MEF
Microfinance
Enhancement
Facility

Annual Report 2023

MEF Microfinance Enhancement Facility

15 YEARS OF MILESTONES

USD bn invested	countries	institutions financed	final borrowers reached by MEF funding in USD million	total assets in USD million	% women	% rural	Year	Milestones
3.0	65	323	6.7	600	86	69	2023	GGSF – MEF transitions to gender-smart investment fund for launch in 2024
	60	300	>6				2022	
2.5			>5				2021	Operating Principles for Impact Management – MEF joins as signatory
				750	85	58	2020	SFDR | Article 9 Regulatory disclosure; Banque européenne d'investissement, FMO – public investors depart as private investor interest in MEF rises
2.0	55	250	>4	700			2019	CERISE+SPTF – MEF introduces industry best-practice reporting and benchmarking; incofin – Incofin joins in lieu of Cyrano
							2018	
1.5	50	150	>3				2017	
			>2				2016	
1.0	40				56	57	2015	symbiotics joins as 4th investment advisor
		100	>1	600			2014	first private investors in shares
				500			2013	first private investors in notes
0.5	30		>0.5				2012	LuxFLAG MICROFINANCE – microfinance portfolio certification
	20	50					2011	Banque européenne d'investissement, FMO, OFID – new public investors join
	10			130	48	52	2010	
							2009	BlueOrchard, responsAbility, Cyrano – investment advisors; innpact – fund structuring and management, general secretary, portfolio coordination; KfW, BMZ (Federal Ministry for Economic Cooperation and Development), IFC (International Finance Corporation), Sida – founding shareholders

SINCE INCEPTION

LETTER OF THE CHAIR

Dear stakeholders,

We are pleased to share with you the MEF Annual Report 2023. It was the year in which the Microfinance Enhancement Facility readied itself to make place for the Global Gender-Smart Fund (GGSF) which went live on 1 January 2024. Building on 15 years of experience and a changing context for impact investing funds, GGSF has a new impact mandate with gender equality at its core. It benefits from a new structure, a set-up with a more efficient management process and in support of further positive financial performance.

Since MEF's inception in 2009 – originally as an emergency response vehicle to the global financial crisis – the Fund evolved and successfully provided liquidity to the microfinance sector across the developing world, focusing on low-income households and micro-entrepreneurs whilst having a high outreach among women and rural populations. Over the past 15 years, the Fund's total portfolio grew to between USD 550 million and USD 600 million in the period 2015 to 2022. A decrease in 2023 to USD 459 million was foreseen due to maturity constraints on the portfolio development as well as stringent liquidity conditions. Despite the transitional challenges, the Fund continued to support its Partner Microfinance Institutions in 2023 with more than 150 loans invested in over 120 institutions in 44 countries. With this, the Fund reached major milestones after 15 years in operation: a total of USD 3 billion invested since inception and over 320 institutions through nearly 900 loans supported across 65 countries.

The Fund maintained good portfolio quality in 2023. Additional impairments amounted to USD 5.5 million for the year, compared to USD 5.8 million in 2022, while total provisioning decreased to USD 29 million as of year-end 2023, from USD 55 million as of year-end 2022, due to the write-offs of USD 34 million of unrecoverable debt linked to six Partner MFIs, all previously fully provisioned.

The liability structure followed a similar decreasing trend with the redemption of shares held by one investor as of 31 December 2022 (and paid out in the first quarter of 2023), while shares held by two other investors were redeemed as of 31 December 2023 (for pay-out in the first quarter of 2024). Also, agreed as part of the transition from MEF to GGSF, a portion of the senior shares held by two founding shareholders, IFC and KfW, were redeemed as of 31 December 2023 (for pay-out in the first quarter of 2024). This sets the stage in the new structure for higher leverage of the public funding through private investors – which is on a good track with an additional commitment in March 2024 by an existing private investor.

The transition to both the new structure and the new strategy affected the financial performance of the Fund, which had already suffered from the increase in interest rates. As a result, the Fund's total expense ratio remained stable and full target dividends were distributed to A and B shareholders; dividends were not entirely capitalised for C shareholders in 2023 and no complementary dividends were distributed.

Taking stock of MEF's achievements, lessons, and the evolving market, in 2021, the Fund's lead shareholders together with Innpact, decided to initiate discussions on the extension of the Fund.

The Fund's financial inclusion mandate served as a foundation to sharpen its relevance, and the new strategy sets a focus on strengthening the provision of gender-smart and responsible financial services concentrating on underserved women as well as women-owned and women-led businesses in developing markets, thereby seeking to improve livelihoods, increase gender balance and outreach, and promote women's leadership.

As mentioned, the new strategy and structure went live as GGSF on 1 January 2024. Innpact serves as alternative investment fund manager (AIFM) and global portfolio manager. Three portfolio managers (from four investment advisors previously) were selected through a tender process launched in late 2022 and concluded in early 2023. In the new structure, the portfolio managers have delegated credit approval at the level of their internal investment committees, with the AIFM providing a no-objection on all transactions from a risk and impact perspective.

On behalf of the board, we conclude 2023 with our sincere thank you to our investors for their immense support and, in particular, the strategic discussions leading to investors' renewed commitment under the new gender-smart mandate. The board also deeply appreciates the general secretary's key coordination role in the transition process and their continued engagement as AIFM as of 2024. The transition process further greatly benefited from the valuable input and collaboration of MEF's investment advisors. Thank you especially to the two departing investment advisors, BlueOrchard and Symbiotics, for their important work over the past 15 and 8 years, respectively. With GGSF we warmly welcomed and have been working with Triple Jump, along with Incofin and responsAbility, as portfolio managers. We also extend our heartfelt thank you and farewell to MEF's investment committee and its valued members for the many years of input and guidance. Thank you also to all of MEF's service providers for their great and active support over the years and at this time of transition. My board colleagues I thank for our increased involvement and guidance through the process.

Above all, we are truly grateful to our partner financial institutions for the continued collaboration. We sincerely hope together we will continue the journey with GGSF, pursuing positive gender developments, both within their institutions and with their clients, for a compelling impact.

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

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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. Thereby the Fund aims to ensure that financial services are delivered in a responsible and inclusive way for the ultimate benefit of its final borrowers.

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 situations or crises. 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. In January 2023, MEF further calibrated its mission and operations to ultimately benefit particularly underserved women, and women-owned or women-led businesses.

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 individual MFIs, and provides an important market signalling effect. Since inception, MEF has supported low-income borrowers by providing over USD 3 billion to 323 financial institutions providing microfinance in 65 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 combined to position MEF as a mainstay of the microfinance industry for the last 15 years. A new strategy with ambitious gender-smart impact goals, along with a new structure, went live on 1 January 2024 and transformed MEF into GGSF, short for the Global Gender-Smart Fund.

