Microfinance Enhancement Facility

Impact Report 2018

MEF
Microfinance
Enhancement
Facility

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INTRODUCTION

As a global microfinance debt fund, the approach of the Microfinance Enhancement Facility ("MEF") to social and environmental performance is built on our vision of supporting microfinance markets in developing countries by offering a reliable and flexible source of debt to financial institutions which support microfinance and micro-enterprises (MFIs). The social impact of our investments is realised by the performance of our partner MFIs. Selecting adequate MFIs is thus the first and foremost step to achieve our social impact goals. And presenting the results they achieve, supported by MEF financing, is hence the key element of our own social and environmental performance reporting. Regular assessment and monitoring are important for transparency, accountability and performance improvement. MEF and its partner MFIs need to show to our investors and stakeholders that their resources are applied well – not only from a financial sustainability but also from a social impact perspective.

Moreover, social performance reporting is not only for the benefit of our investors and external stakeholders, but also to our own benefit. By collecting, comparing and analysing this data we better understand the challenges we face and can transform lessons learned into our investment strategy.

Given our extensive global portfolio with 118 MFIs in 44 countries we believe we have valuable lessons to share. With this report we aim to contribute to the debate of increasing social performance in microfinance and welcome any comments. This report is based on financial and social indicators reported by the partner MFIs in MEF's portfolio as of 31 December 2018. The aggregate responses on aspects such as outreach, products and services or other social performance indicators, however, provide a yearly "snap shot" of the profiles of the active partner MFIs of the MEF rather than a basis for comparison. Any year-on year variation can largely be due to the turnover of partner MFIs in the MEF portfolio as the mix of MFIs in the portfolio evolves –and is meant to evolve– given the demand-oriented business model of MEF. For instance, by year-end 2018 the portfolio comprised of 118 MFIs with 30 new MFIs financed and 27 MFIs exited during 2018.

It is with great pleasure that we present to you the 2018 Impact Report of the MEF.

We hope it provides you with deeper insights into MEF's social impact.

We would like to thank MEF's investors, stakeholders and partner institutions for their commitment to the Fund's mission.

Yours sincerely,

On behalf of the MEF Board of Directors
Johannes Feist
Chairperson of the MEF Board of Directors

MEF's IMPACT INDICATORS

488,000
Final borrowers reached by MEF funding

80%
Women

68%
Rural

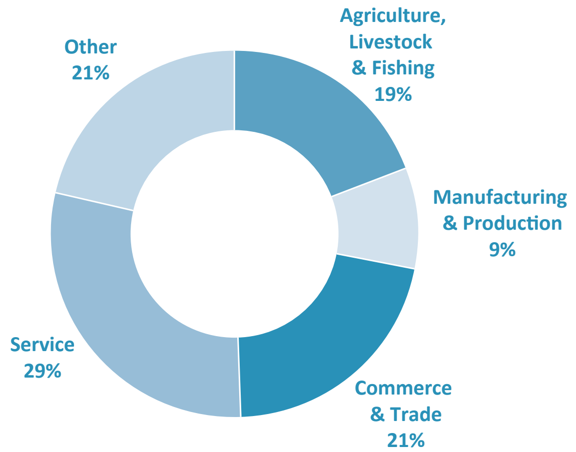
73%
Micro-enterprises (five or fewer employees) and individuals

Average **USD 1,730**
Median **USD 2,158**
Loan size to final borrowers

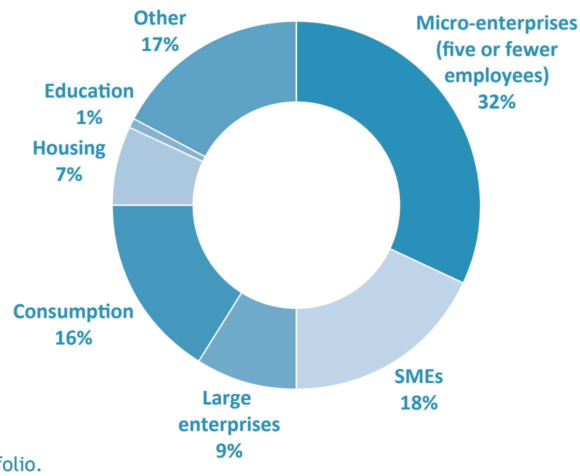
86%
MFIs have adopted the Client Protection Principles (CPPs)

LuxFLAG Microfinance Label since 2011

Distribution by Activity



Distribution by Loan Purpose



The charts reflect the distribution of the full loan portfolios of the MFIs in MEF's portfolio.

