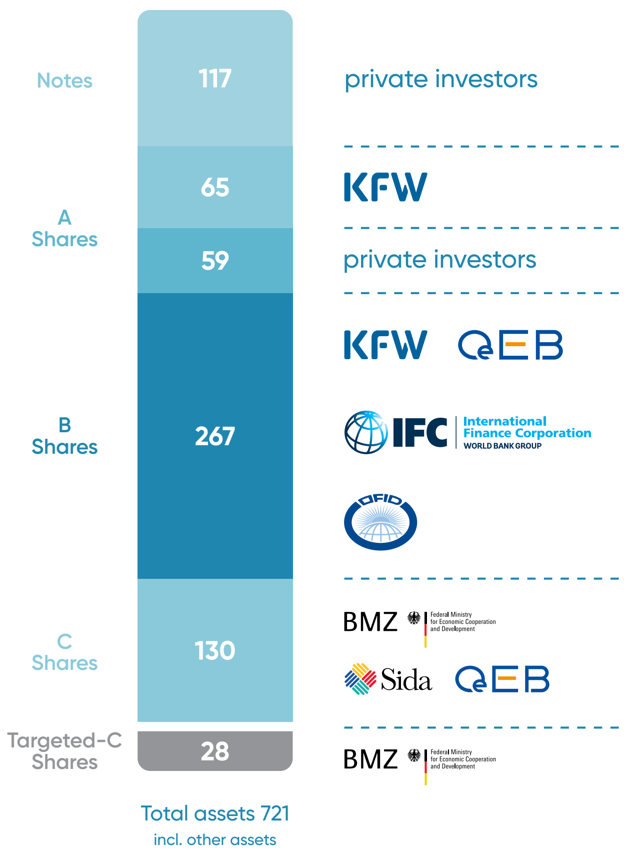
The Fund's Total Expense Ratio (TER) decreased slightly in 2022 to 1.56%, compared to 1.60% in 2021 (based on average total assets).

The distributable income increased to USD 25 million in 2022. This resulted mainly from the increase in the USD LIBOR and USD SOFR rates in the second half of the year.

The increased interest rates affected pipeline development, hedging prices, and return on new disbursements. Supported by the higher interest rate environment, MEF shareholders received both target and complementary dividends. With this, the Fund continued its track record of consistent annual payments of target dividends to its shareholders since its inception in 2009.

Investor structure

Total assets as of 31 December 2022
in USD million



Targeted-C Shares shall only be impacted by & bear the exclusive risk of the valuation of Target.

Asset quality

The credit quality of the portfolio has stabilised since 2021. No new default cases occurred over the course of the year. Though 2022 was especially marked by challenging situations in Myanmar, and Sri Lanka, the overall increase in provisions was lower than in previous years.

While the negative effects of the COVID-19 pandemic declined in 2022, Russia's war against Ukraine resulted in growing turmoil and increasing inflation, causing a sharp increase in volatility across markets. Although the direct impact on the Fund seems limited, the board continues to closely monitor the evolving situation and its impact on the financial position of the Fund.

Since the start of the COVID-19 pandemic, a total of USD 75 million in repayments has been deferred. As of year-end 2022, the total outstanding balance of the defaulted portfolio amounted to USD 55 million, or 8.8% of the total portfolio, and involved 18 financial institutions.

ACTIVITY REPORT

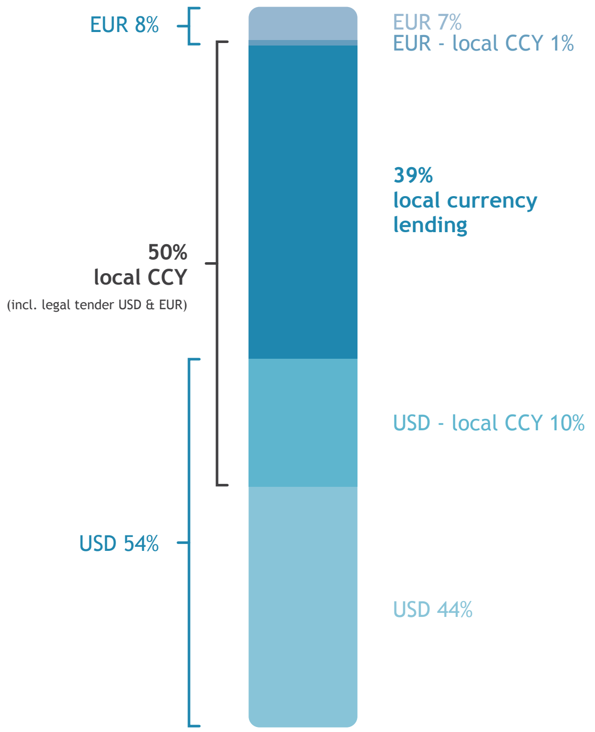
Market environment

While the negative effects of the COVID-19 pandemic declined in 2022, Russia's war against Ukraine has caused substantial global repercussions since February 2022. MEF does not have any investment exposure to countries directly involved in the war. However, it is closely monitoring its exposures in neighbouring countries, which have suffered, amongst others, from increasing local currency volatility, in particular in Georgia, Kazakhstan, Moldova, and Tajikistan. The war has also triggered an increase in global commodity prices, pushing already high inflation rates further up. As a result, MEF is operating in an environment of increasing interest rates.

Demand for financing was slightly higher than in 2021. The total share of new and existing Partner MFI funding was broadly balanced in 2022, and the number of newly financed Partner MFIs stayed at the previous year's levels.

Notably, especially in this context, demand for local currency continued to be strong. Market volatility, however, exerted upward pressure on hedging costs, thus leading to a year-on-year decrease in the share of local currency lending to 50% in 2022 (53% in 2021; including countries where USD and EUR are legal tender). Lending in local currencies without USD or EUR as legal tender decreased as well, to 39% (43% in 2021). Nevertheless, as only local currency funding can remove conversion risks from MFIs and their clients, the Fund strives to further grow its local currency activities.

Currency distribution



local currencies: BWP, CNY, COP, EUR, GHS, HNL, IDR, INR, KES, KGS, KZT, MDL, MMK, MNT, MXN, NGN, PEN, PLN, THB, TJS, TZS, USD, UZS, XOF, ZAR, ZMW

EUR – Local CCY: EUR as legal tender in Montenegro and Kosovo

USD – Local CCY: USD as legal tender in Ecuador, El Salvador, and Panama

all investments hedged to USD

Outlook 2023

2023 witnessed a turbulent start in the international financial system. Interest rates continued to increase and Silicon Valley Bank, Signature Bank, and First Republic Bank had to be rescued in the United States of America, whilst Credit Suisse was the subject of an emergency takeover in Switzerland. At the time of writing, banking system stress has mostly been limited to the United States of America and Europe. However, due to global interconnectedness and an increasing loss of trust in banks, such stress may persist and affect banking systems globally.

For MEF's Partner MFIs, the direct impact of the developments in the global banking industry is expected to be immaterial, given their limited connection to mainstream global banking systems. There will, however, be increasing pressure in day-to-day operations throughout the year, due to rising inflation and interest rates as well as slowing economic growth. At the same time and for the same reasons, sovereign risks are increasing for more vulnerable countries, as debt servicing costs rise, access to (re)financing is uncertain, and tax revenues are anticipated to decline. Geopolitical tensions will continue in 2023, given the absence of a clear view on the end of the war against Ukraine as well as increasing climate-related risks. MEF's portfolio has been largely resilient in the face of such macroeconomic challenges over the last year, but we realise this might not hold in future.

From a regional perspective, relatively strong economic performance is forecast for Asia and the Pacific, driven by projected steady growth for Southeast Asia and India. The 2022 flooding in Pakistan and the financial and economic crises in Sri Lanka will likely trigger a rise in poverty levels in the two countries. Increasing demand for MEF financing is likely to come from countries such as Indonesia, the Philippines, and Thailand.

For Eastern Europe, the Caucasus, and Central Asia, weaker performance is expected compared to the other regions in the Fund's portfolio. This is due to a further economic slowdown foreseen in South Caucasus and Western Balkan countries, partly influenced by the risk of low growth in the European Union. Such slowdowns are expected to offset the positive economic performance in Central Asia. The impact of the earthquake in early 2023 on the Turkish economy is anticipated to be limited and, based on the outcome of the elections in May 2023, did not change the political fundamentals. Increasing demand for MEF financing is expected to come from countries such as Kazakhstan, Tajikistan, and Uzbekistan.

In Latin America, social unrest could intensify during 2023, driven by political instability and low forecasts for per capita income growth alongside an overall slowdown in economic growth. Elevated political risk in Bolivia and Peru, ongoing protests by civil society groups in Ecuador as well as default risks due to higher borrowing costs, are being closely monitored by the Fund and its investment advisors. Higher interest rates are meant to limit currency depreciations and realise macroeconomic stability in the region in the medium term.

For Africa, increasing sovereign debt stress, constrained access to external financing, tightening fiscal space, and high borrowing costs are expected to affect local markets in 2023. Food insecurity in Sub-Saharan markets has been increasing over the past years and threatens to continue in 2023. The outlook for Africa remains uncertain, with persistent inflationary pressures. Although some of these factors may hamper local growth prospects, markets are anticipated to grow overall.

In terms of expected portfolio growth, the decisive factor is the potential transition of the Fund. While shareholder discussions on approvals are ongoing, MEF foresees a significantly lower portfolio in 2023. Also, the anticipated change in impact strategy and structure – to transition MEF to a gender-smart investment fund – is further expected to dampen potential growth in the coming two years.

With MEF's deep engagement in impact management and ESG, the Fund will continue working with the investment advisors to ensure that best practices are implemented and risks are adequately mitigated, in line with its objective to foster development aligned with the United Nations' Sustainable Development Goals (SDGs). MEF has proven to be a trusted partner in times of crisis, as has been the case since its inception following the 2008 global financial crisis and during the COVID-19 pandemic. MEF will continue to support financial inclusion and responsible finance principles in developing markets across the globe, despite the many challenges in both global and local contexts.

During 2023, the Fund will continue its active engagement in impact management and measurement. The Fund, with its investment advisors, has worked on indicators and data collection to define its Principal Adverse Indicators (PAIs). These indicators are crucial for both impact assessment and regulatory compliance. As of January 2023, supplementary regulation on SFDR entered into force, obliging financial market participants to collect and disclose PAI information. MEF has conducted a gap analysis to better understand the complexities in the identification and collection of its PAIs and, as part of a continuing effort, the Fund plans to conduct a benchmark analysis on the indicators during 2023. MEF seeks to ensure full compliance with reporting on mandatory and additional PAIs. The Fund's dedication to ESG considerations and sustainable investing will continue to position MEF as a leader in impact finance.

PORTFOLIO DEVELOPMENT

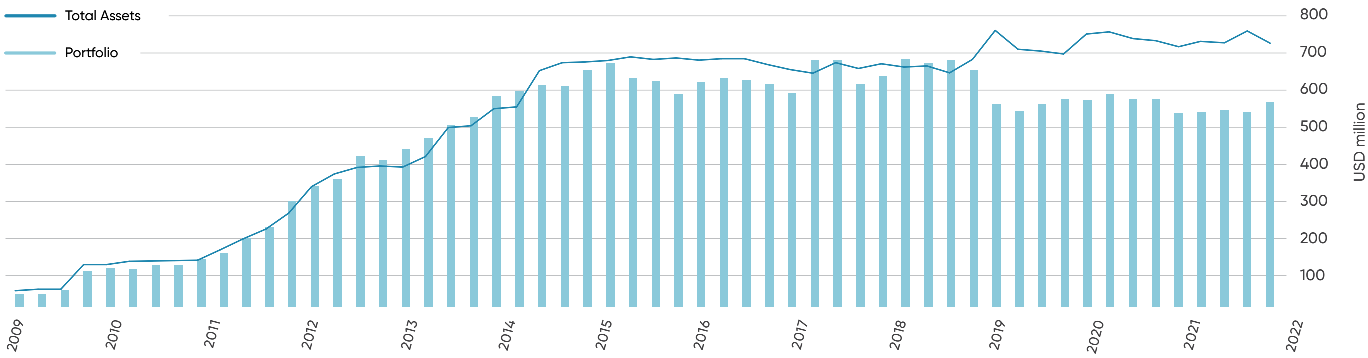
PORTFOLIO EVOLUTION

MEF closed 2022 with an outstanding portfolio of USD 570 million. The year-on-year increase by nearly 4% is a reflection mainly of: increasing interest rates; and a prevailing market sentiment of uncertainty regarding future developments and economic prospects – which impeded the growth of the Fund's portfolio over the first three quarters of the year – balanced by increasing disbursements in the last quarter.

The Fund's diversified portfolio continued to cover developing markets in all regions, with 203 loans provided to 145 Partner MFIs across 47 countries, including five new countries: Bangladesh, Nepal, the Philippines, Timor-Leste, and Uganda.