KEY PORTFOLIO FIGURES

USD 602 M
-17%
USD 721 M
USD 715 M
total assets

USD 459 M
-19%
USD 570 M
USD 545 M
loan portfolio

76%
↘
79%
76%
portfolio in total assets

126
-19
145
143
Partner MFIs financed

44
-3
47
42
countries

44%
↘
50%
53%
share of local currencies in portfolio*

16 months
↘
17 months
19 months
average outstanding maturity

USD 3.9 M
↘
USD 4.3 M
USD 4.2 M
average portfolio

21
-5
26
25
local currencies provided

2023
Δ 2022 to 2023
2022
2021

*including EUR and USD loans when legal tender

SINCE INCEPTION

USD 3 BILLION
INVESTED

65
COUNTRIES

323
INSTITUTIONS FINANCED

893
LOANS

MEF IMPACT AT A GLANCE

31 December 2023*

730,000
final borrowers
reached by MEF funding

USD 2,044 average
USD 2,246 median
loan size to final borrowers

86%
women

69%
rural

MICROFINANCE
LUXFLAG

LuxFLAG Microfinance Label
since 2011

Operating Principles for
Impact Management

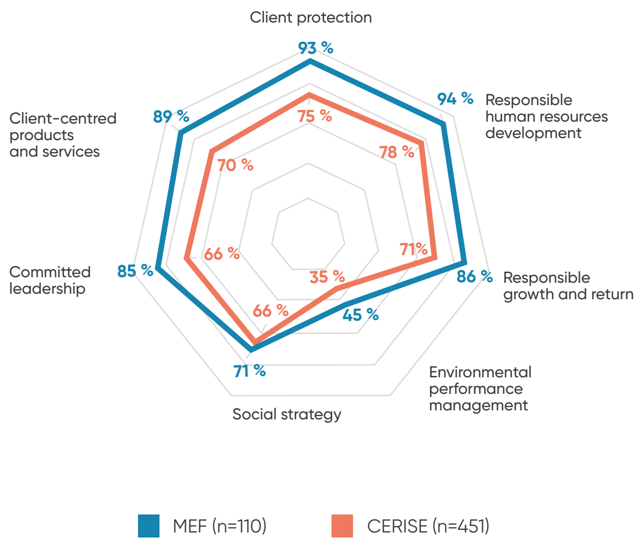
signatory of the Impact Principles
since 2021

Social performance analysis ALINUS

MEF Portfolio Average SPI-ALINUS Score **80%**

With an overall ALINUS score of 80%, MEF Partner MFIs demonstrate stronger social performance than their peers (66%) and outscore the CERISE benchmark in all dimensions.

SPI-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')



SPI Online

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 Fund will arrange for an independent verification every three years, with the next one to be completed by September 2025.

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

Operating Principles for Impact Management

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 2023 the Board of LuxFLAG resolved to renew the use of the LuxFLAG Microfinance Label to Microfinance Enhancement Facility, SA, for the period 1 October 2023 to 30 September 2024.

LuxFLAG's primary objective for the Microfinance Label is to reassure investors that the Microfinance Investment Vehicle (MIV) invests in the microfinance sector – directly or indirectly.

For more information see https://luxflag.org/labels/microfinance/

MICROFINANCE
LUXFLAG

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

CERISE+SPTF

Contribution to UN Sustainable Development Goals | SDGs

1 NO POVERTY

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

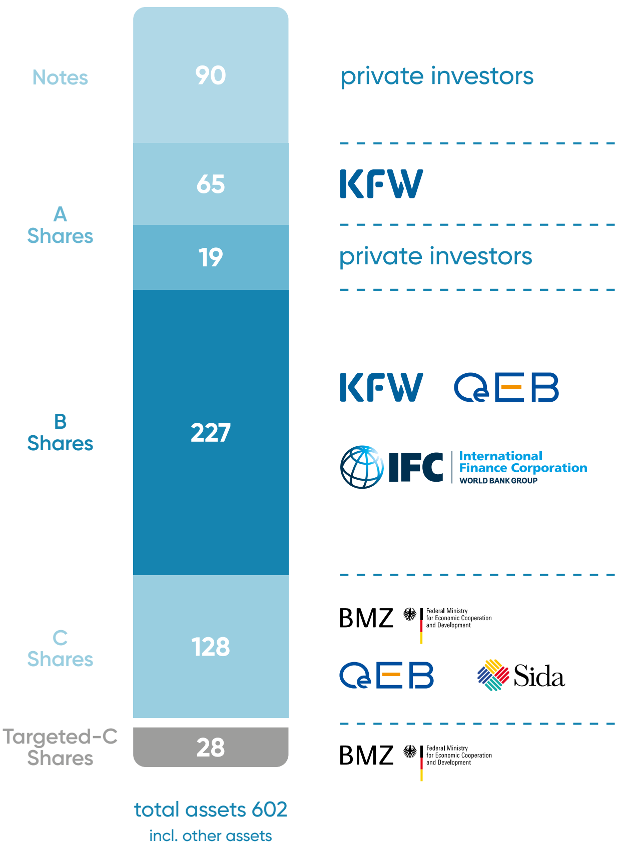
17 PARTNERSHIPS FOR THE GOALS

Investor interest

For MEF, 2023 was a transition period towards the newly positioned fund and gender-lens investment strategy – to take full effect from January 2024. This was anticipated and close consultations with existing and potential investors confirmed their high interest in the new fund and its strategy and structure. The Fund's founding shareholders' renewed commitment to the Fund under the new strategy underscored their strong continued support. Also, one existing private investor decided to increase their commitment in early 2024 with an additional USD 30 million investment. With this, the new gender-focused fund already secured half of its funding needs for 2024. Discussions with other potential private investors were well-advanced at year-end 2023.

Investor structure

total assets as of 31 December 2023
in USD million



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

Operating and financial performance

The transition to both a new structure and a new strategy had an impact on the financial performance of the Fund – with much lower loan origination on the asset side while the A shares of two investors were redeemed as of 31 December 2023. As a result, total assets of the Fund decreased from USD 721 million at the end of 2022 to USD 601 million at the end of 2023, while the portfolio decreased from USD 569 million to USD 459 million over the year.

The Fund's Total Expense Ratio (TER) increased marginally in 2023 to 1.59% (1.56% in 2022, based on average total assets).

The distributable income increased to USD 29 million in 2023 (USD 25 million in 2022). This was mainly due to the increase in the USD LIBOR and USD SOFR interest rates.

The interest rate market moved fast in 2023, affecting pipeline development, hedging prices, and return on new disbursements. This translated into an increase in the funding cost that was not fully covered by the income generated, in particular in the context of a decreasing portfolio. As a result, target dividends were fully paid to A and B shareholders but not entirely capitalised for C shareholders, and no complementary dividends were distributed.

Asset quality

The credit quality of the portfolio remained stable overall with a slight increase in provisions compared to 2022, especially due the challenging situation in Myanmar. Moreover, with the outbreak of the Israel-Hamas conflict, the single loan outstanding to the West Bank and Gaza was provisioned (USD 0.2 million).

While the COVID-19 pandemic's negative effects diminished further in 2023, the Fund wrote off loans related to six Partner MFIs that were in liquidation or facing liquidity issues due to the impact of the pandemic or other country-level economic crises.