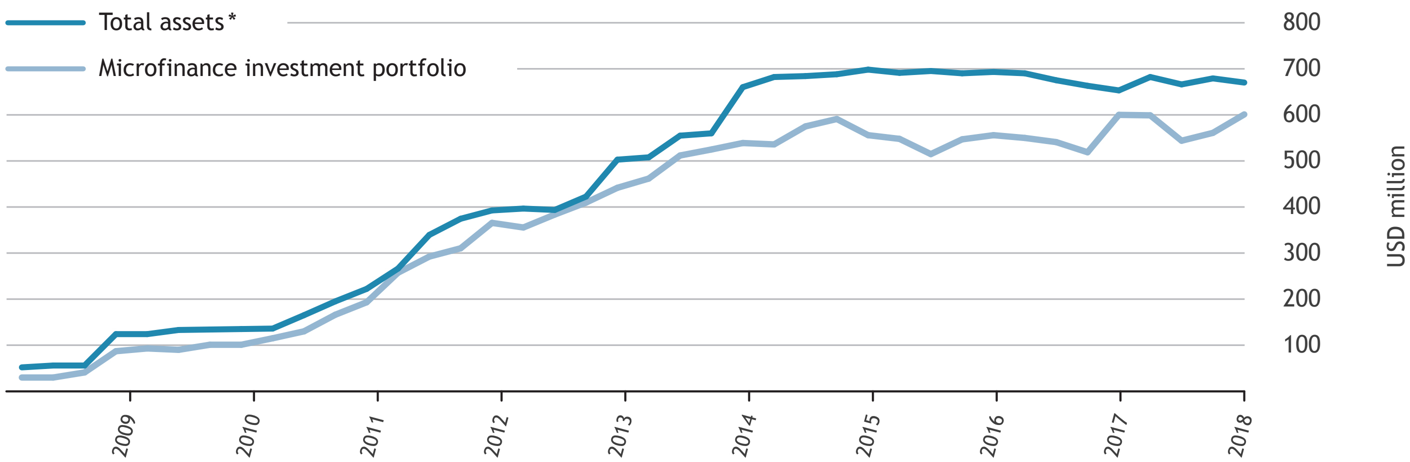
PORTFOLIO DEVELOPMENT

2018 Portfolio Development

MEF closed the year with USD 669 million in total assets (USD 652 million in 2017). MEF recorded an outstanding net portfolio of USD 600 million as the year closed (without accrued interest; USD 597 million in 2017) with 118 MFIs in 44 countries. This despite limited portfolio growth with disbursements amounting to USD 259 million to 52 MFIs while repayments were at a high level with USD 260 million.

MEF added 30 new MFIs and 3 new countries to our portfolio: Jordan, Togo, and Lebanon. Meanwhile 27 MFIs exited the portfolio as well as (probably temporarily) 6 countries (Belarus, Bosnia, Mali, Tunisia, Uzbekistan and Zambia). The majority of MEF loans disbursed in 2018 originated from Asia (29%), Latin America (46%) and Sub-Saharan Africa (15%). In terms of the outstanding MEF portfolio, India remained as the top exposure followed by Mexico, with Cambodia moving down to rank number 3.

Portfolio Evolution



Key Figures

	December 2018	Cumulative
Microfinance investment portfolio	USD 600.4 M	USD 1.9 B
Cash	USD 49.3 M	
Other short term assets	USD 18.8 M	
Total assets	USD 668.5 M	
Microfinance portfolio as a % of total assets	89.8%	
Total net asset value	USD 573.4 M	
Number of MFIs	118	195
Number of loans	196	563
Number of countries	44	54

DEVELOPMENT INDICATORS

MEF has grown again in 2018, ending the year with 118 active partner MFIs in 44 countries and a total loan portfolio outstanding of USD 600.4 million. The Fund has seen continuous growth in portfolio and outreach, for instance since 2016: from 102 MFIs in 40 countries and an 8% growth in the outstanding loan portfolio.

MEF as a demand-driven microfinance lender responds to changing regional or country-market demand and provides liquidity, for instance, where demand from microfinance institutions is high and other market sources are limited. In 2018, the portfolio stayed concentrated in LAC-CA and LAC-SA, together accounting for 52% of the portfolio (LAC-CA 30%; LAC-SA 22%; with LAC total in 2017 of 46%). Demand for MEF funding continued in LAC albeit with intra-regional differences: the share of LAC-CA in the MEF portfolio increased from 22.1% to 29.6% whereas the share of LAC-SA decreased from 23.5% to 21.8%. A welcome increase in MEF's exposure in SSA moved it to 10% portfolio share in 2018. This after a decrease in 2017 where it stood at 8%, albeit not yet back to the level of 12% of 2016. At the same time the share of EECAU and SA in the total portfolio decreased from 7.3% to 2.7% and from 19.5% to 15.4%, respectively. For EECAU, a period of deteriorating performance of MFIs in the region combined with MEF provisioning in some cases led to a decreased MEF portfolio in EECAU (from 20% of the total portfolio in 2015 to 2.7% in 2018).