The Fund also played an important role in supporting the financing needs of many of its current portfolio Partner MFIs, while it also extended investments to 33 new partners – of which 21 received MEF funding for the first time – whereas 31 Partner MFIs exited the portfolio.

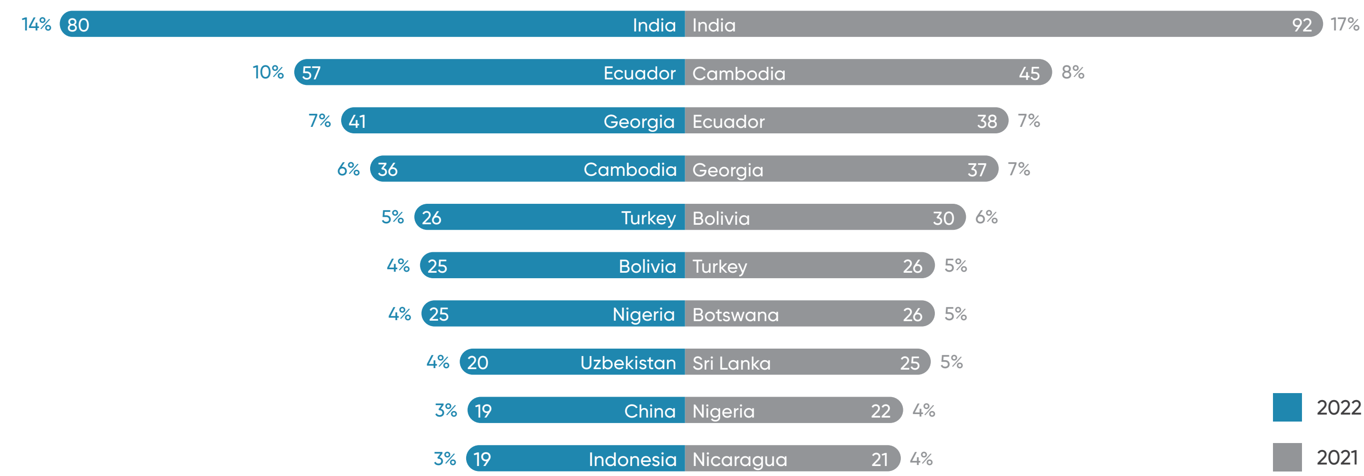
The micro and small enterprise (MSE) window – opened in 2020 in response to shocks caused by the COVID-19 pandemic and increased to USD 100 million in 2021 – aims to support MFIs that finance affected MSEs and have an average loan size at disbursement of less than USD 35,000. Invested amounts for MSE projects totalled USD 55 million as of year-end 2022, while committed amounts reached the window's limit



Top 10 country exposures

The top ten countries in the Fund's portfolio as of year-end 2022 were: India 14%, Ecuador 10%, Georgia 7%, Cambodia 6%, and Turkey 5%, followed by Bolivia, Nigeria, and Uzbekistan with 4%, respectively, and by China and Indonesia with 3% each. The Fund's top three country exposures shifted slightly between them, but with 31% they kept the same overall percentage share out of the total exposure as in 2021: India's exposure decreased from 17% of total portfolio in 2021 to 14% as of year-end 2022; whereas investments in Ecuador increased to 10% as of year-end 2022, up from 7% as of year-end 2021; and Georgia maintained the previous year's portfolio share of 7%. Other exposure developments as of year-end 2022 included: Cambodia and Bolivia, both decreasing to 6% and 4%, respectively – down from 8% and 6% as of year-end 2021, respectively. The latter change led to Turkey entering the top five. With provisioning in Myanmar increasing throughout the year, Myanmar dropped out of the top ten. Similarly, due to newly introduced provisioning for Sri Lankan-based Partner MFIs, the country's net exposure fell to 3% as of year-end 2022 (5% as of year-end 2021), thereby leaving the top ten. Overall, the aggregate country concentrations of the top five, ten, and twenty exposures remained stable from 2021 to 2022.

Country distribution in USD million and in percentage of MEF total portfolio



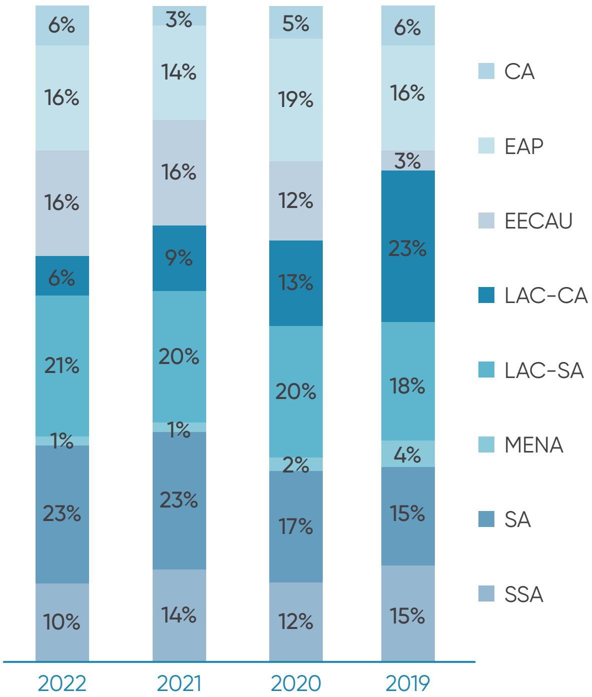
PORTFOLIO DEVELOPMENT

REGIONAL DIVERSIFICATION

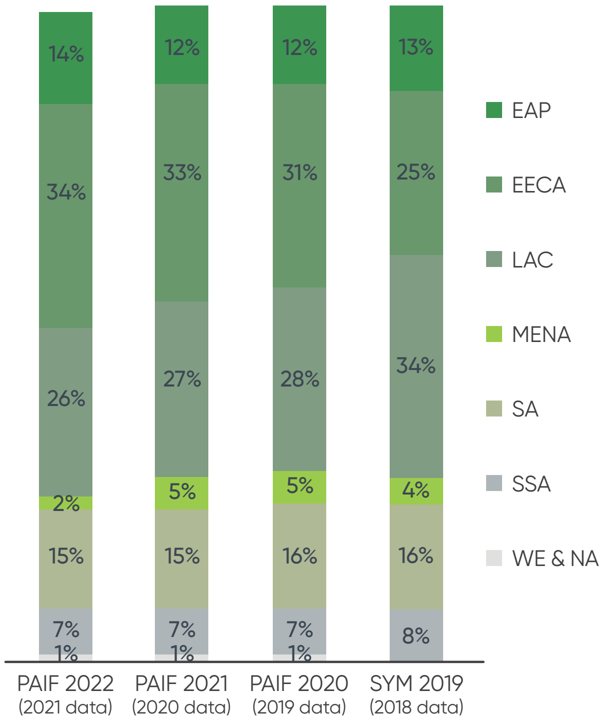
The Fund's portfolio remained well balanced from a regional perspective, albeit shifting slightly between regions: the Sub-Saharan Africa and Central Latin America portfolios have been on a decreasing trend over the past years, the latter driving the continued decrease of the overall Latin America portfolio. Portfolios increased in Eastern Europe and the Caucasus, East Asia Pacific, and Central Asia.

As of year-end 2022, Latin America (both Central and South America) accounted for 27% of the Fund's portfolio, while South Asia and East Asia Pacific accounted for 23% and 16%, respectively. The remaining portfolio was split between Eastern Europe and the Caucasus (16%), Sub-Saharan Africa (10%), Central Asia (6%), and Middle East & North Africa (1%).

MEF Portfolio



MIV Benchmark Portfolio



Overall, MEF is a global fund active in developing markets worldwide. Its peers include other Microfinance Investments Vehicles (MIVs), both regional as well as some global funds. The annual Private Asset Impact Fund report (PAIF Report) collects data from MIVs, thereby providing a useful reference. Benchmarking the regional distribution of MEF's portfolio against other MIVs, based on the figures reported in the latest PAIF Report, shows that MEF's regional portfolios are broadly aligned with other MIVs, with the exceptions of: Eastern Europe & Central Asia, for which the most notable difference remains (MEF in 2022: 22% | PAIF 2022: 34%; 2021: 33%); and South Asia, where the difference is less pronounced (MEF in 2022: 23% | PAIF 2022: 15%; 2021: 15%).

The share of Latin America continued to be broadly in line with the trend of other MIVs and recorded a slight decrease in 2022 (MEF in 2022: 27% | PAIF 2022: 26%; decreasing trend since 2019). MEF continued to have a stable but also higher portfolio share than benchmark MIVs in Sub-Saharan Africa (MEF in 2022: 10% | PAIF 2022: 7%; 2021: 7%) and South Asia (MEF in 2022: 23% | PAIF 2022: 15%; 2021: 15%), and to a lesser extent in East Asia & Pacific (MEF in 2022: 16% | PAIF 2022: 14%; 2021: 12%). MEF remained below the benchmark in the Middle East & North Africa, despite the decreasing share in this region reported by other MIVs (MEF in 2022: 1% | PAIF 2022: 2%; 2021: 5%).

Based on the Private Asset Impact Fund report (PAIF Report) – with the 2022 PAIF Report based on 2021 data reported by MIVs and the 2021 PAIF Report based on 2020 data. (https://tameo.solutions/market-intelligence) The predecessor report was published by Symbiotics (SYM Survey).

Legend of regions for SYM Survey and PAIF Report: EAP: East Asia & Pacific / EECA: Eastern Europe & Central Asia / LAC: Latin America & Caribbean / MENA: Middle East & North Africa / SA: South Asia / SSA: Sub-Saharan Africa WE & NA: Western Europe & North America (only in PAIF Reports); for MEF, EECAU plus CA correspond to EECA in PAIF

PORTFOLIO DEVELOPMENT

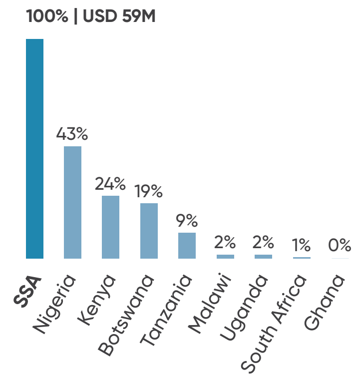
Africa | Sub-Saharan Africa

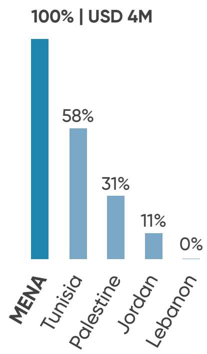
Sub-Saharan Africa's economic recovery was hampered in 2022 due to global headwinds as well as country-specific shocks, including adverse weather events. However, the growth forecast for 2023 remains stable to moderate. Debt servicing remains a critical factor to economic recovery in 2023. Public debt ratios recorded spikes at levels last seen at the beginning of the millennium. With domestic and international borrowing costs rising, countries face increasing budgetary pressure requiring the implementation of economic reforms to mitigate the risk of sovereign default. Such forecasts caused Moody's to downgrade the rating of Nigeria, and Ghana was downgraded as it suspended its debt servicing at year-end.

MEF's overall portfolio in Sub-Saharan Africa decreased, accounting for 10% of total portfolio as of year-end 2022, down from 14% as of year-end 2021. Though the Fund extended investments in Nigeria and Kenya, and made one new investment in Uganda, these increases were offset by developments in the Botswanan portfolio: two loans to Partner MFIs matured and decreased the portfolio by USD 14 million, down to USD 11 million by year-end 2022.

Origination activity in the Sub-Saharan Africa region has been negatively affected mainly by limitations to doing business in Nigeria, a potentially large market. The coexistence of two exchange rates – one official rate regulated by the central bank and one parallel rate determined by market supply and demand – affected deal closing, due to their increasing discrepancy and its effect on hedging valuations. Still, the Fund managed to provide new and existing Partner MFIs with much needed liquidity in local currency. Operational issues with the local hedging counterparty hampered financing activity in the second half of the year, such that disbursement activity in local currency was discontinued in Nigeria until the second quarter of 2023. Elsewhere in the region, investment advisors continue to pursue new funding opportunities for 2023.

MEF's overall portfolio in North Africa and the Middle East stood at USD 4 million as of year-end 2022, accounting for 1% of total portfolio. The regional portfolio continued on-trend and further decreased by USD 3 million year-on-year. No additional investment has been made in the region over the course of the year. Lebanon remained fully provisioned in 2022 and debt settlement discussions have been advancing for two out of three Partner MFIs. As of 2022, provision coverage accounted for 73% of MEF's portfolio in the region.