Although the direct impact on the Fund of Russia's war against Ukraine remained limited, the board continues to closely monitor the evolving situation and its impact on the financial position of the Fund.

As of year-end 2023, the total outstanding balance of the defaulted portfolio amounted to USD 41 million, or 8.5% of the total portfolio, and involved 14 financial institutions.

ACTIVITY REPORT

Market environment

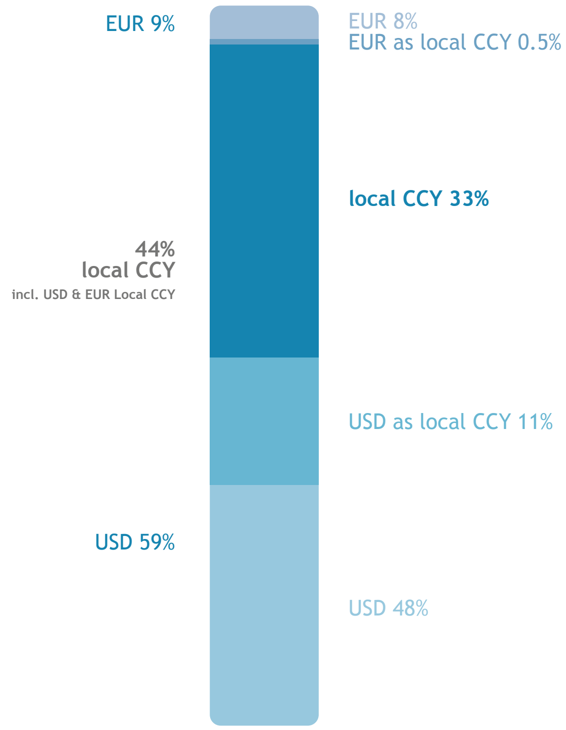
Price pressures contributed to a challenging market environment for MEF's origination activity in 2023. The global repercussions caused by Russia's war against Ukraine eased during 2023, while the global economy remained subject to geopolitical tensions and high inflation. Central banks tightened their monetary policies, leading to surging interest rates. In parallel, throughout the year, discussions with MEF's key shareholders on a potential prolongation of A and B shares – due to mature in early 2025 – restricted tenors of loans extended by the Fund.

Under the combined stringent pricing, liquidity, and maturity conditions, the Fund had to reduce financing to Partner MFIs during 2023 compared to previous years. The restricted origination activity led to a portfolio decrease by nearly one-fifth (19.5%), to reach USD 459 million as of 31 December 2023.

Similar to previous years, however, the financing was equally spread among new and existing Partner MFIs – both in terms of the number receiving financing as well as the absolute capital amounts provided. Loans to new Partner MFIs included some larger ticket sizes with maturities lower than the typical 24 to 36 months, but also with lower spreads. The average maturity of financing during the year was 24 months, reflecting the tenor restriction. Apart from the challenges of the deal origination, the Fund benefitted from the high market interest rates in terms of the total portfolio yield.

High market volatility exerted further pressure on hedging costs, thus leading to a year-on-year decrease in the share of local currency lending to 43% in 2023 (50% in 2022; including countries where USD and EUR are legal tender). Lending in local currencies without USD or EUR as legal tender decreased as well to 32% (39% in 2022). As local currency funding removes conversion risks from MFIs and their clients, the Fund strives to offer loans in local currency – whereby pricing drives demand for such loans by Partner MFIs.

Currency distribution



local currencies: CNH, COP, EUR, GEL, HNL, IDR, INR, KES, KGS, KZT, MMK, MWK, MXN, NGN, PEN, PHP, PLN, THB, TJS, TZS, UZS

EUR – local CCY: EUR as legal tender in Kosovo

USD – local CCY: USD as legal tender in Ecuador

all investments hedged to USD

Outlook 2024

On 1 January 2024 MEF became GGSF, short for the Global Gender-Smart Fund, completing the strategic change and transition to a gender-focused investment fund.

The global economic outlook for 2024 is carefully optimistic, following two challenging years marked by rising interest rates, inflation, and general risk aversion. Expectations for 2024 include stronger income growth, a slowdown in inflation, and the belief that interest rates have peaked in most markets. Many developing markets offer an attractive operating environment and investment outlook in 2024 driven by strong local demand, easing inflation, and loosening of monetary policy. The International Monetary Fund projects emerging markets to grow at 4.1% in 2024 compared to 1.5% for advanced economies.

From a regional perspective, the Asia and Pacific region offers dynamic trends and opportunities for GGSF. Economies in this region, particularly India, continue to experience robust economic growth despite challenges. Access to financial services remains limited in rural areas across the region. While digital lending has gained popularity in urban areas, its utilisation and credit evaluation capabilities are limited in rural settings due to high delivery costs and technological barriers. GGSF's India portfolio is expected to increase given the resilient economy and significant market potential in microfinance, in particular regarding women-focused microfinance. Other investment opportunities may arise in China, Indonesia, and Mongolia. Additionally, Bangladesh and Nepal, where regulatory pricing caps need to be managed, present good investment opportunities for GGSF.

In Eastern Europe, the Caucasus and Central Asia, geopolitical tensions as well as economic spill-over effects from Russia's war against Ukraine will continue in 2024. The Georgian economy has weathered the instability following the Russian invasion of Ukraine surprisingly well, as immigration and capital inflows from Russia turned out to have a positive impact. The geopolitical context along with the growth in the hard currency rate pushed funding costs in the region, though somewhat offset by stabilising local currencies and expanding variety of product offerings. Partner financial institutions generally avoid full transfer of the impact to their clients where possible. Demand for GGSF financing remains high in the region. New investment opportunities may arise in Moldova – where the demand for business and agri-financing remains largely uncovered, particularly for the micro and small enterprise segments – as well as in Albania, Kazakhstan, or Kyrgyzstan.

Latin America is going through a period of substantial political change, but many new governments have settled into office and political uncertainty will start to subside in 2024. However, democratic backsliding and social unrest will remain risks throughout the coming year. A major concern in the outlook for 2024 is the El Niño effect: The climate pattern typically has a mixed impact – increased levels of rainfall in some parts of Latin America and worsened drought conditions in others. If it turns out to be more severe than currently expected, El Niño will heighten inflationary pressures significantly and adversely affect agricultural crops, hydroelectricity generation, and transport on waterways in parts of the region. New investment opportunities may arise in countries such as El Salvador, Mexico, and Peru; whereby in Mexico the preference will be to engage with reputable institutions with established business practices as well as lenders who provide affordable small enterprise finance.

Africa is set to remain the second-fastest growing region in the world, after Asia, according to the African Development Bank. The continent's growth is attributable to a faster-than-expected recovery from the COVID-19 pandemic, as evidenced by both an improvement and stabilisation of the continent's average fiscal deficits. The fiscal positions on the continent remain vulnerable to global shocks as the global economy is still mired in uncertainty resulting in persistent inflationary challenges. In 2024, the majority of the countries will be adopting a mix of restraining monetary policy coupled with fiscal consolidation to help stabilise exchange rates and mitigate risks towards fiscal positions. GGSF may likely increase lending across Kenya, Nigeria, South Africa, and Tanzania.