Portfolio Diversification (mUSD)	2016	2017	2018	Variation 2017-2018
CA	40.0	18.5	14.6	-21%
EAP	101.0	92.8	97.2	5%
EECAU	62.4	43.7	16.2	-63%
LAC-CA	71.9	132.5	177.9	34%
LAC-SA	118.4	140.0	130.6	-7%
MENA	9.2	6.3	10.4	65%
SA	87.6	116.9	92.4	-21%
SSA	64.6	47.8	61.1	28%
Grand Total	**554.9**	**598.6**	**600.4**	**0%**

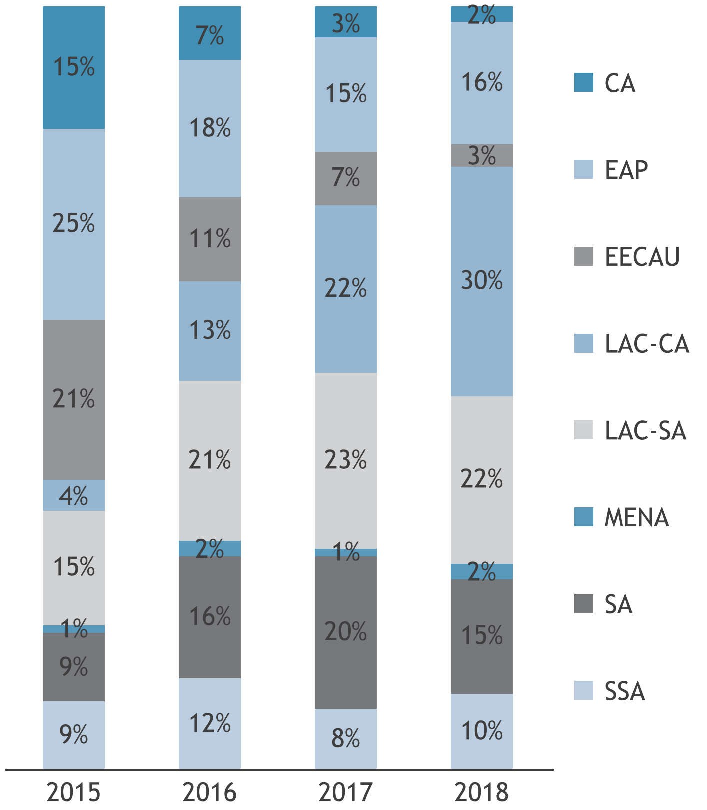
Regions: CA: Central Asia / EAP: East Asia and the Pacific / EECAU: Eastern Europe and Caucasus / LAC-CA: Latin America and the Caribbean - Central America / LAC-SA: Latin America and the Caribbean - South America / MENA: Middle East and North Africa / SA: South Asia / SSA: Sub-Saharan Africa

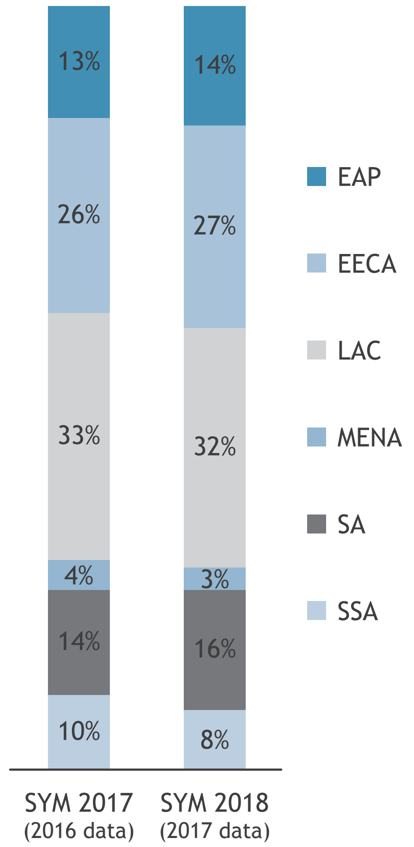
MEF is a strong local currency lender thereby also progressively de-risking financing for its partner MFIs. With 56% of its portfolio in local currency loans – up from 48.9% in 2017 – MEF continues to address the experience in recent years of local currency depreciation as a major threat to hard-currency-financed MFIs. Out of the 56% of local currency loans, 17.9% were made in countries where USD is the legal tender (Ecuador, El Salvador and Panama), 0.9% in countries where EUR is the legal tender (Montenegro and Kosovo), and 37.2% in local currencies excluding EUR and USD as local currencies. All of MEF's currency exposures are fully hedged to USD. MEF was thus above market average for local currency lending and well above market practice with its hedging practice. The 2018 Symbiotics MIV Survey shows the portion of direct debt investments in MFIs in local currency at 34.1% in 2017 (31% in 2016), of which 32.7% was un-hedged (42.3% in 2016).