USD 0.5 million (in local currency equivalent) disbursed to Yehu from MEF in 2022

KENYA | Building farming knowledge

After 19 years of experience in horticulture farming, Eunice Wanjiru Mwaura realised that her tomato farming was prone to constant diseases and low productivity. Ultimately, the losses caused made it very difficult for her to grow and benefit from her business. Thus, four years ago she decided to engage with Yehu Microfinance. The longer-term perspective and the sustainability focus of the Yehu project allowed Eunice to improve on her agribusiness know-how and financial literacy. By attending the certified trainings and seminars, she received advice on good farming practices like crop rotation, employing the services of certified agronomists, and farm record-keeping. In 2022, she was granted an agricultural loan of Kenya Shilling (KES) 50,000 (approximately USD 370). She used the money to plant irrigated tomatoes, capsicum, red chilli peppers, and kale. With her harvest, she was able to gross over KES 350,000 (approximately USD 2,500). This enabled her to clear the loan within four months, much faster than the anticipated 12 months repayment. Thanks to her success in business, she could pay tuition fees for her two children. This success, however, did not come without challenges, such as the increase in the cost of fuel. Nevertheless, her ambition is to expand her farm and start greenhouse farming in the near future as well as to diversify her farming as she has understood the great importance of budgeting and risk management.

PORTFOLIO DEVELOPMENT

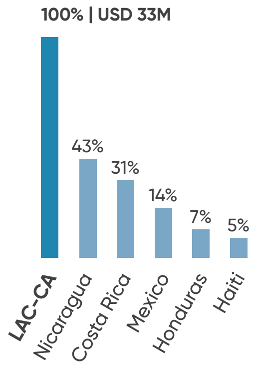
Americas | Latin America & Caribbean

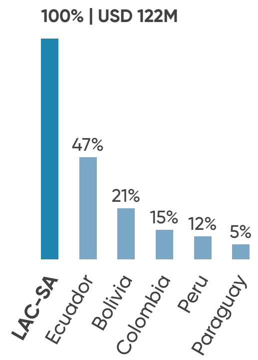
Latin America experienced a boost in commercial activity over the course of 2022, benefitting from the global surge in commodity prices and reviving post-pandemic demand in service industries. Towards the end of 2022 and at the start of 2023, however, the region entered a period of diminishing activity, resulting from increasing global inflation as well as fiscal and monetary tightening. Some countries, among them Colombia, recorded rapid economic growth in early 2022, while being faced with an extreme slowdown around the turn of the year. Other countries, including Mexico, also experienced economic slowdowns, albeit to a lesser extent as markets proved more resilient than expected.

MEF's overall Latin America portfolio accounted for 27% of the Fund's total portfolio with USD 155 million in 2022, slightly down from USD 158 million in 2021. Among Latin American countries where MEF held loans , Ecuador showed a positive recovery trend post-pandemic and the Fund extended financing to new Partner MFIs. This increased MEF's Ecuador portfolio by over USD 18 million, to USD 57 million at year-end 2022, up from USD 38 million at year-end 2021. With that, Ecuador reached close to the Fund's country limit, such that pipeline origination activities had to cease as of the last quarter of 2022, until headroom frees up again.

Despite the growth in Ecuador investments, the Fund's overall Latin America portfolio continued its downward trend over the past years, leading to a further rebalancing of the Fund's regional portfolios. The Fund recorded an overall decrease of USD 14 million in the combined portfolio of Bolivia, Colombia, and Nicaragua. With that, only two Latin American countries remained in the top ten country ranking by year-end 2022: Ecuador and Bolivia, holding second and sixth rank, respectively.

In addition, portfolio quality in Mexico has further deteriorated over the course of the year. Going forward, close monitoring of Mexico will continue while new opportunities may arise in Nicaragua and Peru.





USD 28 million disbursed to Banco Solidario from MEF since 2011

ECUADOR | Rethinking the business

Alfonso and Lorena, husband and wife, started a bakery and pastry business in the north of Quito with a small amount of capital saved from their previous jobs. After the rise in prices of bakery supplies, they decided to take a loan from Banco Solidario to diversify their business activities. With the first loan, they launched their business specialising in party decoration. With five loans, over time, they now developed a large store offering piñatas (a traditional party decoration in the region). The biggest challenge for their business was the COVID-pandemic that drastically reduced the number of festive gatherings. With the support of the bank, they managed to rethink their way of selling, marketing their products via digital channels. Alfonso and Lorena appreciate the fundamental support the bank provided in their business decision. Their success in business has allowed them to support their children's university as well as allowed Lorena to complete her studies.

PORTFOLIO DEVELOPMENT

Asia | South & East Asia

While the effects of the COVID-19 pandemic on Asian and Pacific markets were fading by year-end 2022, higher interest rates are expected to dampen economic performance in 2023. Southeast Asian markets have gained heightened international attention over the course of 2022, due to the slowdown in the Chinese economy and increasing demand for manufacturing alternatives. Political uncertainty remained high in the region, and will persist in 2023 – with elections scheduled in Pakistan, Thailand, and Indonesia. Moreover, in 2022 the region was characterised by ongoing turmoil in Myanmar and the collapse of the Sri Lankan economy.

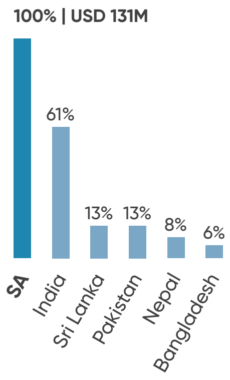
MEF's overall portfolio in Asia stood at USD 224 million as of year-end 2022, accounting for 39% of total portfolio. Throughout the year, the Fund made new investments in several Asian markets: Bangladesh, Nepal, the Philippines, and Timor-Leste. MEF's portfolio in Cambodia continued to decrease, resulting in a shift in the top five country ranking. Accounting for the second largest portfolio in 2021, Cambodia ranked fourth as of year-end 2022. Ongoing concerns about client protection in Cambodia, such as those raised by NGOs, have been mitigated by a particularly thorough due diligence and heightened engagement by MEF and its investment advisors with Partner MFIs during the year. The Board has closely monitored adherence, as well as commitments to, implementing client protection measures at Partner MFI-level. For precautionary reasons, the Board resolved, late in 2022, that the Fund will only finance Partner MFIs in Cambodia which can evidence strict adherence to client protection principles through certification.

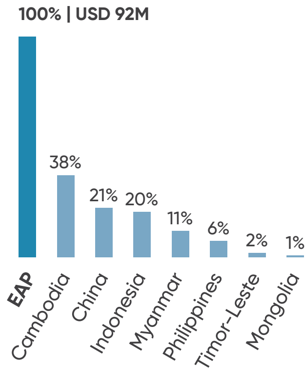
In Myanmar, significant political and economic uncertainty persists following the February 2021 military coup, and continued to affect MEF's portfolio throughout 2022. As the country's situation remains highly uncertain, Partner MFIs' operations were significantly hindered over the course of 2022. Moreover, in October 2022, the Financial Action Task Force (FATF) placed Myanmar on its blacklist for money laundering and terrorism financing. Over the course of the year, MEF gradually increased provisioning in the country.

Other countries in East Asia Pacific recorded a revival in demand for financing. MEF's overall portfolio stood at USD 92 million at year-end 2022, accounting for 16% of total portfolio. The Fund increased investments to China and Indonesia, and the two countries entered the top ten country exposures, ranking ninth and tenth in the list.

In South Asia, MEF's overall portfolio stood at USD 131 million at year-end 2022, accounting for 23% of total portfolio. The increase was mainly driven by MEF extending financing to Partner MFIs in Pakistan and Nepal. Exposure to India has been gradually decreasing over the course of 2022, mainly due to the Fund limiting its investments in India – to mitigate the risk of reaching the Fund's country limits as well as due to requirements of the 'Voluntary Retention Route' (VRR, a channel introduced by the Reserve Bank of India to enable foreign investors to invest in domestic debt markets, being restricted to extension of loans with a tenure of minimum 36 months). India remains the Fund's largest country portfolio with 13% of MEF's total portfolio as of year-end 2022.

Due to the sharp deterioration of the situation in Sri Lanka, Partner MFIs have had to operate under stringent conditions and have seen deterioration in their portfolio quality. As MEF's Partner MFIs proved to be fairly resilient overall, the Fund provisioned on a case-by-case basis. With these developments, Sri Lanka dropped out of MEF's top ten country ranking, recording a decrease in net exposure to USD 18 million as of year-end 2022. The Fund and its investment advisors have been monitoring the Sri Lanka exposure closely, and will continue doing so in 2023 given the ongoing political instability and economic situation.





USD 2 million disbursed to KIF from MEF in 2022

TIMOR-LESTE | Kaebauk Investimentu No Finansas, S.A. (KIF)

KIF decided to take a loan from MEF as the company is working towards financial inclusion to reform and uplift the lives of the poor families in a sustainable and regulated manner, empowering women economically and socially. The institution has the mission to provide microfinance and associated services for a large number of the poor to improve the quality of lives of families and empower women. Without MEF's help, it would have been difficult to successfully achieve the company's mission and vision. The loan helped the institution to become the leader in the Deposit Taking Institution (DTI) segment and to become known in the country for its project of economic and social development, given that the institution is growing holistically and sustainably. In this way, it manages to better serve and satisfy its stakeholder and customer needs. The MEF loan has helped KIF maintain liquidity while providing financial support to its customers, in addition to further improving maturity and lending condition.

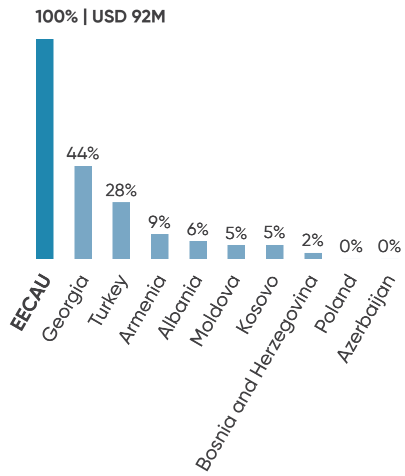
PORTFOLIO DEVELOPMENT

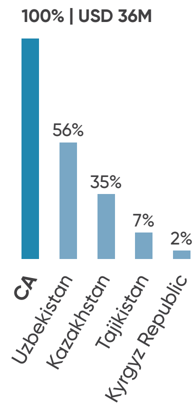
Europe | Eastern Europe and Caucasus & Central Asia

Russia's invasion of Ukraine in February 2022 has had substantial global repercussions, and there is no end to the conflict in sight. The war has had widespread effects on the regional as well as on the global economy, triggering increases in commodity prices, a major cause for the global surge in inflation. Russia's neighbouring countries – Georgia, Kazakhstan, Moldova, and Tajikistan – have been significantly affected through volatility in their local currencies. Many Eastern European countries are vulnerable, due to their large economic and political exposures to Russia. Some countries, such as Kazakhstan and Uzbekistan, have so far proven to be resilient to the fallout from the war, and MEF has seen continued financing demand in such countries. The Fund does not have any direct investment in either of the countries directly involved in the conflict, nor in Belarus. MEF's high exposure in Georgia has been closely monitored over the course of the year. So far, no deterioration in the Fund's regional portfolio has been identified.

MEF's overall portfolio in the region stood at USD 128 million as of year-end 2022, accounting for 22% of total portfolio. Demand for funding continued to grow throughout the year and MEF made new investments as well as renewals of existing exposures in Georgia, Kazakhstan, Mongolia, Tajikistan, and Uzbekistan. The latter moved up to rank as third largest country exposure. The shift was, however, due to a decreasing portfolio in Cambodia, which exited the top three in 2022. In Uzbekistan, MEF almost doubled its portfolio, which moved it into the top ten country exposures by year-end. Further, MEF significantly increased its portfolio in Kazakhstan, to USD 13 million as of year-end 2022, up from USD 2 million as of year-end 2021.

Turkey was the Fund's fifth largest country exposure, with 4% of MEF's total portfolio by year-end 2022, while ranking sixth in the list as of year-end 2021 with 5%. As with Georgia, the climb in ranking was due to decreasing portfolios of previously leading countries. MEF made two sizeable investments in Turkey in 2021, both with well-established banks in the market, accounting for the entire USD 26 million portfolio in 2022. In early 2023, two earthquakes struck Turkey's south-eastern districts along the country's border with northern Syria, devastating parts of Turkey and Syria. The ensuing catastrophic natural disaster, with aftershocks and weaker earthquakes continuing to occur, caused the further collapse of already damaged buildings and infrastructure. According to experts, the earthquake will not have a significant impact on Turkey's economy and, based on the outcome of the elections in May 2023, did not change the political fundamentals. A first assessment of the respective investment advisor indicates that no material deterioration of the Fund's portfolio quality is expected. Both Turkish Partner MFIs show resilience, given their past strong financial performance and their limited to moderate operational exposure in the affected regions. The Fund will continue to monitor its Turkey portfolio throughout the year ahead.





USD 10 million (in local currency equivalent) disbursed to Arnur Credit from MEF since 2014

KAZAKHSTAN | Arnur Credit

Arnur Credit took a loan from MEF to help grow the loan portfolio and finance more clients in developing their businesses. The loan conditions and timing were the main arguments to take a loan from MEF. The loan allowed the MFI to expand its business while diversifying funding sources. Furthermore, the relatively long tenor of the MEF loan allowed the MFI to extend the maturity of its loans to its borrowers and to strengthen its liquidity position. As a result, Arnur Credit has been able to maintain stable and sustainable lending operations to serve its clients. The latter are given the possibility of receiving stable funding for up to five years as well as to plan ahead and operate their business in a more sustainable way. MEF is a reliable and fundamental source of funding for the MFI – as MEF loans have always been received in a timely manner and comprise 8% of the total senior debt of Arnur Credit.