With the launch of the new strategy in early 2024, GGSF's portfolio is expected to first shrink and then gradually increase again over the year, while remaining below average portfolio levels of previous years. Portfolio managers are actively building pipeline and demand for financing from GGSF is perceived as strong, stemming from existing as well as new partners. Investment demand from the new gender-focused fund is assessed at similar levels to the previous microfinance fund. Actual investment volumes will depend on attracting new financing from both existing and new investors.

PORTFOLIO DEVELOPMENT

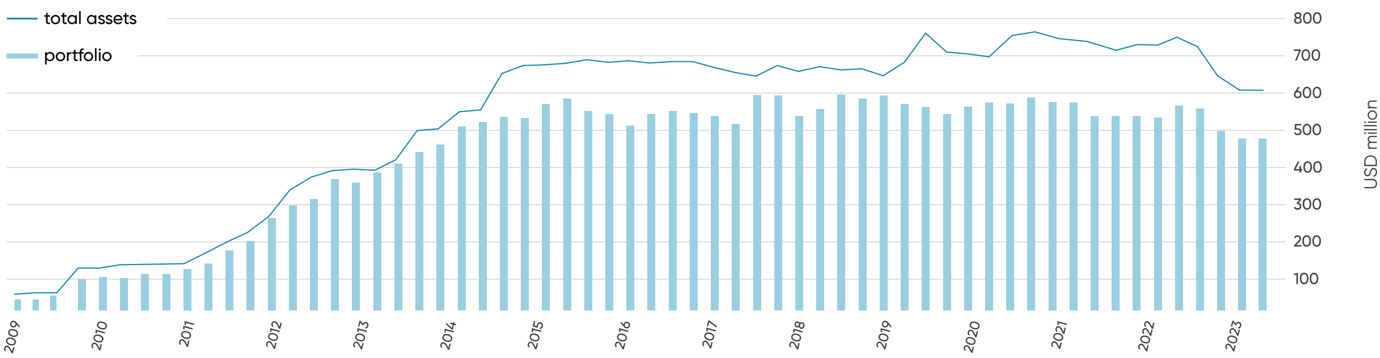
PORTFOLIO EVOLUTION

MEF closed 2023 with an outstanding portfolio of USD 459 million. The anticipated year-on-year decrease by nearly one-fifth (19.5%) reflected a year of transition. Strategic decision-making for the Fund with close consultations among the founding shareholders took place to revise strategy and transition to a gender-focused investment fund. Until late 2023, the prolongation of shares maturing in 2025 remained unconfirmed. This resulted in maturity constraints as well as stringent liquidity conditions over the year and thus a dip in the invested portfolio.

The Fund's diversified portfolio continued to cover developing markets in all regions, with 159 loans provided to 126 Partner MFIs across 44 countries, including one new country: Vietnam.

The Fund played an important role in supporting the financing needs of many of its current portfolio Partner MFIs, while it also extended loans to 13 new partners – of which 11 received MEF funding for the first time. Meanwhile, 32 Partner MFIs exited the portfolio.

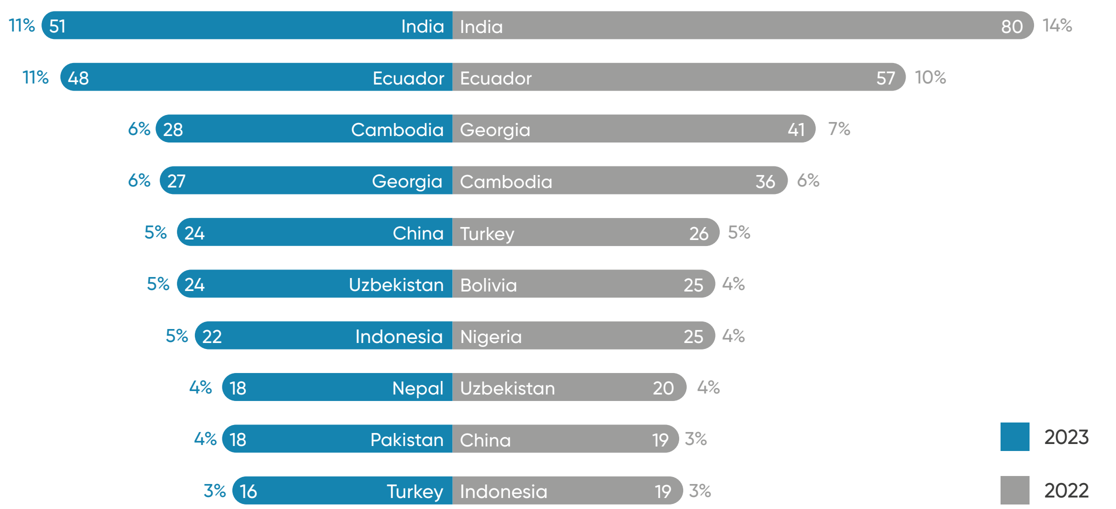
The micro and small enterprise (MSE) window – opened in 2020 in response to shocks caused by the COVID-19 pandemic and increased to USD 100 million in 2021 –supports MFIs that finance affected MSEs and have an average loan size at disbursement of less than USD 35,000. Invested amounts for MSE projects totalled USD 56 million as of year-end 2023.



Top 10 country portfolios

The top ten countries in the Fund's portfolio as of year-end 2023 were: Ecuador and India, with 11% each; Cambodia and Georgia, with 6% each; China, Indonesia, and Uzbekistan, with 5% each; followed by Nepal, Pakistan, and Turkey. The Fund's top three country portfolios remained constant year-on-year, with the overall percentage share out of the total portfolio staying at similar levels in 2023 (28%) compared to 2022 (31%). Year-on-year, India's portfolio decreased from 14% of the total portfolio in 2022 to 11% in 2023 whereas the Ecuador portfolio increased from 10% to 11%, and Cambodia maintained the previous year's portfolio share of 6%. Other developments as of year-end 2023 included: Georgia decreasing from 7% to 6%; and China and Indonesia increasing from 3% and 4%, respectively, to 5% each. Overall, the top 20 countries as of 2023 remained as of 2022, with some shifts in the ranking. The aggregate country concentrations of the top five, ten, and twenty portfolios, respectively, remained stable year-on-year.