MEF Data and Portfolio	2016	2017	2018	Variation 2017-2018
MEF total assets (mUSD)	692.2	651.7	668.5	2.6%
MEF total portfolio (mUSD)	554.9	598.6	600.4	0.3%
Portfolio in total assets (in %)	80%	92%	90%	-2.2%
Number of partner MFIs	102	113	118	+ 5
Number of countries	40	45	44	- 1
Share of local currency in portfolio*	43%	49%	56%	7%
Number of local currencies provided*	17	21	17	- 4

*Including EUR and USD loans when legal tender

DEVELOPMENT INDICATORS





Legend of regions for SYM Survey: 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

The market analysis of the 2018 Symbiotics MIV Survey suggests a stabilisation for MIV-financing for LAC, the region receiving the largest share (32% of MIVs' portfolios in 2017; slightly down from 33% in 2016) while MEF's exposure in LAC has continued to increase (from 34% in 2016 to 45% in 2017) - this in part reflecting MEF's demand-oriented nature and also to an extent its greater capacity for exposure in LAC compared to other funds who seemed to have reached their limits. For SA the 2018 Symbiotics MIV Survey shows a 16% portfolio share (2017) with year-on-year growth from 2016 of 2% compared to a slight increase in MEF's SA portfolio (from 16% in 2016 to 20% in 2017). Similarly, the 2018 Symbiotics MIV Survey recorded a continued decline for EECA's share in MIVs' portfolios (standing at 27% in 2017) - while MEF's portfolio in the corresponding region (EECAU plus CA) decreased to 10% in 2017. For SSA the 2018 Symbiotics MIV Survey shows an 8% portfolio share (2017) with a year-on-year decrease compared to 2016 of -2% similar to MEF's portfolio with 8% SSA portfolio in 2017 compared to 12% in 2016.

2018 SYMBIOTICS MIV SURVEY: Market Data & Peer Group Analysis; 12th edition, September 2018 (https://symbioticsgroup.com/wp-content/uploads/2018/10/Symbiotics-2018-MIV-Survey.pdf)

The data is based on December 2017 financial and social performance indicators reported by the large majority of active microfinance investment vehicles (MIVs). Out of an identified 111 MIVs, 92 participated and 91 were included in the final benchmark, making this sample very representative. MEF participates in this survey.

Of MEF's 118 partner MFIs, 100 responded to MEF's social indicators questionnaire. Of the 18 institutions that did not report, 8 were in receivership or in a wind-down or liquidation process. The response rate is thus 100 out of 110 "active" partner institutions of the MEF.

The MFIs reporting in 2018 provided loans to nearly 18 million borrowers. Of those, more were rural (68%) than urban borrowers and around 80% were women. Our partner MFIs on-lent the MEF financing to 488,000 of their borrowers. The figure of nearly half a million of beneficiaries attributable to MEF financing results from a more granular perspective than the global figure of 18 million total borrowers of MEF's 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). Despite a stable portfolio, there is a delta of 112,000 to the 600,000 borrowers reached in 2017. Such variations can occur and are a reflection of the dynamic in the portfolio composition of MEF as a demand-oriented lender combined with regional variations of outreach as well as average loan sizes to end-borrowers due in part to differences in economic strength (see also below on average loan per borrower). Meanwhile, the 2018 Symbiotics MIV Survey, based on 2017 data, reports an average number of active borrowers financed by MIVs of about 655,000 (up from 402,960 in 2016).

DEVELOPMENT INDICATORS

The outreach of MEF's portfolio of MFIs is supported by a variety of factors: (i) their large branch networks which grew to 9,605 in 2018 (up from 9,261 in 2017); (ii) mobile banking services were offered by 30% partner MFIs (up from 27% in 2017) and agent banking services were available from 23% of MFIs (up from 14% in 2017); and (iii) their predominantly microfinance rather than SME banking orientation, as the following analysis of average loan amounts illustrates.

With USD 1,730 (2018) as the global average outstanding loan amount per borrower as well as 83% of MFIs with an average loan size to their end-borrowers of below USD 15,000, MEF's partner MFIs clearly serve predominantly the microfinance segment. Regionally the average varies substantially: SA: USD 362; MENA: USD 2,333; EECAU: USD 3,038; EAP: USD 3,344; LAC-CA: USD 4,067; SSA: USD 4,948 and LAC-SA: USD 5,790. A direct comparison would neglect that this in part reflects differences in economic strength as average incomes and cost of living vary greatly by region and to some extent within regions as well.

For SSA, the noticeably high and indeed increase in average outstanding loan amounts per borrower to USD 4,948 in 2018 (up from USD 2,371 in 2017) is an effect of data reported in 2018 by one new MEF partner institution that focuses on SME-lending. The average for SSA of USD 1,366 – calculated without the figures of the three SME-oriented partner MFIs – would be more in line with the average cost of living in SSA.