SUSTAINABLE INVESTMENT OBJECTIVES

INVESTMENT STRATEGY

The Fund aims, principally, at contributing to the debt financing of MFIs, which are institutions that provide microfinance services – including (without limitation) credit, savings deposits, insurance, remittances, and housing loans – to the working poor in developing countries (hereinafter referred to as the "Sustainable Investment Objective" in accordance with Article 9 of the EU 2019/2088 SFDR regulation).

Such institutions may offer other financial services in addition to microfinance services, and these other services might represent a greater percentage of the institution's overall business than microfinance services. The Fund promotes a widespread adoption and further deployment and outreach of responsible finance and social performance standards based on industry-wide international principles and practices.

MEF manages towards a portfolio of investments in MFIs representing a minimum of 70% of the Fund's total assets. Detailed investment criteria to support the Fund's Sustainable Investment objectives are set forth in the Fund documentation and guidelines to ensure that MEF:

- supports economic development and prosperity globally, through the provision of additional development finance to microenterprises and private households engaged in entrepreneurial activities via qualified financial institutions, and
- observes principles of sustainability and additionality, combining development and market orientations in pursuing its development goal.

Guiding principles

To achieve its Sustainable Investment Objective, MEF first screens and selects eligible target countries. These only include countries which are not members of the European Union and are not classified as high-income on the World Bank list.

To achieve the Sustainable Investment Objective, MEF has established that in the process of choosing an investment, the following aspects shall be considered:

- alignment with the Fund's sustainability objectives
- investments' viability and adequate risk profile
- alignment with the Fund's ESG requirements
- developmental and social impact

The investment advisors shall:

- ensure Partner MFI's ongoing compliance with all relevant laws and other standards and regulations
- support and encourage the Partner MFIs to work towards continuous improvements in their ESG process
- monitor, record, and report any serious incidents involving the MFIs

MFIs are required to comply with:

- the Fund's exclusion list in line with international standards set forth by development finance institutions
- the Fund's ESG & Impact covenants
- the client protection and responsible finance principles

These requirements are reflected in the documentation of the fund and the agreements signed with the investment advisors and the Partner MFIs .

Manage potential negative impact

MEF seeks to ensure that its investments do not significantly harm its Sustainable Investment Objective – by screening potential investments and monitoring existing investments against the principal adverse impacts on sustainability factors (PAIs) and applying minimum safeguards, as outlined below.

MEF does not knowingly invest in any MFI which is expected, or is determined, to do significant harm to the Sustainable Investment Objective, and the Fund seeks to actively engage with Partner MFIs in order to put in place or monitor the implementation of environmental and social management systems (ESMS) that can adequately meet the Fund's environmental, social and governance (ESG) requirements.

By screening potential investments and monitoring existing investments against the identified PAIs, the Fund seeks to ensure that its investments do not cause any significant harm, do not harm the impact objectives, and seek to reach the impact objectives of the Fund. Those PAIs shall be identified, assessed, and, when appropriate, mitigated.

Latest developments

The Fund engages its investment advisors to identify the potential PAIs of proposed investments, recommend mitigation measures, and perform follow-up monitoring.

As these PAIs are challenging to collect from non-EU MFIs, the Fund, through consultation with its investment advisors, has identified some gaps and areas for support. In parallel, the Fund is continuously engaging with various working groups on the reporting of these indicators. The regulatory and industry standardisation of the methodologies and tools used to perform PAIs assessment is evolving, and the Fund will continue on a best-efforts basis to accurately assess PAIs related to its investments. For more details, please see www.mef-fund.com

SUSTAINABLE INVESTMENT OBJECTIVES

ESG INTEGRATION IN THE INVESTMENT PROCESS

Pursuing the impact objectives, as well as assessing any potential negative impact, is embedded in the investment process. This ensures alignment between the Fund's portfolio and development goals, and safeguards allocation of the entire portfolio to sustainable investments.

Defining and quantifying the impact intent of an investment is a fundamental step to understanding the contribution and likelihood of achieving impact throughout the investment period. ESG integration in the investment process is pursued as follows:

At due diligence stage

The investment advisors are required to first complete their respective due diligence on a prospective MFI – including identification and evaluation of social and governance aspects as well as risks and opportunities – using their respective internal methodology, such as proprietary rating methodology. ESG risk identification and scoring are embedded in the respective tools used by the investment advisors.

MFIs are also required to comply with the Fund's exclusion list – in line with international standards set forth by development finance institutions – as the Fund's ESG & impact covenants, and the client protection and responsible finance principles. In parallel, from an impact risk and sustainability risk perspective, MFIs shall comply with the minimum safeguards of the SFDR, and be classified by the investment advisors according to the IFC risk categorisation for financial institutions.

For investment decision making

Final proposals of all potential MFI investments are then submitted to the Fund's investment committee for decision-making. The investment committee considers the analysis prepared by the investment advisor, and gauges the impact potential of an investment based on the impact assessment of the MFI and the ESG assessment conducted.

Post disbursement

Investment advisors are required to monitor and provide timely reporting and, as the case may require, escalation regarding external ESG factors with respect to any Partner MFI, or their clients, that could reasonably materially impact the Partner MFIs' compliance with the Fund requirements and/or the Partner MFI's profitability and risk profile.

ESG and impact matters are considered over the life cycle of the investment. MEF strives to maintain an appropriate level of oversight as long as the Fund remains a lender. Any material adverse impact or ESG matter identified shall be avoided, where possible, or will be mitigated, through implementation of an effective mitigation and monitoring plan and completion of all necessary corrective actions.

The Fund commits to integrating lessons within its documentation and processes, which constantly evolve as the Fund and markets develop.

MEF IMPACT | OUTREACH

As in previous years, 2022 marks a year with very strong and positive outreach through MEF Partner MFIs with their portfolios reflecting:

- a strong focus on the microfinance segment, as is evident by the average loan amount per borrower which remains low
- a high proportion of women borrowers, well above industry-average
- a good record on lending to 'productive sectors'.

This comes in conjunction with half of MEF's funding provided in local currency. This helps de-risk MEF's financing for MFIs and their clients.

In 2022, MEF's portfolio counted 145 Partner MFIs, compared to 47, which is the average number of portfolio companies for a microfinance investment vehicle (as per PAIF report 2022). These 145 MFIs provided loans to almost 34 million borrowers (up from over 25 million in 2021), with 69% of them rural borrowers (up from 56% in 2021) and around 78% of them women (lower than the 84% in 2021). Out of the total portfolio profile of these MFIs, MEF financing was used for on-lending to approximately 740,000 borrowers (up from 640,000 in 2021) – a figure that results from a more granular perspective than the global figure of 34 million total borrowers of MEF Partner MFIs. The attribution is calculated per MFI then summed up (i.e., the sum of MFI borrowers the MEF loans reach given each MFI's average loan amount to their borrowers).

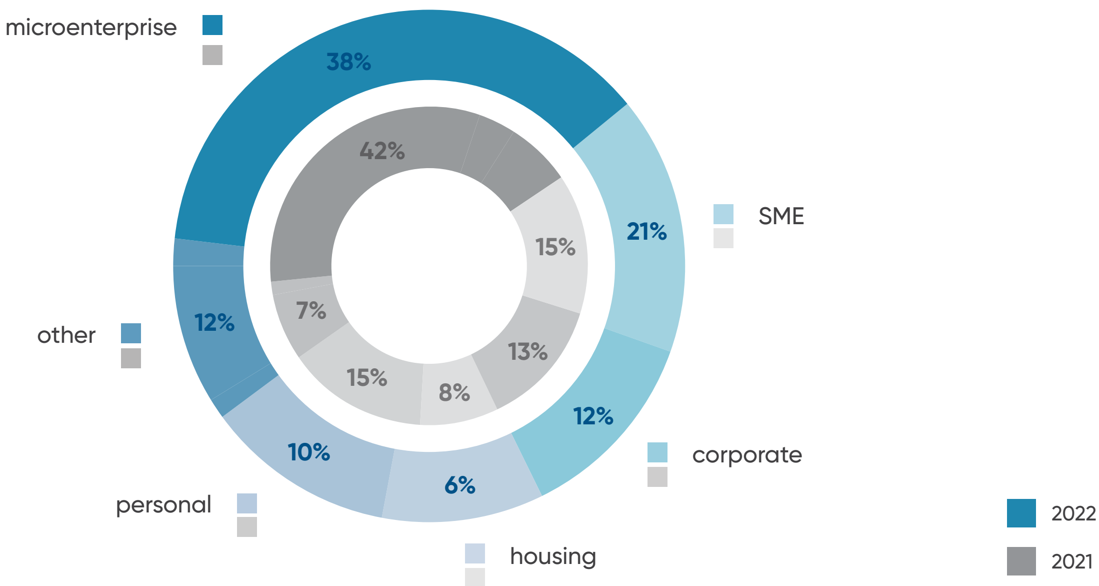
Such variation in outreach is explained by the year-on-year portfolio composition of MEF as a demand-oriented lender as well as the data reported.

FOCUS ON MICRO & SMALL PRODUCTIVE LOANS

MEF's investments mainly support the provision of financing to micro and, to a lesser extent, small sized enterprises (MSEs) and private households engaged in entrepreneurial or income-generating activities. MEF Partner MFIs may further be engaged in other segments, but MEF funding is clearly earmarked for micro and small entrepreneurial lending.

Looking at the overall portfolio of MFIs, the share of their total portfolios going to microenterprises was slightly lower in 2022 (38%, compared to 42% in 2021), while the portion of their total portfolios going to small & medium enterprises (SMEs) went up to 21% (15% in 2021). Only small shares of the MFIs' total portfolios were dedicated to larger businesses (referred to as 'corporate' in the chart), housing or personal loans. Note, however, that independent of the loan purpose in MFIs' total portfolios, MEF loans to these MFIs are made available to strengthen their lending to micro and small enterprises and to low-income households, as further detailed in the outreach analysis in the next section.

Distribution by loan purpose of Partner MFIs per their total portfolios



Based on December 2022 loan portfolio data as reported by 112 MFIs in MEF's portfolio.
The chart reflects the distribution of the entire loan portfolios of the MFIs in MEF's portfolio, not the distribution for MEF's loans to the MFIs.

Data in this section is based on MEF's portfolio of MFIs, with most data drawing on largely consistent 118 data points out of 143 MFIs in the portfolio.

The attribution is calculated per MFI then summed up (i.e. the sum of MFI borrowers the MEF loans reach given each MFI's average loan amount to their borrowers).

ENGAGED IN PRODUCTIVE ACTIVITIES

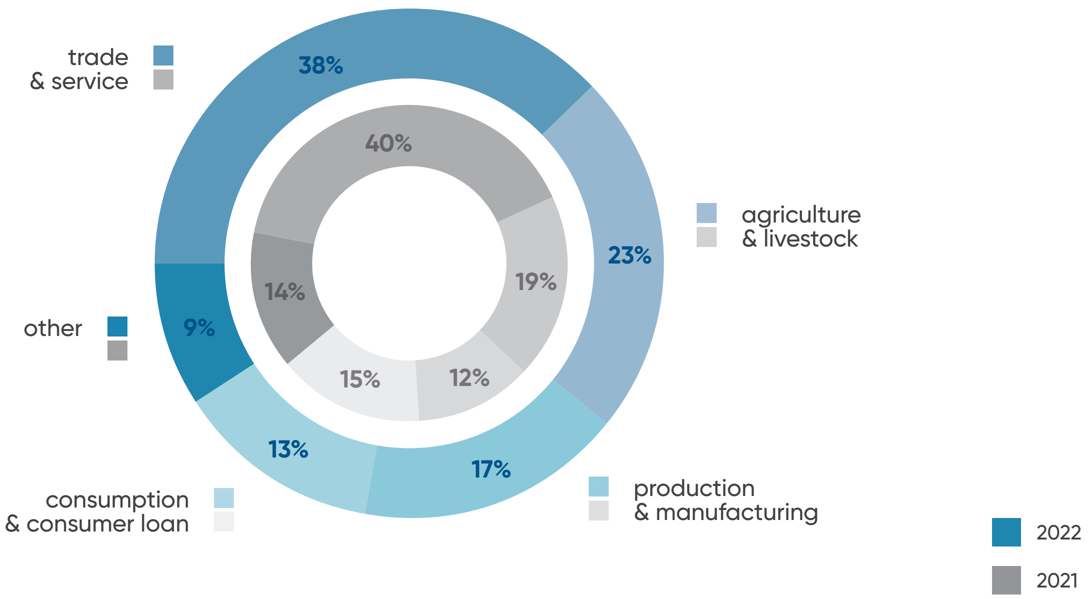
While microfinance activities can sometimes be associated with lending mainly in urban areas and to 'non-productive' sectors, like services and trade or for own consumption, a look at MEF Partner MFIs' 2022 data reveals a strong outreach to borrowers engaged in 'productive sectors' (such as agriculture & livestock and production & manufacturing).