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



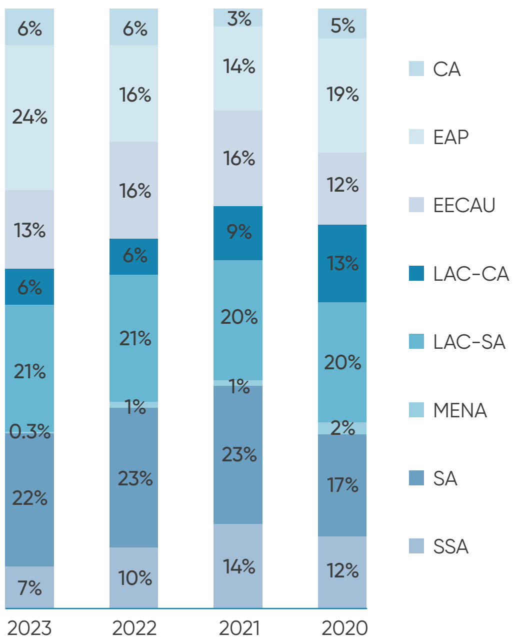
PORTFOLIO DEVELOPMENT

REGIONAL DIVERSIFICATION

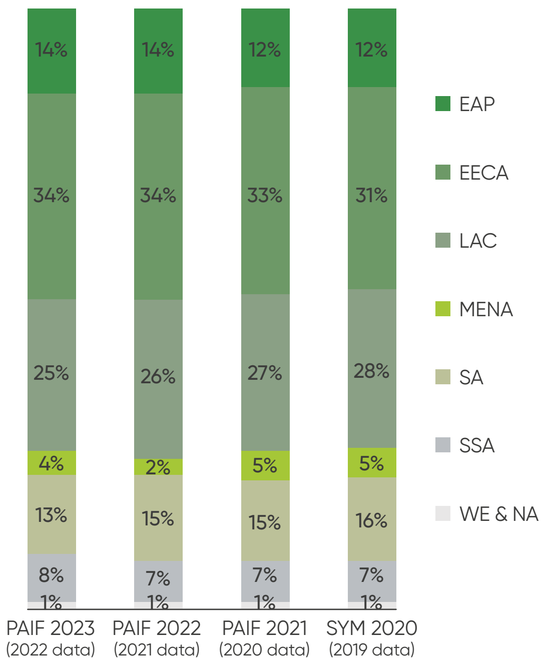
From a regional perspective, the Fund's portfolio remained well balanced, albeit shifting slightly between regions: the Sub-Saharan Africa and Latin America portfolios have trended downward over the past years, while portfolios increased in East Asia Pacific and Central Asia. Exposure to Eastern Europe and the Caucasus shrank over 2023 after increases in previous years.

As of year-end 2023, Latin America (both Central and South America) accounted for 27% of the Fund's total portfolio while East Asia Pacific and South Asia accounted for 24% and 22%, respectively. The remaining portfolio was split between Eastern Europe and the Caucasus (13%), Sub-Saharan Africa (7%), Central Asia (6%), and the Middle East & North Africa (0.3%).

MEF Portfolio



Microfinance Fund Benchmark Portfolio



Overall, MEF is a global fund active in developing markets worldwide. Its peers include other microfinance funds, both regional as well as some global funds. The annual Private Asset Impact Fund report (PAIF Report) collects data from microfinance funds, thereby providing a useful reference. Benchmarking the regional distribution of MEF's portfolio against other microfinance funds – based on the figures reported in the latest PAIF Report – shows that MEF's regional portfolios are broadly aligned with other funds, with the exceptions of: (i) Eastern Europe & Central Asia, for which the most notable difference remains (MEF with 19% (2023) and 22% (2022) | PAIF: 34% for 2022); and (ii) East Asia & Pacific and South Asia, where the differences was less pronounced (EAP: MEF 24% (2023) and 16% (2022) | PAIF 14% for 2022; and SA: MEF 22% (2023), 23% (2022) | PAIF 13% for 2022).

The share of Latin America continued to be broadly in line with the trend of other microfinance funds and remained stable (MEF: 27% (2023 & 2022) | PAIF: 25% for 2022). MEF's portfolio in Sub-Saharan Africa continued to decrease, aligning with single digit portfolios of the benchmark microfinance funds (MEF: 7% (2023), 10% (2022) | PAIF: 8% and 7% for 2022 and 2021, respectively). MEF remained below the benchmark in the Middle East & North Africa (MEF: below 1% (2023), 1% (2022) | PAIF: 4% and 2% for 2022 and 2021, respectively).

Based on the Private Asset Impact Fund report (PAIF Report) – with the 2023 PAIF Report based on 2022 data reported by microfinance funds and the 2022 PAIF Report based on 2021 data. (https://tameo.solutions/private-asset-impact-fund-report)

Legend of regions for 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

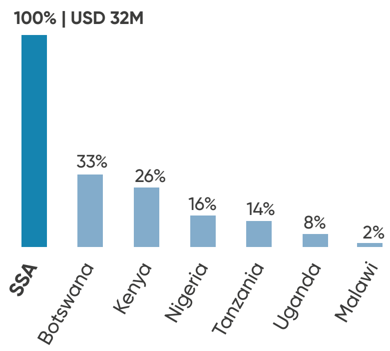
Africa is expected to be the world's second-fastest-growing region in 2024, following Asia, according to the African Development Bank. This growth is attributed to a quicker recovery from the COVID-19 pandemic, leading to improvements in fiscal deficits. However, global uncertainties continue to pose risks, prompting many African countries in 2024 to adopt measures like monetary restraint and fiscal consolidation to stabilise their economies and exchange rates. Sub-Saharan economic growth is expected to increase over 2024 as the negative effects of earlier country-specific shocks like extreme weather events subside.

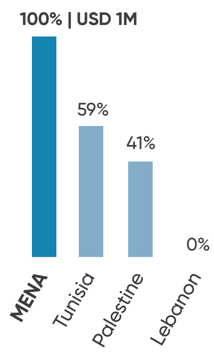
MEF's overall portfolio in Sub-Saharan Africa slightly decreased to USD 32 million, accounting for 7% of the total portfolio as of year-end 2023, down from 10% as of year-end 2022. The Fund approved two loans in the region over the second half of the year, one each in Tanzania and Uganda. Due to loans maturing in Nigeria, the country portfolio decreased from USD 25 million as of year-end 2022 to USD 5 million as of year-end 2023, resulting in a drop for Nigeria in terms of country portfolio from 10th to 24th rank.

Origination activity in the Sub-Saharan Africa region was affected mainly by limitations to doing business in Nigeria, a potentially large market. Progress was made in implementing a unified and transparent foreign exchange rate policy – indeed positive news considering that the Fund's origination activity in the country and region has been challenging over the years due to the instability of the local hedging markets.

MEF's overall portfolio in North Africa and the Middle East stood at USD 2 million as of year-end 2023, accounting for less than 1% of the total portfolio. No additional loans were made in the region over the year. Earlier in the year, the Fund fully forgave USD 5 million in debt to one Lebanese Partner MFI. As no recovery was expected, international lenders forgiving on the debt allowed for a fresh start for the institution which was severely affected by the country's financial crisis since 2019. One more settlement for 75% debt forgiveness for a 25% payout equivalent to USD 0.6 million was reached for another institution. Restructuring discussions continue for the remaining third institution in the portfolio with USD 5 million outstanding – fully provisioned.

In October 2023, the Hamas group from the Gaza Strip launched unprecedented surprise attacks against Israel. The Fund's portfolio in the region is limited to one single institution faced with challenging operations as the situation remains highly volatile. While the full outstanding loan of USD 0.6 million is expected to be repaid, the Fund will continue to monitor the institution and the evolution of the conflict in 2024.