Overall, MEF's portfolio shows an above average micro-orientation. While the global average outstanding loan amount per borrower of the MEF partner MFIs slightly increased to USD 1,730 in 2018 compared to USD 1,224 in 2017 and USD 1,029 in 2016, this remains below the averages recorded across all MIVs of USD 2,432 for 2017 and USD 1,920 for 2016 (2018 Symbiotics MIV Survey).

Microfinance activities are often associated with lending mainly in urban areas and to "non-productive" sectors like services and trade or for consumption. A look at the MEF's 2018 partner MFIs data reveals the following on lending to women, outreach to rural areas and on borrowers in "productive sectors" (agriculture/livestock/fishing and manufacturing/production; note that the productive sectors analysis draws on responses of 95 MFIs, all else on 100 respondents):

	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2018	Global 2017
Total MFIs' loan portfolio (mUSD)	537	9.090	838	6.175	7.026	146	3.911	3.260	30.983	29.342
Number of borrowers	642.691	2.717.890	275.801	1.518.364	1.213.467	62.792	10.816.669	658.953	17.906.627	23.965.491
Average loan amount per borrower (USD)	835	3.344	3.038	4.067	5.790	2.333	362	4.948	1.730	1.224
Number of branches	261	1.987	224	778	600	44	4.506	1.205	9.605	9.261
Share of women borrowers	55%	63%	37%	56%	57%	39%	96%	22%	80%	85%
Share of rural borrowers	58%	77%	59%	48%	22%	71%	77%	15%	68%	56%
Productive sectors	**49%**	**31%**	**32%**	**13%**	**23%**	**16%**	**51%**	**23%**	**28%**	**28%**
Agriculture/Livestock/Fishing	37%	24%	25%	5%	16%	9%	38%	3%	19%	18%
Manufacturing/Production	12%	7%	7%	8%	7%	7%	12%	20%	9%	10%

Notably, on lending to women, globally MEF's portfolio shows a very high share of 80% of female borrowers of MEF partner institutions being women, women-headed households or women-led MSMEs (85% in 2017). This is clearly higher than the industry average of 69% female borrowers (in 2017, per 2018 Symbiotics MIV Survey). For SA MEF's portfolio records 96% female borrowers. This high rate is largely due to the fact that it comprises mostly Indian MFIs with a focus on lending to women.

Assessing lending in rural areas, the global portfolio of MEF's partner MFIs and their clients shows a strong record as well with 68% rural borrowers, up from 56% in 2017*. The 2018 Symbiotics MIV Survey compares at 55% rural borrowers (2017). For MEF notably the portfolios in EAP, MENA and SA show the strongest rural focus, each above 70%.

For lending to the "productive sectors" (Agriculture/Livestock/Fishing or Manufacturing/Production), MEF partner MFIs' portfolios show a sizeable share of 28%. Regionally, SA and CA stand out with the highest share of 51% and 49% of the portfolio in these sectors, respectively, and LAC-CA with the lowest at 13%.

In summary, and also in comparison with industry averages of MIVs where available, the low average loan amount per borrower shows that the activities of the MEF and its partner MFIs serve predominantly the microfinance segment with a very strong outreach to women well above industry-average and a good record also on lending to "productive sectors", together with an increasing local currency funding progressively de-risking its financing of its partner MFIs.

*These ratios are calculated based on the industry-standard CGAP definition: taking the average of rural borrowers of MFIs in the MEF portfolio (calculated as the total number of rural borrowers of each MFI in the MEF portfolio divided by the total number of borrowers of the MFIs).

SOCIAL PERFORMANCE INDICATORS

To contribute to a transparent debate within the impact investing industry, MEF's portfolio of partner MFI is also benchmarked against the Universal Standards for Social Performance Management (USSPM). The USSPM define social performance along six headline dimensions:

1. Define and Monitor Social Goals
2. Ensure Board, Management and Employee Commitment to Social Goals
3. Design Products, Services and Delivery Channels that meet Clients' Needs
4. Treat Clients Responsibly
5. Treat Employees Responsibly
6. Balance Social and Financial Performance

As such, the USSPM look at social performance both from a perspective of the MFI's borrower or client (in particular dimensions 3 and 4), from an internal perspective (especially dimension 5), but also from a governance perspective (as per dimensions 1 and 2). The 6th dimension – Balance Financial and Social Performance – can be considered a summary criterion for assessing the "double bottom line" to be achieved in responsible finance and impact investing.

The 1st USSPM dimension – Define and Monitor Social Goals – is by definition difficult to measure in quantitative terms. The willingness of a MFI to provide social performance data to MIX as the leading sector database is seen as a reasonable proxy (www.themix.org). Just above one third of MEF's partner MFIs fulfilled this criterion (37%), flagging also a need for even more sensitization for transparency as a key pillar of social performance.

The 2nd dimension – Ensure Board, Management and Employee Commitment to Social Goals – is even harder to measure and strongly has to rely on the self-assessments of the reporting institutions. In 2018, the majority of MEF partner MFIs confirmed that their boards monitor social performance.