With 40% in 2022, a sizeable share in Partner MFI lending supported productive sectors (29% in 2021). The increase is mainly explained by the fact that the share of the agriculture sector increased markedly in East Asia and the Pacific to 28% (17% in 2021); and the share of production & manufacturing increased significantly in Central America to 19% (2021: 9%), in South Asia to 26% (2021: 17%), and in Sub-Saharan to 21% (2021: 8%).

As in 2021, South Asia in 2022 again stands out with the highest share of the portfolio in the productive sectors with 58% (53% in 2021). Most other regions had a share of the portfolio in productive sectors of around 30%.

2022	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2022	Global 2021
productive sectors (in %)	35	32	30	31	30	26	58	28	40	29
agriculture & livestock (in %)	3	28	21	12	16	5	31	7	23	18
production & manufacturing (in %)	32	4	9	19	14	21	26	21	17	11

Distribution by activity of MEF Partner MFIs per their total portfolios



Based on December 2022 loan portfolio data as reported by 113 MFIs in MEF's portfolio.
The chart reflects the distribution of the entire loan portfolios of the MFIs in MEF's portfolio, not the distribution for MEF's loans to the MFIs

MEF IMPACT | OUTREACH

AVERAGE INVESTMENT SIZE

With USD 4.3 million, MEF's outstanding average investment size per Partner MFI slightly increased in 2022, compared to 2021. The average can, however, be misleading. A closer look shows: while MEF's portfolio includes some large transactions, its size and 'deep pocket', allows MEF loan amounts to align with partner size. Partner MFIs with fewer active borrowers have a lower average investment, while those with large outreach have access to larger loan amounts. The average investment size in each of these outreach clusters follows the pattern observed in 2021.

MEF favours a balance in its portfolio and welcomes, for instance, MFIs that are keen to strengthen their performance, impact and social standards; and welcomes in particular also smaller MFIs with a footprint in areas or client groups that are harder to reach, such as rural areas or women.

	number of borrowers
small outreach	<10,000
medium outreach	>10,000 and <100,000
large outreach	>100,000

	small outreach	medium outreach	large outreach
2022	USD 2.7 M	USD 3.0 M	USD 5.9 M
2021	USD 2.9 M	USD 3.1 M	USD 5.5 M

With an average investment outstanding of USD 4.3 million per Partner MFI (USD 4.2 million in 2021), MEF is above the MIV benchmark of USD 3.4 million (in 2021, per 2022 PAIF Report). This reflects in part the size and 'deeper pockets' of MEF compared to the average MIV, with MEF managing a portfolio of USD 570 million in 2022, well above the average microfinance fund size of 194 million (in 2021, per 2022 PAIF Report).

AVERAGE LOAN SIZE TO FINAL BORROWERS

The outreach of MEF Partner MFIs is supported by their large distribution networks (28,265 branches in 2022; 22,953 in 2021) and their predominant orientation towards microfinance, as the following analysis of average loan amounts illustrates.

The outstanding loan amount per borrower of all MEF Partner MFIs was on average USD 1,627 in 2022 (USD 1,453 in 2021). With 90% of MEF Partner MFIs recording an average loan size to their final borrowers of below USD 15,000 (same as in 2021), they predominantly offer microfinance. While the regional averages vary substantially, they also remain well within the microfinance segment – with loan averages ranging from USD 692 per borrower in South Asia (increasing from USD 572 in 2021) to USD 6,364 in LAC-SA (8,447 in 2021). A direct comparison would, however, be misleading as this in part reflects differences in economic strength: average incomes and cost of living vary greatly by region and to some extent within regions as well. Fluctuations also reflect MEF's demand-oriented nature; for instance, while in 2022 the bandwidth of lowest to highest average by region remained broadly similar to previous years, for 2022 the average loan amount in LAC-CA and SSA decreased substantially while it increased significantly in CA and LAC-SA.

Such variations in a year-on-year perspective can occur when, for instance, new MFIs in MEF's portfolio have a different portion of their portfolio focused on purposes other than microfinance than MFIs exiting the portfolio. This reflects that average loans for SME, corporate or housing finance are typically higher, and outstanding loan amounts are also higher in the first year of disbursement. Similarly, a large variation in averages may occur especially also when MFIs enter and exit MEF's portfolio in regions with a limited number of Partner MFIs.

Overall, benchmarked against MIVs, MEF's portfolio shows a focus on microfinance aligned with peer microfinance funds. The global average outstanding loan amount per borrower of MEF Partner MFIs increased marginally to USD 1,627 in 2022 (from USD 1,453 in 2021). This compares to PAIF data which reports that for microfinance funds, the average loan size has remained stable at between USD 1,250 and USD 1,500 over the decade prior to 2017, and has only slightly increased in recent years – showing overall that these funds remain well anchored in their markets and focused on ultimately serving the poorer end of their markets.

2022	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2022	Global 2021
Total loan portfolios all Partner MFIs (USD M)	2,118	10,258	3,105	4,019	19,646	606	13,110	1,867	**54,728**	37,090
Number of borrowers	661,774	6,731,918	1,330,949	877,875	3,087,083	135,641	18,944,162	2,295,292	**34.1M**	25.5M
Average loan amount per borrower (USD)	3,200	1,524	2,333	4,578	6,364	4,464	692	813	**1,627**	1,453
Number of branches	505	3,231	936	843	836	77	20,154	1,683	**28,265**	22,953

The PAIF Report captures the median number of active borrowers financed per MIV as around 130,000 in 2021 (for an average microfinance fund size of 194 million) and reports that this figure has been stable for the last four years. MEF, with 740,000 active borrowers in 2022 (640,000 in 2021) therefore reaches a significant population in developing markets around the globe. This increase for MEF in 2022 is mainly explained by increasing exposures in Partner MFIs located in Asia with the lowest average loan sizes to final borrowers in the Fund's overall portfolio.

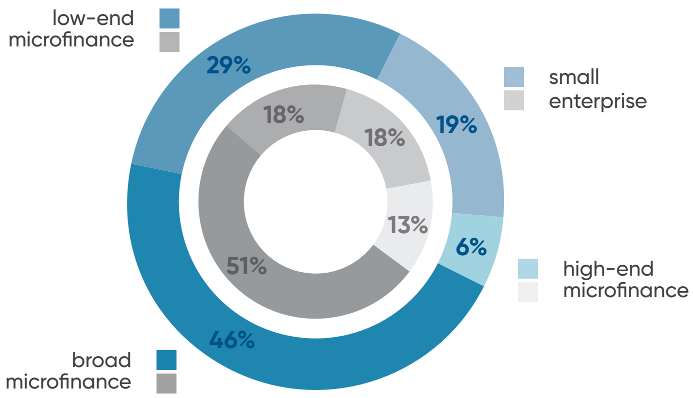
MEF IMPACT | OUTREACH

A PORTFOLIO FOCUSED ON MICROFINANCE

MEF Partner MFIs largely target the microfinance market — with 81% microfinance overall, split as follows:

- 29% target the low-end microfinance market
- 46% target the broad microfinance market
- 6% target the high-end microfinance market
- 19% target small enterprises

This percentage differs from the 21% of SME portfolio presented in the 'Distribution by loan purpose' as it is based on different data points: here the data is based on the average loan balance per final borrower divided by the GNI per capita; in 'Distribution of the loan portfolios of the MFIs' the data is as reported by the MFIs.



segments as per CERISE with average loan balance per final borrower / GNI per capita

low-end microfinance	< 20%
broad microfinance	between 20% and 150%
high-end microfinance	between 150% and 250%
small enterprise	< 250%

OUTREACH TO WOMEN AND RURAL BORROWERS

Women borrowers encompass women-headed households or women-led micro or small enterprises. While MEF Partner MFIs' portfolios showed a high share of 78% of women borrowers (84% in 2021), this is particularly true for South Asia which recorded a very high share of 84%. This reflects many Indian MFIs with a dominant focus on lending to women. High shares of women borrowers are also characteristic of some of MEF's Partner MFIs in EAP and SSA. The overall decrease compared to 2021 is mainly attributed to the lower exposure in India.

With 69% rural borrowers in 2021 (56% in 2021), the global portfolio of MEF Partner MFIs and their clients showed a strong record on rural lending as well. Almost all regional portfolios recorded at least 50% rural borrowers, with a markedly stronger outreach in EAP and SA, each region with more than 70% of the portfolio lent in rural areas.

Defining and quantifying the impact intent of an investment is a fundamental step to understanding the contribution and likelihood of achieving impact throughout the investment period. ESG integration in the investment process is pursued as follows:

2022	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2022	Global 2021
Share of women borrowers (in %)	48	88	53	59	49	60	84	74	**78**	84
Share of rural borrowers (in %)	59	74	54	55	24	34	82	40	**69**	56

The 78% share of women borrowers in MEF Partner MFI portfolios continues to be well above the industry average of 64% in 2021, per PAIF Report 2022 (65% in 2020, per PAIF Report 2021). Rural outreach at 69% of MEF Partner MFI portfolios is above the industry average of 60% in 2021, per PAIF Report 2022 (61% in 2020, per PAIF Report 2021).

PORTFOLIO IN VULNERABLE COUNTRIES

As a social investor with a mission to support microfinance and be a reliable partner in challenging times or crises, MEF tracks the share of the portfolio that goes to the most vulnerable countries.

MEF's portfolio balances investments in 'vulnerable' countries with investments in countries on a more solid footing from a social development standpoint.

For 2022, data continues to demonstrate a significant percentage of investments in more vulnerable countries:

- 9% in 'low Human Development Index'
- 8% in 'fragile and conflict-affected states'
- 71% in 'high or very high-risk countries on the WorldRiskIndex'

A growing share of MEF's portfolio was invested in low HDI countries, while the percentage invested in fragile and conflict-affected states slightly decreased.

Notably, in 2022, the WorldRiskIndex was published with a completely revised model resulting in numerous shifts of countries to High or Very High risk, which explains that the share of high and very high risk in MEF's portfolio countries increased to 71%. Also, out of the top 10 countries of MEF's portfolio, 7 are now considered High (Cambodia and Nigeria) or Very High risk (China, Ecuador, India, Indonesia, Turkey).

low HDI (below 0.550)

9%

6% in 2021

fragile and conflict-affected states

8%

10% in 2021

high or very high risk on the WorldRiskIndex

71%

36% in 2021

Definitions

HDI UN Human Development Index

Ranks countries in four tiers (very high, high, medium, low) of human development by combining measurements of life expectancy, education, and per-capita income into the Human Development Index (HDI) in its annual Human Development Report.

Low > 0.550 | Medium 0.550-0.0699 | High 0.700-0.799 | Very high > 0.800

https://hdr.undp.org/data-center/human-development-index#/indicies/HDI

Fragile and conflict-affected states

Countries with high levels of institutional and social fragility, identified based on publicly available indicators that measure the quality of policy and institutions and manifestations of fragility. The list distinguishes between countries based on the nature of issues they face. The classification uses the following categories:

- Countries with high levels of institutional and social fragility, identified based on indicators that measure the quality of policy and institutions, and manifestations of fragility.
- Countries affected by violent conflict, identified based on a threshold number of conflict-related deaths relative to the population

www. worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations

WorldRiskIndex

WRI considers a country's exposure to extreme natural events and its capacity to respond to such events. WRI is not just an assessment of environmental risk; it takes into consideration social aspects (public infrastructure, poverty, inequality, access to public health systems, etc.) to assess a country's ability to mitigate or reduce the effects of a natural disaster. The index was developed by the German foundation 'Bündnis Entwicklung Hilft' and is managed by Ruhr University of Bochum, Germany.

very low 0-1.84 | low 1.85-3.2 | medium 3.21-5.87 | high 5.88-12.88 | very high 12.89-100

https://weltrisikobericht.de/weltrisikobericht-2022-e/#worldriskindex

ALINUS SOCIAL PERFORMANCE ANALYSIS

Introducing MEF social performance analysis with ALINUS

The sustainability, intentionality and quality of the financial products and services matter equally. These are essential ingredients for responsible finance and financial institutions acting responsibly by balancing financial imperatives with social and sustainability intentions and practices. Capturing outreach – as in how many people can be reached where, with what financing, and to finance what – is one measure by which MEF considers its impact.

Adherence to evolving social performance standards is a core component of MEF's commitment to responsible finance. For transparent and benchmarked reporting as well as to contribute to a transparent debate within the impact investing industry, MEF has partnered with CERISE+SPTF to coordinate the social performance analysis of MEF Partner MFIs since 2019.

CERISE+SPTF is a joint initiative between two of the global leaders in social and environmental performance management. The Social Performance Task Force, or SPTF, developed, and regularly updates, the Universal Standards for Social and Environmental Performance Management (the Universal Standards). Cerise pioneered the implementation of social performance management. Together, CERISE+SPTF stand for a global leader in impact measurement. Together, they now manage the widely recognised social performance tool SPI4-ALINUS aligned with the Universal Standards. For 2023 data collection and reporting, CERISE+SPTF have updated the Universal Standards and reporting tools on the SPI Online platform.