USD 2 million disbursed to Watu Credit Uganda Limited from MEF in 2023

UGANDA | Boda boda

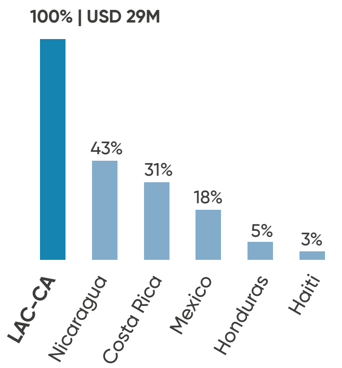
John Bosco Ggenza, operates a boda boda, offering taxi and transport services on two wheels. A long-term client of Watu, John struggled to find tailored financial services until he discovered Watu's customer-centric approach. Watu's comprehensive onboarding process and after-sale services, including insurance and warranty packages, allowed John to save more for his family. The flexibility in loan repayment, accommodating his boda boda business's seasonal nature, was a significant benefit. Watu's incorporation of weather effects into payment processes helped John to recalibrate payments during rough times, a feature he had not found elsewhere. This flexibility empowered John to transition to Watu's electronic motorbike programme, resulting in substantial savings.

Watu's mission is to empower entrepreneurship, particularly also among Uganda's youth and women with initiatives like «Women on wheels,» aiming to engage more women in the boda boda industry. For this, Watu established women-managed service points, providing a safe environment for female participation in a predominantly male industry. Through these efforts, Watu contributes to economic empowerment and social progress in Uganda.

PORTFOLIO DEVELOPMENT

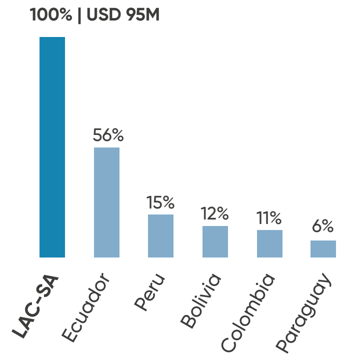
Americas | Latin America & Caribbean

Economic growth slowed in Latin America during 2023. Factors such as elevated inflation, tight financial conditions, weak trade, and adverse weather events contributed to dampened investment and decreased output growth across many economies in the region. With slowing inflation rates in the region, monetary policy is expected to ease in 2024. Extreme weather and climate events, like heatwaves, floods and droughts will likely weigh on economic growth prospects in 2024.



The Fund's portfolio in the region kept its downward trend as in previous years: Latin America accounted for 27% of the Fund's total portfolio with USD 124 million in 2023, down from USD 155 million in 2022. Reductions in the Latin America portfolio accounted for a USD 22 million decrease among the top 20 countries.

The Fund, however, also approved new loans in 2023 in the following countries: Colombia, Mexico, Nicaragua, and Peru. After the substantial growth in the Ecuador portfolio in 2022, it remained close to the Fund's country limit in 2023. Ecuador ranked 2nd in percentage share of MEF's total portfolio as of year-end 2023 – at almost the same level as India and as the only country in the region among the top 10 countries.



Portfolio quality in the region was broadly stable in 2023. In Mexico, several loans were written off and decreased provisioning for the country. The general elections in June 2024 are not expected to pose significant risks and Fitch has affirmed Mexico's sovereign rating at 'BBB-' with a stable outlook. Meanwhile, Ecuador and Bolivia have been facing large financing risks and while Moody's affirmed Ecuador's rating it downgraded Bolivia's rating and placed the country on review for further downgrade. Despite this, MEF Partner MFIs accessed enough liquidity to cover their debt obligations and managed to comply with payment schedules.

USD 2 million disbursed to Financiera FAMA SA from MEF in 2023

NICARAGUA | Florist

Victoria started her florist business 37 years ago in the Ernesto Fernandez market in the city of Masaya. She still remembers well how she started – selling flowers in a basket roaming through the market. When she had the opportunity to buy her own market premises in 2008, Financiera FAMA did not hesitate to help finance the acquisition with a loan and gave her a first working capital loan of USD 750. Since then she has received 27 loans and greatly expanded her business. She currently has two sales booths and three workers, serves customers from Masaya and other departments, and even has customers outside the country whom she serves through international shipments.

She very much appreciates Financiera FAMA for supporting her in her beginnings, when getting a loan was more complicated than now that she has an established business, and for continuing to place their trust in her and her business with repeat financing.

PORTFOLIO DEVELOPMENT

Asia | South & East Asia

The Asia-Pacific region continued to play a crucial role in driving global growth, despite facing headwinds from a global demand shift from goods to services and more stringent monetary policies. The economic growth in Asia Pacific is expected to remain strong in 2024, with positive GDP growth in India as well as Indonesia, the Philippines, and Vietnam. The Philippines was the fastest-growing economy in Southeast Asia in 2023, overtaking Malaysia and Vietnam. The country's growth expectations for 2024 remain positive, albeit slightly dampened and subject to Chinese demand. After six consecutive quarters of contraction, Sri Lanka's economy returned to growth in the third quarter of 2023.

MEF's portfolio in Asia stood at USD 213 million as of year-end 2023, accounting for 46% of the total portfolio. Throughout the year, the Fund extended new loans in the region, particularly in China, Mongolia, Nepal, and Vietnam.

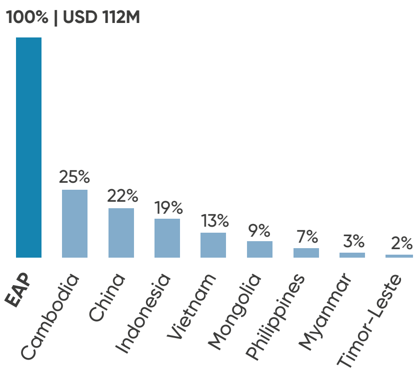
In East Asia Pacific, demand for financing continued to be high and MEF's portfolio in the region stood at USD 112 million at year-end 2023, accounting for 24% of the total portfolio and moving to first place of regional portfolios. The Fund continued extending loans in China and Indonesia, which moved up in the top 10 country portfolios, from 9th and 10th in the list to 5th and 7th, respectively.

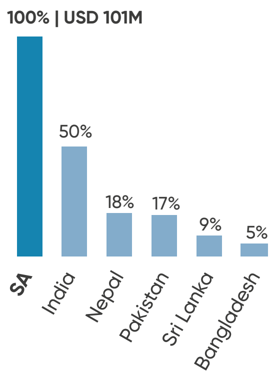
MEF's portfolio in Cambodia continued to decrease, down by 32%, but remained among the top 5 countries. Renewed concerns about client protection issues in Cambodia emerged during the year and the Fund, amongst others, was confronted with allegations of suicides of MFI clients linked to debt collection practices of two institutions in MEF's portfolio. While a prompt investigation of the cases could not determine whether excessive debt or aggressive collection practices had been the primary driver of the suicides, as media reports had suggested, MEF's board instructed a stop on disbursements in Cambodia as well as a revisit of client protection certification amongst its Partner MFIs. Earlier in 2022, the board had already resolved to limit loans in Cambodia to institutions that can evidence strict adherence to client protection principles through certification, which is considered a best-in-class standard. The Fund and its investment advisors continue to strictly monitor adherence to client protection principles in the country.