For the 3rd dimension – Design Products, Services and Delivery Channels that meet Clients' Needs – several measurable and some quantifiable indicators can be applied, among others: client retention rates, attractiveness for new clients, and additional products and services offered to clients besides lending.

The product range offered by MEF partner MFIs in 2018 varies slightly compared to 2017. While nearly one third of all MEF partner MFIs offer only loans to their clients (2018: 29% 2017: 31%), roughly one third (2018: 34%; 2017: 34%) offer one additional product and 14% (2018; 2017: 25%) offer two additional products. Additional product lines can be: savings, insurance, or payments services – domestic (e.g. school fees, utility payments, or other money transfer), international (e.g. school fees, or other money transfer)), or international migrant remittances.

Among the products, saving is the most commonly offered among the non-lending products and available from 47% of MEF partner MFIs (51% in 2017). In particular, around 70% of MEF partner MFIs in the EAP, LAC-SA and SSA regions collect deposits from their clients. This corresponds largely to the 2018 Symbiotics MIV Survey reporting that 52.4% of MFIs offered savings (in 2017). Further products offered by MEF's partner MFIs that extend the range of financial inclusion include insurance (41% in 2018; 49% in 2017) and remittances (19% in 2018; 34% in 2017). The 2018 Symbiotics MIV Survey reports 58.6% offering insurance (in 2017).

Percentage of MFIs with product lines additional to lending	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2018	Global 2017
No additional product	60%	8%	67%	26%	5%	100%	47%	29%	29%	31%
1 Additional product	40%	42%	17%	37%	37%	0%	47%	14%	34%	34%
2 Additional products	0%	17%	0%	11%	21%	0%	0%	36%	14%	25%
3 Additional products	0%	17%	0%	11%	16%	0%	0%	7%	9%	11%
4 Additional products	0%	17%	17%	15%	11%	0%	0%	7%	10%	n/a
5 Additional products	0%	0%	0%	0%	11%	0%	7%	7%	4%	n/a

All figures are based on the percentage of respondents; note: up until 2017 the questionnaire asked about 0 to 3 additional products only, the range was extended to up to 5 additional products with the 2018 questionnaire.

All figures are based on the percentage of respondents.

SOCIAL PERFORMANCE INDICATORS

The services offered by MEF partner MFIs in addition to core services and channels have increased in 2018 compared to 2017. While nearly one quarter of all MEF partner MFIs does not offer additional services to their clients (2018: 23%; 2017: 37%), around half (2018: 47%; 2017: 30%) offer one additional service and 21% offer two additional services (2018; 2017: 21%). Additional services can be: mobile banking, agent banking, other financial services, non-financial services (e.g. health, financial, or technical courses).

Percentage of MFIs offering services	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2018	Global 2017
No service offered	40%	8%	33%	19%	11%	0%	53%	21%	23%	37%
1 Service offered	60%	33%	50%	56%	47%	50%	27%	57%	47%	30%
2 Service offered	0%	33%	0%	22%	37%	50%	13%	7%	21%	20%
3 Service offered	0%	17%	17%	4%	0%	0%	7%	0%	5%	12%
4 Service offered	0%	8%	0%	0%	5%	0%	0%	14%	4%	2%

The types of services and the types of products provided varies by region. Increasingly services provided through channels such as mobile banking and agent banking are essential for greater outreach and financial inclusion. Particularly also for rural and generally more remote or underserved areas they provide a less costly alternative to brick & mortar branch networks while requiring solid technological infrastructure and significant technological and training investments. Mobile banking services were offered by 30% partner MFIs (27% in 2017) and agent banking services were available from 23% (14% in 2017). The 2018 Symbiotics MIV Survey reports 30% of MFIs having mobile banking facilities (for 2017; no data available for agent banking services).

	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2018	# Respondants	Global 2017
Products											
Saving	20%	75%	33%	37%	68%	0%	13%	71%	47%	100	51%
Insurance	0%	33%	0%	52%	61%	0%	43%	36%	41%	98	49%
Remittances	20%	25%	17%	15%	32%	0%	8%	15%	19%	96	34%
Payments services (domestic)	0%	42%	20%	35%	42%	0%	8%	31%	29%	95	n/a
Payments services (international)	0%	17%	20%	15%	22%	0%	15%	23%	17%	94	n/a
Services/Channels											
Mobile banking	0%	50%	17%	26%	42%	0%	13%	43%	30%	100	27%
Agent banking	0%	9%	0%	41%	21%	50%	7%	38%	23%	98	14%
Other financial services	20%	75%	50%	19%	37%	0%	21%	38%	34%	97	n/a
Non-financial services	40%	50%	33%	26%	42%	100%	36%	17%	35%	97	n/a

All figures are based on the percentage of respondents; note: up until 2017 the questionnaire asked about 0 to 3 additional products only, the range was extended to up to 5 additional products with the 2018 questionnaire.