To answer the question 'to what extent MEF invests in MFIs that do good - or at least have the intention to do good - by adopting a structured approach to social performance management (SPM),' CERISE+SPTF has benchmarked the scores of MEF's portfolio of Partner MFIs on SPI4-ALINUS to the full SPI database. Further information on CERISE+SPTF, SPI4-ALINUS and the Universal Standards is available in section 'CERISE+SPTF | MEF's Partner on Social Performance Data').

The following pages provide more details on the standards and how MEF Partner MFIs score against them and how they fare in a peer comparison. The boxed text provides the details on the sample of MEF Partner MFIs as well as the global sample represented in this benchmark analysis.

SPI4-ALINUS at MEF | 2022 sample & benchmarking

For 2022, out of 145 Partner MFIs in MEF's portfolio, 138 reported quantitative and 127 reported qualitative data. With a count of 451 financial institutions in the SPI global database for benchmarking, MEF Partner MFIs account for close to one third (30%) of the global peer group. The 2022 reporting sample is largely consistent with that of 2021: out of 143 MFIs in MEF's portfolio, 122 reported quantitative and 118 reported qualitative data; with a global dataset covering 426.

CERISE+SPTF signalled that the increase of respondents in the global dataset was notably due to engaging with MFIs in MEF's portfolio (over the last 2 years, 60% of MFIs reporting for the first time were MFIs in MEF's portfolio). This is very much in line with MEF's intention to boost mainstreaming of social performance reporting among financial institutions through this collaboration.

MEF show-cased at a conference co-hosted by OECD and CERISE+SPTF

CERISE+SPTF and OECD MEETING 2022

In the context of this cooperation, MEF was show-cased at a conference co-hosted by OECD and CERISE+SPTF in September 2022, held in Paris, entitled 'Finance United: Impact Investors, Financial Service Providers and the SDGs'.

The case study explored the benefits all stakeholders involved in MEF experienced from using this tool. It also captured the lessons learned as well as how to improve performance further, by deepening the engagement with social and environmental performance management tools and resources.

For more information on this event see https://cerise-sptf.org/cerise-oecd-meeting-2022/

MEF IMPACT | SOCIAL PERFORMANCE

OVERALL SCORES

MEF Portfolio | Average SPI4-ALINUS score

74% | 64% CERISE global benchmark

73% in 2021 | 63% in 2021

- With an overall ALINUS score of 74% MEF Partner MFIs demonstrate again stronger social performance than their peers (64%).
- MEF Partner MFIs outscore the CERISE benchmark in all dimensions.

With an overall score of 74% – compared to 64% for the peer group – MEF Partner MFIs again outscored the peer group captured in the CERISE global dataset in all of the dimensions analysed, thus demonstrating stronger social performance than their peers. This score also compares favourably to last year's score of 73%.

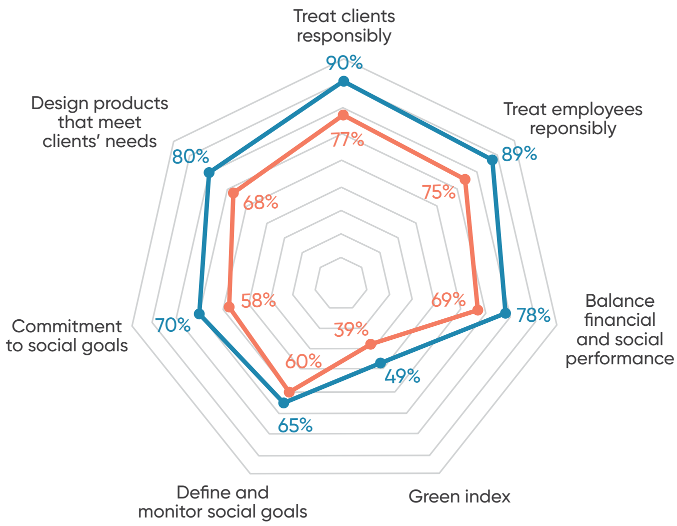
As in previous years, MEF Partner MFIs are largely high performers on overall scores: in line with the 2021 results, in 2022, 70% of MEF Partner MFIs scored either 'Excellent' or 'Very Good' (i.e. scores above 71%), compared to 44% in the peer group. Moreover, this is better than last year's performance, with 62% for MEF Partner MFIs and 41% for the peer group.

Overall, the 2022 data confirms several observations since the introduction of SPI4-ALINUS reporting in 2019: MEF Partner MFIs show solid SPM practices when compared to the benchmarks and, notably, cover the basics of client protection. High scores in key dimensions indicate a successful screening of institutions with client orientation and client protection filters – in particular, the high scores on designing products that meet clients' needs in Dimension 3, on responsible client treatment in Dimension 4, and on responsible pricing, a key factor in Dimension 6 on balancing financial and social performance.

The findings thus confirm that MEF has been successful in building a portfolio of MFIs with strong social performance. This reflects the Fund's policies supported by the robust processes of its four investments advisors and its investment committee.

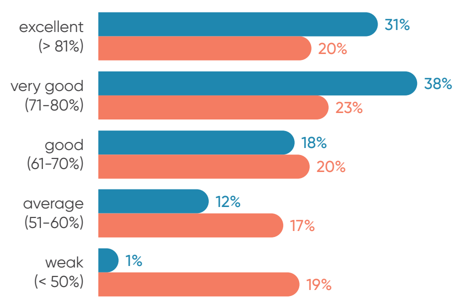
MEF Partner MFIs | Overall scores

benchmarked to their peers



MEF Partner MFIs | Frequency of scores

benchmarked to their peers



On the basis of a sample of 127 MEF Partner MFIs analysed by CERISE for this scoring and benchmarking (118 in 2021).

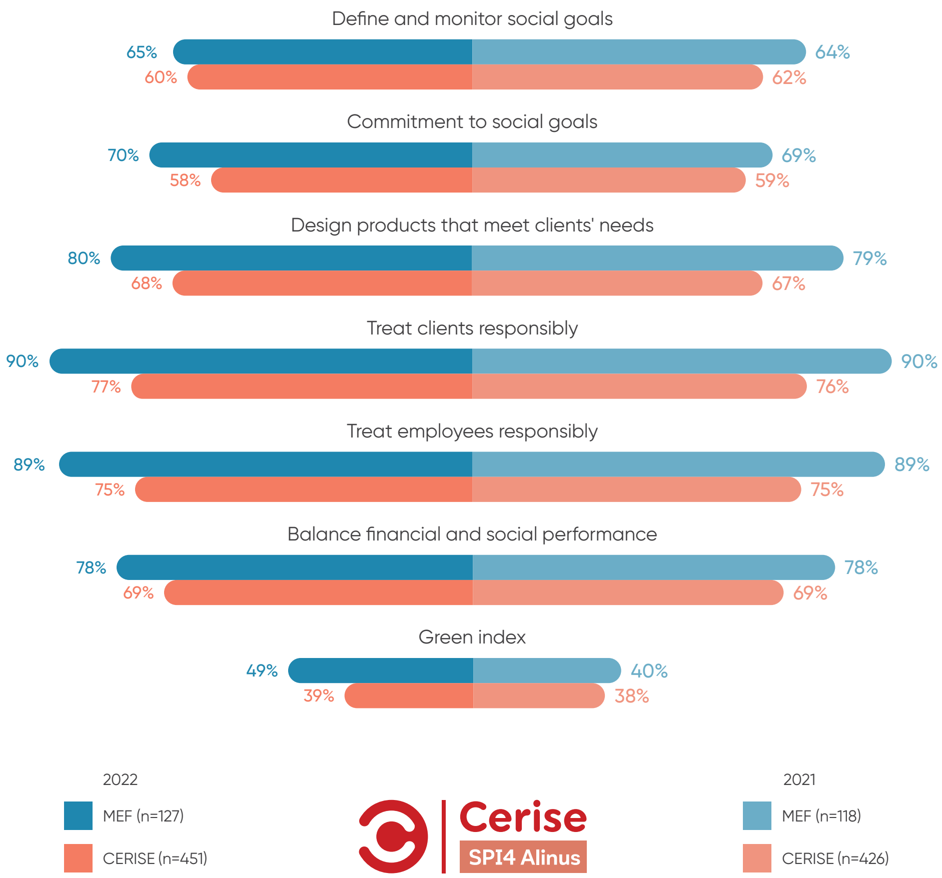
The benchmarking is based on a global peer group dataset collected and analysed by CERISE, covering 451 respondents for 2022 (426 for 2021).

SCORES PER DIMENSION

It is gratifying to see such overall high performance and that the scores for 2022 were stable or slightly improved for most dimensions, compared to 2021 scores. Notable is the increase in the Green Index from 40% to 49%.

Overall, however, indicators may go up or down, and an indicator going down is not necessarily seen as negative as MEF also finances MFIs that do not have a full reporting framework and best social performance practices in place. In line with MEF's key objective to support the development of an inclusive financial sector with responsible finance, the Fund will leverage its relationships and continue to ensure that its Partner MFIs have minimum standards in place, or are committed to improving their practices over time.

Scores 2022 and 2021



Dimension 1 | Define and monitor social goals

Average D1 Score

65% | 60%

64% | 62% in 2021

MEF score compared to global benchmark

MEF Partner MFIs show strong practices in defining and monitoring social goals, higher than the benchmark (65% for D1 | compared to 60% for their peers), as CERISE highlighted. This score is consistent and reinforces the findings of 2021 (64% for D1 | compared to 62% for the benchmark).

A closer look reveals:

- Among MEF Partner MFIs, a higher proportion have a formalised social strategy to achieve social goals than in the benchmark sample (78% | compared to 68%).
- Compared to their peers, MEF Partner show a more limited use of a poverty measurement tool (18% | compared to 28%).
- They score on par with the peer group on collecting and disclosing client-level data (52% | compared to 52%).

Dimension 1 | Define and monitor social goals

Having clear intentions is the sine qua non condition for achieving impact. These intentions must be supported by purposeful management guided by a formal strategy. The strategy should include an explanation of the mission, a definition of target clients, social goals, targets and indicators to measure the achievement of those goals, and a description of how products and services will help achieve those goals. This strategy must be brought to life with information systems that collect and disclose client-level data specific to the social goals.

Dimension 2 | Commitment to social goals

Average D2 Score

70% | 58%

69% | 59% in 2021

MEF score compared to global benchmark

MEF Partner MFIs overall show a stronger commitment to social goals (70% for D2) than their peers (58%). As CERISE highlighted, MEF's Partner MFIs are still largely outperforming the benchmark, which is largely consistent with the previous year's score (69% for D2 | compared to 59% for the benchmark, in 2021).

A closer look reveals:

- This is driven by strong practices around training employees on both social and financial responsibilities (78% | compared to 68%).
- Though they have slightly fewer board members with Social Performance Management (SPM) expertise than the benchmark (61% | compared to 62%), MEF Partner MFIs keep improving the share of a designated SPM champion or committee that reports to the Board (43% | compared to 33%; 2021: 39% | compared to 35%).
- MEF Partner MFIs score marginally above the benchmark regarding women in management (28% | compared to 27%) and below the benchmark regarding women as board members (24% | compared to 27%), albeit slightly improved from last year (21% | compared to 24%).
- On social performance incentives, MEF Partner MFIs score consistently above the benchmark and in some instances markedly so: for instance, policies and processes regarding incentives for credit staff as well as risk flags for high caseload levels are in place for the majority of MEF Partner MFIs, scoring well above the benchmark (72% | compared to 59%); similarly, on annual assessments of CEO and of senior managers on social performance targets (35% and 34%, respectively | compared to 24% and 26%, respectively).

Dimension 2 | Commitment to social goals

A company's social strategy is only strong if the Board and all employees understand and uphold it. The Board must hold the company accountable to the mission and social goals by reviewing social data, assessing the CEO against social performance targets, for example. Senior management should ensure implementation by making sure social goals and targets are integrated into the business plan, analysed regularly. Staff at all levels should be recruited, evaluated and incentivized on financial and social targets.

Dimension 3 | Design products that meet client needs

Average D3 Score

80% | 68%

79% | 67% in 2021

MEF score compared to global benchmark

MEF Partner MFIs well outscore their peers on products designed to meet clients' needs (80% for D3 | compared to 68% for their peers). This is slightly above the findings of 2021 (79% for D3 | compared to 67% for the benchmark).

A closer look reveals:

- MEF Partner MFIs outscore their peers in designing well-tailored products, especially when it comes to market research and monitoring client feedback (86% | compared to 67%), where MEF Partner MFIs excel most, and more so than the already high score in 2021 (85% | compared to 66%).
- On regular client satisfaction surveys, MEF Partner MFIs also scored well above the benchmark (76% | compared to 54%), and similar to 2021 (75% | compared to 52%).
- MEF Partner MFIs also fare better than their peers on benefits to clients through diversity of product and services (74% | compared to 68%) – including offering voluntary insurance (59% | compared to 40%) and payment services (43% | compared to 25%), while they are slightly less likely to offer voluntary savings (43% | compared to 50%) and non-financial services (61% | compared to 66%).