In Myanmar, significant political and economic uncertainty persists following the February 2021 military coup which continued to affect MEF's portfolio throughout 2023. The regulatory system has become increasingly difficult. Earlier in 2023, the financial regulator announced that no international debt payments would be approved or processed from any Myanmar entity, and since then no updates have been given on when payments could resume. The Fund increased provisioning across the defaulted Myanmar portfolio over the year to reach 80% of the country portfolio.

In South Asia, MEF's portfolio stood at USD 101 million at year-end 2023, accounting for 22% of the total portfolio. Though loans were extended over the year to Partner MFIs in India, Nepal, and Pakistan, the portfolio in the region decreased, driven by a sharp drop in the India portfolio, equivalent to a decrease of USD 29 million.

The uncertainty throughout the year over the Fund's prolongation of liabilities in 2025 made it difficult to access the Indian 'Voluntary Retention Route' (a channel introduced by the Reserve Bank of India to enable foreign investors to invest in domestic debt markets) as this route is restricted to loans with a tenure of at least 36 months. Moreover, the fund was affected by a change in the withholding tax (WHT) regime in India as of 1 July 2023, in response to which the fund is exploring potential solutions. Nevertheless, high demand for financing is foreseen to continue in India in 2024.





USD 5 million disbursed to InvesCore NBFI JSC from MEF in 2023

MONGOLIA | InvesCore NBFI JSC*

InvesCore is a fintech-driven financial institution established in 2016. It is dedicated to delivering innovative and efficient services using cutting-edge technology.

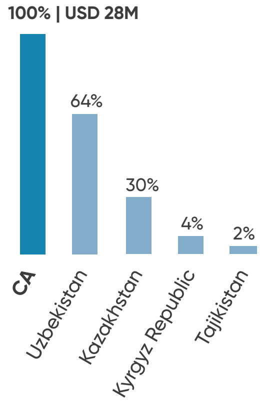
By partnering with MEF, InvesCore aims to support micro and small enterprises. MEF's loan enhances InvesCore's lending capacity for both new and existing enterprises, especially those in rural areas or with sustainable projects.

InvesCore extends deeply into the Mongolian business ecosystem and contributes to fostering the success of numerous Mongolian enterprises. With over 50% of its loans allocated to women, InvesCore's loan portfolio reflects its commitment to empowering women entrepreneurs.

* NBF – non-bank financial institution; JSC - joint stock company

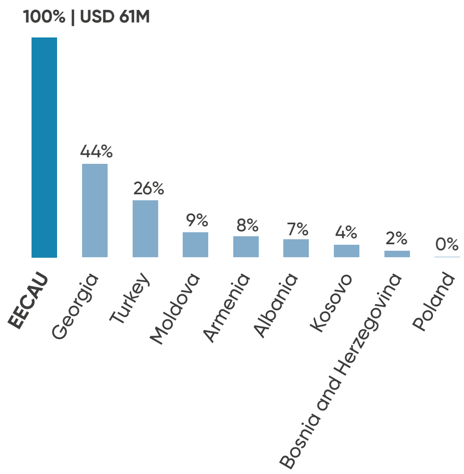
Europe | Eastern Europe and Caucasus & Central Asia

In Eastern Europe and the Caucasus, economies continuously adapted to the extreme shock caused by Russia's war against Ukraine starting in early 2022 and spillover effects from the war eased while geopolitical risks remained high in the region. High inflation continued to affect economic activity in the region, while somewhat lower in 2023 than in 2022. Countries in Central Asia largely showed resilience to the war and economic growth prospects continue to be positive for 2024, assuming easing inflation.



MEF's portfolio in the region stood at USD 89 million as of year-end 2023, accounting for 19% of the total portfolio. MEF approved new loans in Kyrgyz Republic and Uzbekistan and renewed one existing loan in Moldova. After the Fund met a large demand for financing in the region in 2022, due to low origination activity in 2023, the portfolio decreased by USD 40 million as of year-end 2023, maintaining its position as the third largest regional portfolio.

Turkey's economy experienced a slowdown in 2023 following two earthquakes in February which struck Turkey's south-eastern districts along the country's border with northern Syria. The physical damages were estimated at USD 34 billion according to the World Bank, with much higher recovery and reconstruction costs. President Recep Tayyip Erdogan, who won elections in May, since then adopted more conventional economic policies to combat peaking inflation. Interest rates were raised significantly and were accompanied by a drop in economic growth. Inflation rates will still take time to fall but the trend improved following measures by the central bank. The Turkish Lira depreciated by almost 30% against the dollar in the first half of the year and continued this trend, albeit at a much slower pace for the rest of the year. Regardless, the Fund's two local Partner MFIs showed resilience during the crisis and complied with their loan repayment schedules. The Fund's country portfolio decreased over the year with a partial loan repayment of USD 9 million, thus Turkey ranked 10th in terms of country portfolio at 4% of MEF's total portfolio by year-end 2023.




USD-equivalent 1 million disbursed in local currency to ABN Microfinance from MEF in 2023

KYRGYZ REPUBLIC | ABN Microfinance

ABN Microfinance strategically opted for a loan from MEF which aligns well with ABN's dynamic values as a microfinance institution aspiring to industry leadership. MEF's loan empowers ABN to bolster its position as a microfinance lender – providing liquidity to better meet increasing business demands, thus fostering local economic growth. It has enabled ABN to confidently serve its clients, reinforcing their trust in ABN as a reliable partner for their financial needs. With monthly loan issuances exceeding 1.5 million USD over the past six months, MEF's loan has been crucial in supporting ABN's liquidity, allowing them the opportunity to respond swiftly to market demands. Beyond financial benefits, the partnership with MEF enhances ABN's credibility and adherence to international standards, positioning it favourably for future funding opportunities and continued impact in microfinance.

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's portfolio of loans in MFIs represent 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 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

Investments can only be made in eligible countries, namely in jurisdictions which are not members of the European Union and are not classified as high-income on the World Bank list.

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. The Fund seeks to actively engage with Partner MFIs 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 continued to actively engage its investment advisors to identify potential Principal Adverse Impacts (PAIs) of proposed investments, recommend appropriate mitigation strategies, and ensure diligent follow-up monitoring. Recognising the challenges associated with collecting PAI data from non-EU MFIs, the Fund intensified its efforts to close identified gaps and provide targeted support through enhanced collaborations. Additionally, the Fund proactively participated in industry working groups to advance the reporting of these indicators. As regulatory frameworks and industry standards for PAI assessment methodologies continue to evolve, the Fund remains committed to accurately assess and manage PAIs associated with its investments throughout on a best-efforts basis guided by international standards and practice and to actively engage in industry consultations and efforts on indicators and reporting.