For the 4th dimension – Treat Clients Responsibly – again several quantifiable metrics can be applied, among others: portfolio quality (as an indication of avoiding client over-indebtedness), average cost of loans (to assess responsible pricing), and the avoidance of foreign currency (FX) loans to clients (so as to not burden clients with exchange rate risks).

On FX loans, 39% of partner MFIs reported such loans at a sizeable share of their portfolio (> 30%; 22 of 57 respondents) up from 25% in 2017.

The portfolio quality increased looking at arrears data: compared to 42% in 2017, in 2018, 35% of partner MFIs declared ratios of PAR > 30 days at higher than the benchmark of 5% (that is generally considered as adequate). Only a case-by-case analysis, however, would provide further insight on whether the lower PAR was due to factors within the range of control of the MFIs (e.g. more responsible lending practices) or due to external factors such as an economic upswing in the country. Finally, in order to be eligible for investment MFI shall comply with the Fund's standards of responsible finance.

SOCIAL PERFORMANCE INDICATORS

For the 5th dimension – Treat Employees Responsibly – the sub-dimensions are mainly qualitative. The only quantitative indicator is the employee turnover rate. For this, 36 institutions reported critical values above 20% (out of 92 respondents), implying that more than one fifth of staff was exchanged during the year, whereby employee dissatisfaction might but need not be a significant reason.

For the 6th dimension – Balance Social and Financial Performance – key measureable and quantifiable indicators are operational (or financial) sustainability and the operating expense ratio. In order to perform financially, the financial sustainability must be at or above 100%. A ratio of excessively above 100% may possibly raise flags concerning the social performance of the institution as then, for instance, profits might be maximized when perhaps instead interest rates to clients could be lowered. At the same time, MFIs with operational sustainability ratios > 130% should not automatically be considered as "non-performing" from a social perspective. It would depend on how the profits were derived as well as how they are used – e.g. whether they ultimately finance investments such as into widening the network or are needed to build (required) capital reserves.

Most respondents (85 of 100) reported their operational sustainability ratios. The following table assesses them against a benchmark of between 100% and 130% that is considered as adequately balancing financial and social performance. The analysis shows that more than half of the MFIs (55%; 47 of 85) are clearly within the range of operational sustainability and were thus adequately balancing their social and financial performance.

Operational Sustainability Ratio	CA	EAP	EECAU	LAC -CA	LAC -SA	MENA	SA	SSA	Global 2018		Global 2017
Below financial performance limit (< 100%)	1	0	0	8	7	0	3	4	23	27%	27%
Within financial and social peformance range (100% < X < 130%)	2	8	3	13	10	1	6	4	47	55%	56%
Beyond social performance limit (> 130%)	2	2	2	2	1	1	3	2	15	18%	17%
Total participating MFIs	5	10	5	23	18	2	12	10	85		
MFIs not reporting operational sustainability									15		
Total									100		

Another readily measurable indicator for social performance is the operating expense ratio, defined as operating expenses divided by total assets. From a social performance perspective, this simple efficiency ratio should be as low as reasonably possible as otherwise clients are ultimately burdened with the cost of inefficiency of the institution, e.g. via higher lending rates or fees. Yet a reasonable operating expense ratio is also subject to various factors, such as the size of the institution and the focus sector – with small micro lenders usually having higher costs (and hence higher operating expense ratios) than larger MSME-oriented financiers. Literature broadly defines operating expense ratios of between 15% and 50% as usually adequate.

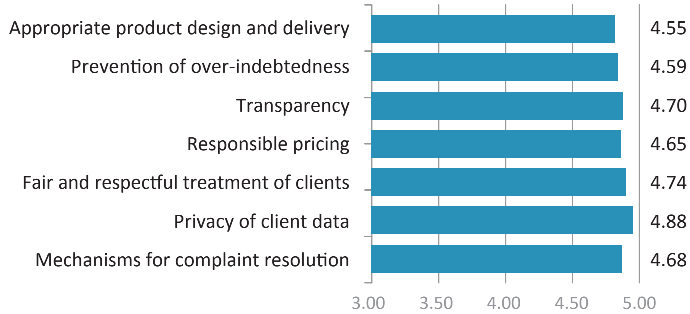
The following table shows that a clear majority of reporting institutions (73 of 94) have operating expense ratios below 50%. They can hence reasonably be considered as performing from a social point of view (provided that their specific business model would not clearly merit lower operating expense ratios, which only a case-by-case assessment could reveal).