Dimension 3 | Design products that meet client needs

Understanding client needs is key to ensuring that products and services actually create value for clients. In practice, this means conducting market research, satisfaction surveys or gathering client feedback. It also means designing products that help overcome barriers to accessing finance (with collateral requirements adapted to the constraints of target clients), increase resiliency (with emergency loans, savings, insurance or financial education), and enable economic opportunities (with productive loans, business development services).

Dimension 4 | Treat clients responsibly

Average D4 Score

90% | 77%

90% | 76% in 2021

MEF score compared to global benchmark

MEF Partner MFIs are particularly strong in client protection practices (90% for D4 | compared to 77% for their peers). This is consistent with previous years' findings (90% for D4 | compared to 76% for the benchmark, in 2021).

A closer look at the indicators shows a strong performance on adherence to client protection (CP) practices:

- Client protection is a strong focus for MEF's investment advisors in selecting and encouraging MEF Partner MFIs, as CERISE noted as well (note also 'Focus on Client Protection' at the end of this section).
- The careful analysis and commitment to client protection issues is observable in the high scores and good practices reported by MEF Partner MFIs, such as: MFIs with a CP-compliant Code of Conduct (89% | compared to 72%); MFIs with a CP-compliant anti-discriminatory policy (64% |compared to 56%); MFIs that inform their clients how their data is used and shared (80%|compared to 55%); MFIs that have CP-compliant complaints management systems (92% |compared to 68%); and MFIs that provide clients with a CP-compliant key facts document (87% | compared to 66%).

Dimension 4 | Treat clients responsibly

At the very minimum, positive social impact starts with a do no harm approach. Treating clients responsibly involves preventing over-indebtedness, communicating transparently, treating clients fairly and respectfully, respecting client data privacy, and having a responsive complaints mechanism. Dimension 4 is entirely comprised of client protection standards (a few other CP standards can be found in D2, D3, and D6).

Dimension 5 | Treat employees responsibly

Average D5 Score

89% | 75%

89% | 75% in 2021

MEF score compared to global benchmark

MEF Partner MFIs clearly show stronger practices in treating employees responsibly (89% for D5) than their peers (75%). This score is similar to the findings of 2021 (89% for D5 | compared to 75% for the benchmark).

A closer look reveals that MEF Partner MFIs outperform the benchmark, and markedly so, in several regards, such as:

- In communicating terms of employment (97% | compared to 87%)
- In monitoring employee satisfaction and turnover (83% | compared to 63%).
- In assessing health and safety risks of employees and analysing results by gender (57% | compared to 37%).

Dimension 5 | Treat employees responsibly

Responsible treatment of employees contributes to a successful, sustainable company. Offering employment is an important benefit that a company brings to its community. Also, well-treated employees are more likely to treat clients responsibly. This dimension looks at compliance with decent work standards promoted by the ILO and health and safety risk policies and ensures that standard HR policies—like an HR manual and job descriptions and a transparent salary scale are place. Special attention is given to monitoring employee satisfaction and turnover.

Dimension 6 | Balance financial and social performance

Average D6 Score

78% | 69%

78% | 69% in 2021

MEF score compared to global benchmark

MEF Partner MFIs outperform their peers on balancing financial and social performance (78% for D6 | compared to 69% for their peers). This score is consistent with the findings of 2021.

A closer look at the numbers reveals:

- MEF Partner MFIs score especially high on responsible pricing (93% | compared to 84%), thus predominantly comply with the client protection indicator on responsible pricing; CERISE noted a few outliers that calculate the interest using flat pricing rather than on declining balance, which does not in itself indicate inappropriate practice but is a flag to take a closer look.
- MEF Partner MFIs show a higher score than their peers on growth rates (91% | compared to 80%).

Dimension 6 | Balance financial and social performance

An institution's financial decisions and results should reflect its social goals. In practice, this means making choices on growth targets, profit allocation, loan pricing and employee compensation in a way that keeps clients in focus.

Dimension 7 | Green index

Average Green Score

49% | 39%

40% | 38% in 2021

MEF score compared to global benchmark

MEF Partner MFIs outperform the benchmark on CERISE's Green Index (49% for Green Index | compared to 39% for their peers). This is a slightly better score than in the 2021 findings (40% for this index | compared to 38% for the benchmark).

A closer look at the numbers shows that:

- MEF Partner MFIs are more likely to use specific tools to assess environmental risk of client activities than their peers are (35% | compared to 11%) – showing some improvement for MEF Partner MFIs with previous findings (29% | compared to 19% in 2021).
- On reducing their internal ecological footprint, MEF Partner MFIs have improved and now outperform their peers (43% | compared to 20% in 2022; 35% | compared to 35% in 2021).
- About one third of MEF Partner MFIs offer loan products to finance renewable energy/energy efficient technologies, more than their peers (35% | compared to 18%), and similar to the previous year (34% | compared to 31% in 2021).

Green index

The Green Index allows companies to evaluate their level of implementation of practices related to strong environmental performance: managing the companies' internal ecological footprint, managing external environmental risks related to clients' activities, and offering green loans.

Focus on client protection

In September 2021 – after the closing of Smart Campaign in December 2020 – CERISE+SPTF launched the Client Protection Pathway to provide continuity to the Smart Campaign's efforts to promote client protection (CP). The Pathway offers a way for financial service providers (FSPs) to demonstrate their commitment to implement CP practices, and for investors to identify committed partners. Certification is done through an independent audit of CP systems and practices of a FSP, measured as an assessment of the compliance with the CP indicators in the Universal Standards.

As of February 2023, a total of 136 FSPs have committed to implementing the Client Protection Pathway, out of which 46 are MEF Partner MFIs. While officially committed Partner MFIs are expected to increase in numbers, the 90% score for Dimension 4 'Treat client responsibly' indicates that MEF Partner MFIs – albeit not all CP certified – are particularly strong in client protection practices (compared to 77% for their peers).

CP Pathway

Note that, as per CERISE's methodology, the sample for the Green Index includes all 127 companies reporting qualitative data. If Green indicators were not reported, they were counted as zero. For more information, please visit https://cerise-spm.org/.

ALINUS | GLOBAL BENCHMARKING

	MEF	CERISE
NUMBER OF RESPONDING FINANCIAL INSTITUTIONS	127	451
D1 | Define and monitor social goals	**65%**	**60%**
1A Social strategy	78%	68%
1B Reporting of client-level data	52%	52%
D2 | Commitment to social goals	**70%**	**58%**
2A Board accountability	63%	49%
2B Senior management accountability	68%	55%
2C Staff accountability	78%	68%
D3 | Design products that meet clients' needs	**80%**	**68%**
3A Client needs and preferences	86%	67%
3B Benefits to clients	74%	68%
D4 | Treat clients responsibly	**90%**	**77%**
4A Prevention of over-indebtedness	92%	83%
4B Transparency	92%	79%
4C Fair and respectful treatment of clients	88%	79%
4D Privacy of client data	92%	78%
4E Mechanisms for complaint resolution	88%	67%
D5 | Treat employees responsibly	**89%**	**75%**
5A HR policy	86%	74%
5B Communication of terms of employment	97%	87%
5C Employee satisfaction	83%	63%
D6 | Balance financial and social performance	**78%**	**69%**
6A Growth rates	91%	80%
6B Alignment of objectives	75%	72%
6C Responsible pricing	93%	84%
6D Compensation	53%	39%
D7 | Green index	**49%**	**39%**
7A Managing internal environmental risks	58%	51%
7C Managing external environmental risks	50%	33%
7D The provider fosters green opportunities	39%	33%
TOTAL AVERAGE SCORE	**74%**	**64%**

FUND ORGANISATION

FUND FACTS

LEGAL NAME
Microfinance Enhancement Facility S.A.
SICAV-SIF (MEF)

REGISTERED OFFICE
5, rue Jean Monnet - 2180 Luxembourg
Grand-Duchy of Luxembourg

FUND TYPE
Investment public limited company under Luxembourg Law,
qualified as a specialised investment fund

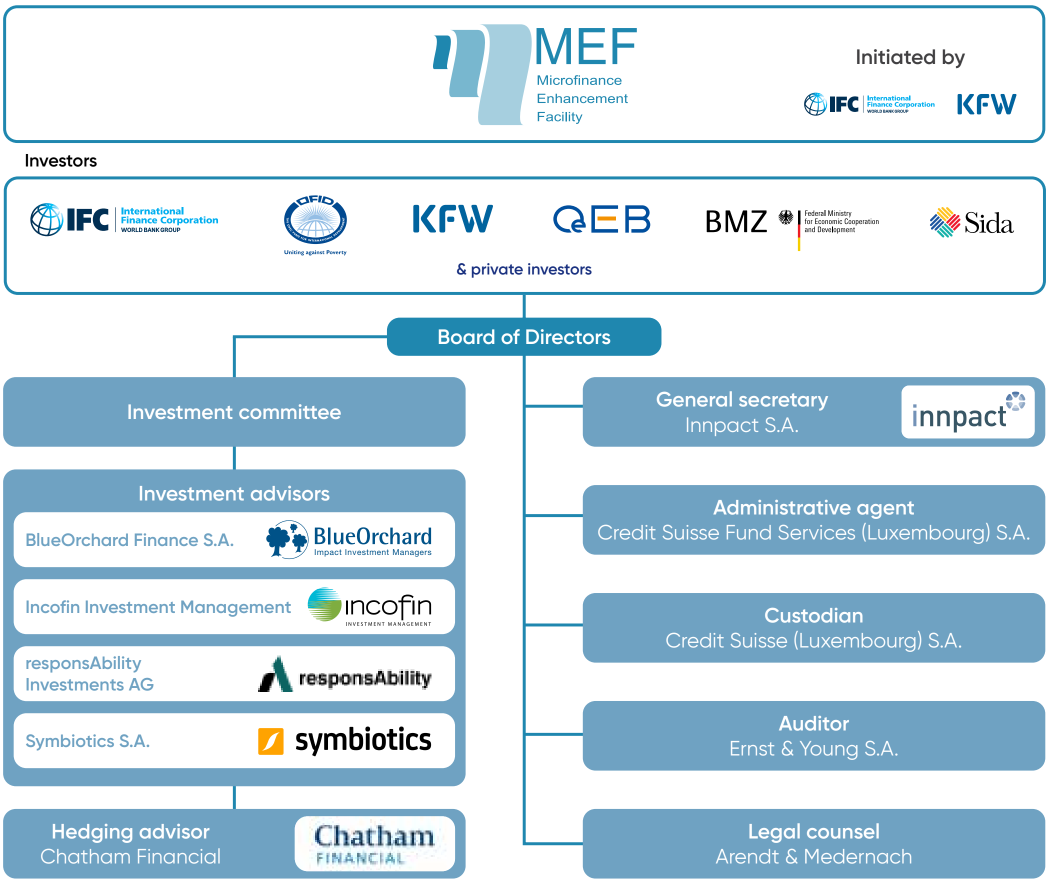
MAIN FINANCIAL PRODUCTS
Medium to long-term senior loans
at fixed and floating interest rates

STRUCTURING AGENTS
KfW (German Development Bank)
International Finance Corporation (IFC)

INVESTMENT CURRENCIES
local currencies, EUR, USD

INCEPTION DATE
February 2009

FUND ORGANISATIONAL STRUCTURE



FUND ORGANISATION

FUND GOVERNANCE

Board of Directors


Ruurd Brouwer
Chair


Momina Aijazuddin


Orli Arav


Ihno Baumfalk


Swapnil Neeraj


Alan Ridgway

Investment Committee


Michael Neumayr
Chair


Suzannah Carr


Madhu Dutta-Sen


Christine Lier-Tomowski

Change to the Board of Directors
Chair | Ruurd Brouwer succeeding Ihno Baumfalk (Q3 2022)
Joining | Orli Arav (Q3 2022)
Departing | Jan Martin Witte (Q2 2022)

No change to the Investment Committee in 2022

Pictures taken on the occasion of the Board meeting held in Amsterdam, The Netherlands, March 2023
Note - not physically present: Momina Aijazuddin (Board member)

INNPACT | SUPPORTING MEF SINCE LAUNCH

innpact

Innpact, an expert in impact finance, advised and accompanied the Fund initiators through the design, set-up, and launch of MEF in 2009. Since then, Innpact, as general secretary and strategic advisor, has been supporting the Fund – its board, its investment committee and the four investment advisors – providing extensive fund management support and coordination services, including regulatory fund and impact management and compliance as well as investor relationship management.

Innpact is a leading impact finance specialist providing advisory and third-party impact fund management services. The team has unrivalled expertise in designing and structuring impact funds and blended finance vehicles. Working with fund managers, sponsors, and investors around the world on impact investing projects, Innpact has supported impact investments totalling more than USD 8 billion.