Operating Expense Ratio	CA	EAP	EECAU	LAC -CA	LAC -SA	MENA	SA	SSA	Global 2018		Global 2017
Below (better than) acceptable range (< 15%)	2	8	1	10	9	1	8	2	41	44%	45%
Likely in acceptable range (15% < X < 50%)	2	1	2	14	7	0	3	3	32	34%	37%
Above (worse than) acceptable range (> 50%)	1	3	3	2	3	1	2	6	21	22%	18%
Total participating MFIs	5	12	6	26	19	2	13	11	94		
MFIs not reporting operating expense ratio									6		
Total									100		

ADHERENCE TO CLIENT PROTECTION PRINCIPLES

the smart campaign

The diagramme highlights the good scores of MEF's MFIs regarding their adherence to the Client Protection Principles. Level of adherence reported by 99 MFIs on a scale of 1 (no adherence) to 5 (full adherence).



Responsible financial inclusion is being fully transparent in the pricing, terms and conditions of all financial products. Responsible financial inclusion is working with clients so they do not borrow more money than they can repay or use products that they do not need. Responsible financial inclusion employs respectful collection practices and adopts high ethical standards in the treatment of clients. Responsible financial inclusion gives clients a way to address their complaints so they can be served more effectively. Responsible financial inclusion ensures client data remains private. Responsible financial inclusion protects clients, businesses, and the industry as a whole.

Responsible financial inclusion encompasses core Client Protection Principles to help microfinance institutions practice good ethics and smart business. The Client Protection Principles are the minimum standards that clients should expect to receive when doing business with a microfinance institution. These principles were distilled from the path-breaking work by providers, international networks, and national microfinance associations to develop pro-client codes of conduct and practices. There is consensus within the microfinance industry that providers of financial services should adhere to these core principles:

Appropriate product design and delivery

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

Prevention of over-indebtedness

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of overindebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

Transparency

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

Fair and respectful treatment of clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

Privacy of client data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

Mechanisms for complaint resolution

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

MEF Exclusion List

At all times, the Investment Advisors and the MEF shall ensure that they do not provide loans, funding or other support to any MFI that provides loans, funding or other support to 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 CITES.
- Production or trade in weapons and munitions.[1]
- Production or trade in alcoholic beverages (excluding beer and wine).[1]
- Production or trade in tobacco.[1]
- Gambling, casinos and equivalent enterprises.[1]
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. 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]/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.[1]
- 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 project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations. In concrete terms "substantial" means more than 10% of an MFIs underlying portfolio volume.

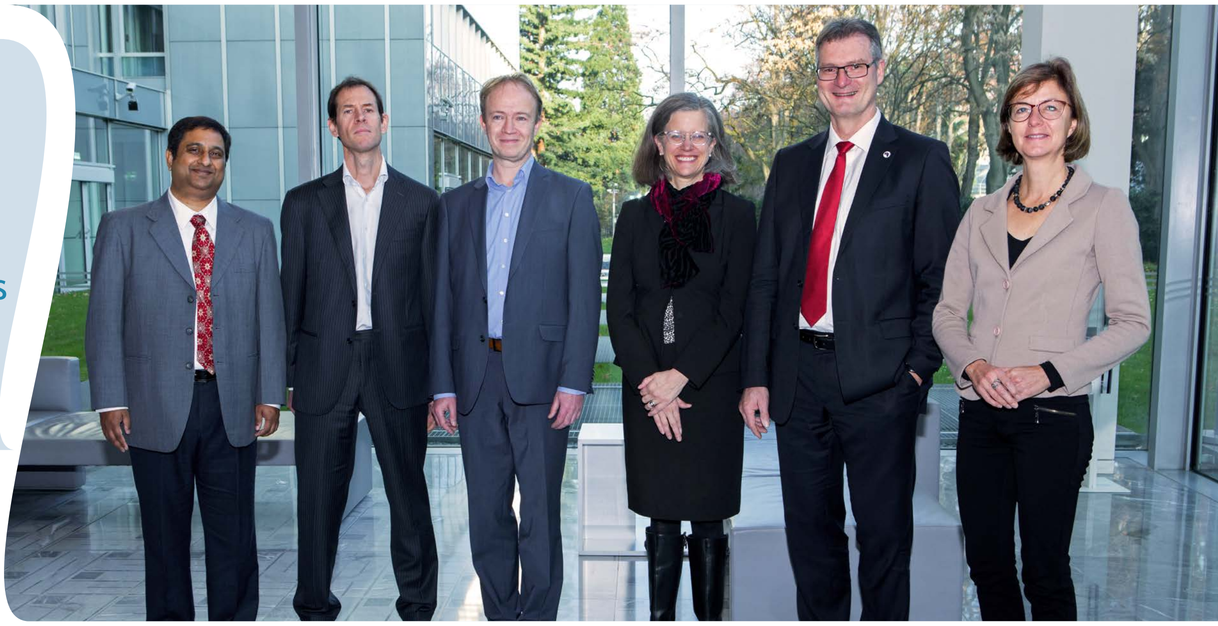
[2] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[3] Harmful child labor 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 (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

Board of Directors



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