FUND ORGANISATION

ON FOUR CONTINENTS WITH FOUR INVESTMENT ADVISORS

Investment advisors | Portfolio distribution

as of 31 December 2022

BlueOrchard Impact Investment Managers | Members of the Schroders Group

The BlueOrchard pool with USD 101 million outstanding at year-end 2022 accounted for 18% of MEF total portfolio. The pool is diversified across 33 MFIs in 20 countries. In 2022, BlueOrchard disbursed loans totalling USD 38 million. New transactions over the year comprised 10 new loans across 9 countries. Overall, BlueOrchard was most active in South America with 31% of the disbursements, followed by Sub-Saharan Africa and Central Asia with 20% of the disbursements in each region respectively. Repayments in 2022 totalled USD 54 million. Portfolio quality remained overall sound over the course of the year.

BlueOrchard is a leading global impact investment manager and a member of the Schroders Group. BlueOrchard was founded in 2001, by initiative of the UN, as the world's first commercial manager of microfinance debt investments and manages today the largest microfinance fund in the world. The firm has built a distinct track record in offering premium impact investment solutions, including credit, private equity, and sustainable infrastructure. Being an expert in innovative blended finance mandates, the firm is a trusted partner of leading global development finance institutions and has over USD 10 billion assets under management across over 100 countries.

incofin INVESTMENT MANAGEMENT

The Incofin pool with USD 242 million outstanding at year-end 2022 accounted for 42% of MEF total portfolio. Year-on-year the pool increased by USD 58 million (a 32% increase). The pool is diversified across 44 MFIs in 28 countries. In 2022, Incofin disbursed loans totalling USD 114 million, representing a 15% increase compared to 2021. New transactions over the year comprised 28 new loans across 19 countries. Overall, Incofin was most active in South America with 41% of the disbursements, followed by East Asia Pacific with 24%. Repayments in 2022 totalled USD 54 million. Portfolio quality remained good and only one Partner MFI in Sri Lanka entered the provisioned portfolio due to the economic turmoil in the country, however, continued to repay as per the original schedule.

Incofin Investment Management is a global independent impact investment firm driven by a purpose to promote inclusive progress. It is an AIFM-licensed fund manager and has over USD 1.5 billion in assets under management. Incofin has a team of more than 95 professionals based in its headquarters in Belgium and in local investment teams in Colombia, India, Kenya and Cambodia. As a leading impact investment firm Incofin has invested (via equity and debt financing) over USD 3.5 billion in more than 350 Partner MFIs – financial institutions and SMEs in the agri-food value chain – across 65 countries in Asia, Africa, Eastern Europe, Latin America and the Caribbean.

responsAbility

The responsAbility pool with USD 67 million outstanding at year-end 2022 (net of provisioning) accounted for 12% of MEF total portfolio. Year-on-year the pool decreased by USD 7 million (a 10% decrease). The pool is diversified across 21 Partner MFIs in 16 countries. In 2022, responsAbility disbursed loans totalling USD 37 million, representing a 5% decrease compared to 2021. New transactions over the year comprised 7 new loans across 5 countries. Overall, responsAbility was most active in South America and South Asia, with 34% of the disbursements in each region respectively. Repayments in 2022 totalled USD 44 million, representing a year-on-year increase (+42%). Portfolio quality recorded a slight deterioration over the course of the year.

A leading sustainable asset manager with a 20-year track record, responsAbility manages USD 3.4 billion of assets invested in over 250 ESG-managed high-impact companies across 75 emerging economies. Since inception in 2003, responsAbility-managed funds have invested over USD 13.4 billion in private debt and private equity in the sustainable food, financial inclusion and climate finance sectors in companies whose business models directly support the United Nation's Sustainable Development Goals (SDGs).

symbiotics

The Symbiotics pool with USD 160 million outstanding at year-end 2022 accounted for 28% of MEF total portfolio. As of end 2022, the Symbiotics pool was diversified across 47 Partner MFIs in 24 countries. In 2022, Symbiotics disbursed loans totalling USD 77 million, representing a 45% increase compared to 2021. New transactions over the year consisted of 19 new loans across 12 countries, with 50% of the disbursements in Asia, followed by Eastern Europe and Central Asia with 34%, and Sub-Saharan Africa with 13%. Repayments in 2022 totalled USD 83 million. Portfolio quality recorded a deterioration over the course of the year due to the negative developments in Myanmar and Sri Lanka.

Symbiotics Asset Management is a specialist impact asset manager, dedicated to private debt investment in emerging and frontier markets. They offer tailored investments solutions focused on impact outcomes, according to client needs, (risk profile, geography or impact outcomes) both in the form of investment funds and separate accounts. Symbiotics Asset Management has assets under management and advisory of USD 2.94 billion, as at 31 December 2022. The group covers over 1,000 impact finance companies spanning 90+ emerging and frontier economies.

FUND ORGANISATION

CERISE | MEF's PARTNER ON SOCIAL PERFORMANCE DATA

SPI4 is a social performance audit tool for financial service providers developed by French non-profit service provider CERISE. Since 2003, more than 700 FSPs have used the SPI—updated regularly to include sector developments and user feedback—to help assess and improve their practices. Today in its fourth version, the SPI4 is aligned with the Universal Standards for Social Performance Management promoted by the Social Performance Task Force, which include the Client Protection Principles. SPI4 brings together industry standards under one tool, offering a common language for reporting to investors, funders and regulators.

SPI4-ALINUS shorter version of the SPI4 that gets investors speaking the same language. Many investors use their own tools to collect social performance data points that are largely similar, but different enough to weigh as a reporting burden on FSPs and investors alike. Reducing this burden while improving comparability of social data is what drove the development of ALINUS. The 68 Universal Standards indicators were selected by an investors working group through a collaborative and iterative process. ALINUS indicators are now used by over 25 social investors in responsible finance.

CERISE+SPTF is a joint venture between two of the global leaders in social and environmental performance management.

Founded in 2005, the Social Performance Task Force, or SPTF, developed, and regularly updates, the Universal Standards for Social and Environmental Performance Management (Universal Standards).

Cerise, a French nonprofit association created in 1998, pioneered the implementation of social performance management, working with committed financial service providers to launch the Social Performance Indicators initiative in 2001.

Cerise and SPTF formalized their cooperation via a Memorandum of Understanding in 2021, and now operate under a common strategic plan, budget and workforce.

CERISE assessment tools SPI4 and SPI4-ALINUS have been updated in 2022 in response to

- The release of the revised version of the Universal Standards for Social and Environmental Performance Management in February 2022 by SPTF,
- Reporting requirements created by the Sustainable Finance Disclosure Regulation (SFDR) and more precisely the 14 Principal Adverse Impact Indicators.

CERISE and SPTF have developed a new integrated platform for Social and Environmental performance management (SPI Online), including 7 audit tools, technical resources, trainings and e-learnings, human resources, and financial support.

ALINUS and the other updated assessment tools are available in the new SPI online platform that has been redesigned to improve user experience and benchmarking capabilities. ALINUS new version is a sub-set of 68 indicators from the seven dimensions of the Universal standards, it integrates Green indicators and client protection indicators.

https://cerise-sptf.org

MEF EXCLUSION LIST

At all times, the investment advisor shall ensure that MEF does not provide loans, funding or other support to any MFI that provides loans, funding or other support to their clients that engage in any of the following activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- Production or trade in weapons and munitions
- Production or trade in alcoholic beverages (excluding beer and wine)[1]
- Production or trade in tobacco[1]
- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials; this does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where MEF considers the radioactive source to be trivial and/or adequately shielded
- Production or trade in unbonded asbestos fibres; this does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- Production or activities involving harmful or exploitative forms of forced labor[2] or harmful child labor[3]
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals hazardous chemicals include gasoline, kerosene, and other petroleum products
- Production or activities that impinge on the lands owned, or claimed under adjudication, by indigenous peoples, without full documented consent of such peoples
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
- Destruction[4] of High Conservation Value areas[5]
- Pornography and/or prostitution
- Racist and/or anti-democratic media

[1] This does not apply to MFIs who are not substantially involved in these activities. 'Not substantially involved' means that the activity concerned is ancillary to the MFI's primary operations, representing less than 10% of the MFI's loan portfolio.

[2] Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[3] Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

[4] Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use; or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

[5] High Conservation Value areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see www.hcvnetwork.org)

FUND FINANCIALS

BALANCE SHEET

	December 2022	December 2021
ASSETS		
Loans to MFIs	569,614,051	545,177,348
Current assets	151,174,100	169,957,795
of which: cash & cash equivalent	112,205,691	148,597,087
Other assets	387,242	258,419
Total Assets	721,175,393	715,393,562
LIABILITIES		
Notes	116,681,250	141,174,000
Current liabilities	55,991,552	28,932,831
of which: dividend payable	19,250,702	15,082,709
Total Liabilities	172,672,802	170,106,831
NET ASSETS	548,502,591	545,286,731

INCOME STATEMENT

	December 2022	December 2021
Net assets at the beginning of the year	545,286,731	499,388,711
INCOME		
Interest on loans	45,787,565	47,824,747
Upfront fees	2,148,106	1,677,046
Other income	2,435,889	400,366
Total income from investments	50,371,560	49,902,159
EXPENSES		
Management fees (including incentive bonus)	(6,475,189)	(6,550,163)
Legal, advisory and audit fees	(310,662)	(207,600)
Administration, custodian and domiciliation fees	(729,049)	(752,093)
Interest expenses on notes	(3,832,452)	(3,243,749)
Other direct operating expenses	(4,546,277)	(4,654,635)
Total expenses	(15,893,629)	(15,408,240)
Net income from operations	34,477,931	34,493,919
Net realised and unrealised gains/(losses) on foreign exchange, forward, swaps	(6,192,910)	(13,496,377)
Value adjustments for unrecoverable amounts on loans and advances to MFIs	(5,818,459)	(12,601,672)
Net increase/decrease in net assets as result of operations for the year/period	22,466,562	8,395,870
MOVEMENT IN CAPITAL		
Subscription of shares	–	52,584,860
Redemption of shares	–	–
Advance of dividend	(19,250,702)	(15,082,709)
NET ASSETS AT YEAR-END	548,502,591	545,286,731

In accordance with annual financial statements prepared under Luxembourg GAAP.

ABBREVIATIONS

Board	The board of directors of the Fund
CP	Client Protection
DFI	Development finance institution
ESG	Environmental, Social and Governance
EUR	Euro
FSP	Financial Service Provider
Fund	MEF
LuxFLAG	Luxembourg Finance Labelling Agency
MEF	Microfinance Enhancement Facility SA, SICAV-SIF
MFI	Microfinance institution
MSME	Micro, small and medium enterprise
PAI indicator	Principal Adverse Impact (PAI) indicator
Partner MFI	MFI in MEF's portfolio
Portfolio	Net portfolio
SME	Small and medium enterprise
SDGs	Sustainable Development Goals
SFDR	Sustainable Finance Disclosure Regulation
USD	US Dollars

LEGEND FOR THE REGIONS

CA	Central Asia
EAP	East Asia and the Pacific
EECAU	Eastern Europe and Caucasus
LAC-CA	Latin America and the Caribbean - Central America
LAC-SA	Latin America and the Caribbean - South America
MENA	Middle East and North Africa
SA	South Asia
SSA	Sub-Saharan Africa

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DISCLAIMER

This fund is reserved for eligible investors, meaning, with respect to the Shares, only professional investors as defined under Annex II of the Directive 2014/65/EU of the European Parliament and of the Council on 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, and with respect to the Notes, well-informed investors as defined under article 2 of the Luxembourg law of 13 February 2007 (the "2007 Law") on specialized investment funds, as both the preceding terms may be amended or supplemented from time to time. The distribution of Shares and Notes in this investment fund may be restricted in certain jurisdictions. In particular, Shares and Notes in this investment fund may not be offered, sold or transferred, directly or indirectly, in the USA or its territories or possessions or areas subject to its jurisdiction, or to citizens or residents thereof ('US Persons') other than in accordance with the laws of the United States. The information given in this report constitutes neither an offer nor a product recommendation; it is provided for individual information purposes only. No guarantee is given or intended as to the completeness, timeliness or accuracy of the information provided herein. This report is neither an issue document as specified by law nor the management report. The Issue Document is obtainable at the registered office of the fund. Please request the Issue Document and read it carefully and seek advice from your legal and /or tax advisor before investing. Past performance is no guarantee for future results. The value of the fund and its share classes is calculated without taking into account any placement or redemption fees and assuming constant reinvestments of dividends. The investments by MEF are subject to market fluctuations and to the risks inherent in all investments as well as all the specific risks referred to in the Issue Document MEF; accordingly, no assurance can be given that the objectives stated in this document will be achieved.

Please note that the pictures in this report originate from a public library to which the Fund has subscribed or have been provided by the investment advisors or the partner MFIs of the Fund. Pictures are included in this report for illustrative purposes only and do not necessarily reflect the companies and individuals mentioned in this report.