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 the 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. In addition, as the Fund was in the process of transition in 2023, additional elements relating to gender were assessed and relevant data were collected to form a baseline for gender assessment in the subsequent year's investment decision-making process.

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

2023 marks another year with strong positive outreach through MEF's Partner MFIs. Their portfolios reflect:

- a strong focus on microfinance, as evidenced by the continued low average loan amount per client
- a high proportion of women clients, well above industry average
- a good record on lending to productive sectors

Notably, MEF's emphasis on local currency financing de-risks its funding both for MFIs and their clients. In 2023, almost half of MEF's funding was provided in local currency.

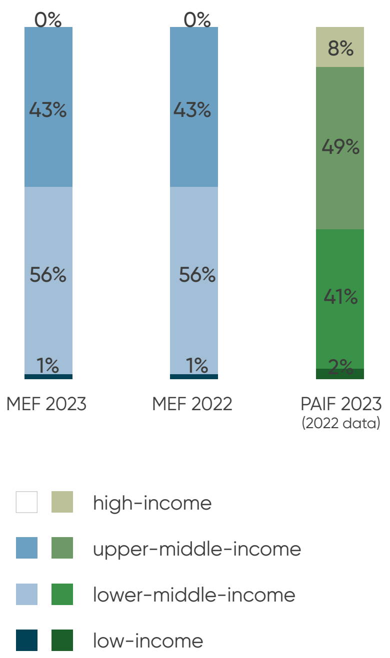
MEF's 2023 portfolio counted 126 Partner MFIs (145 in 2022), compared to the average of 42 for a microfinance investment vehicle (in 2022, as per the PAIF Report 2023). These 126 MFIs provided loans to 34 million clients (as in 2022), with 69% of them rural clients (as in 2022) and around 86% of them women (up from 78% in 2022). Out of the total portfolios of these MFIs, MEF financing was used for on-lending to approximately 730,000 clients (compared to 740,000 in 2022) – a figure that results from a more granular perspective than the global figure of 34 million total clients of MEF Partner MFIs which aims to capture attribution. This is calculated per MFI, then summed up (i.e., the sum of MFI clients MEF's funding volume reaches given each MFI's average loan amount to their clients).

Such variation in outreach is partly and typically explained by the year-on-year portfolio composition of MEF as a demand-oriented lender. Moreover, in 2023, it is also a reflection of an anticipated dip in the invested portfolio due to strategic consultations and related maturity constraints as well as stringent liquidity conditions over the year.

FOCUS ON LOW AND LOW MIDDLE-INCOME COUNTRIES

MEF's funding reaches predominantly low-income and lower-middle-income economies – together accounting for 57% of its portfolio in 2022 and 2023. This compares to an average of 43% for microfinance funds reported in the PAIF Report (2022 data per PAIF 2023).

The PAIF Report notes that capital directed at low-income economies remains scarce, representing only 2% in 2022 (1 % for MEF in 2022 and 2023). It notes that, "[a]rguably, grant funding and concessional investments are likely the most effective in serving the low-income bucket, considering the inherent sovereign risk management dynamics faced by private sector investors and their fund managers."



The PAIF Report 2023 indicates that the average gross national income (GNI) per capita stood at USD 7,413 in 2022 for PAIFs (USD 7,200 for microfinance funds) and noted that this figure underscores the capacity of PAIFs to direct capital to places where the population and households have lower than average income levels.

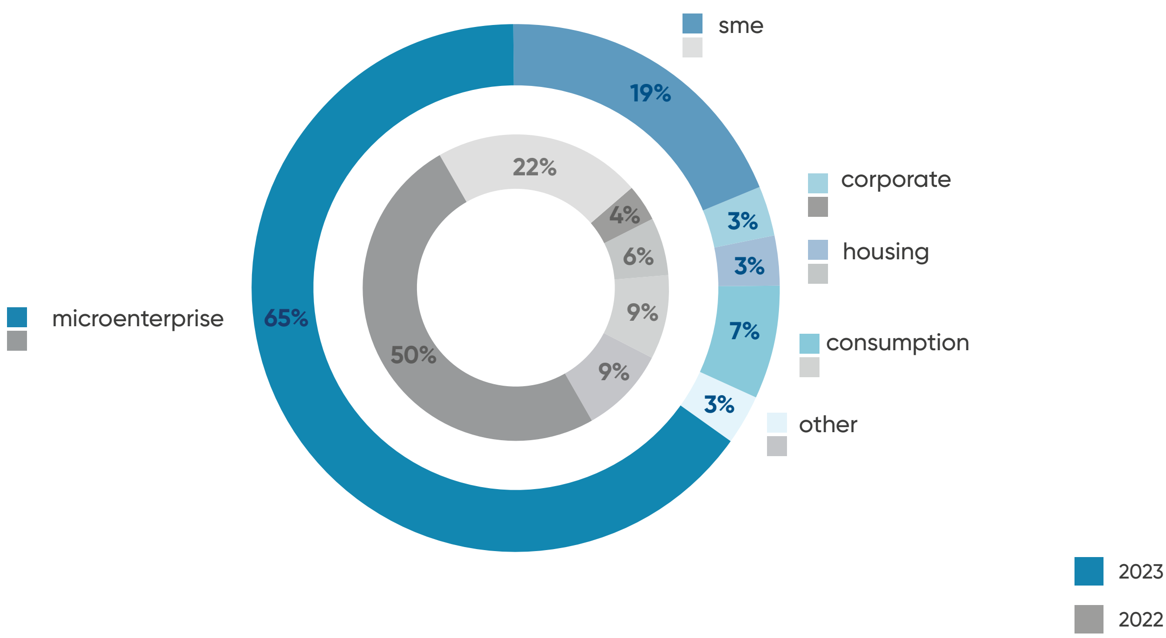
In comparison, the average GNI of MEF's portfolio stood at USD 4,923 in 2023 and USD 5,004 in 2022 – this underscores that MEF's funding predominantly reaches low-income economies.

FOCUS ON MICRO AND SMALL PRODUCTIVE LOANS

MEF's investments in 2023 mainly supported 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 specifically earmarked for micro and small entrepreneurial lending.

Looking at the total portfolios of the Partner MFIs – i.e. their entire portfolios, not all funded by MEF – the share going to microenterprises was higher in 2023 (65%, compared to 50% in 2022), while the portion going to small & medium enterprises (SMEs) slightly decreased to 19% (22% in 2022). 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 low-income households, as further detailed in the outreach analysis in the next sections.

Distribution by loan purpose of Partner MFIs per their total portfolios



Based on December 2023 gross 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.

In 2022 the Fund reported the following distribution: Microenterprise 38%, SME 21%, Corporate 12%, Housing 6%, Personal 10%, Other 12%. The CERISE+SPTF calculation method for the 2022 data was based on the sum of gross loan portfolios reported for each category over the total gross loan portfolio reported by all Partner MFIs. In 2023 CERISE+SPTF aligned the methodology with their other benchmarks and issued the results calculated as 'average of averages'.

MEF IMPACT | OUTREACH

ENGAGED IN PRODUCTIVE ACTIVITIES

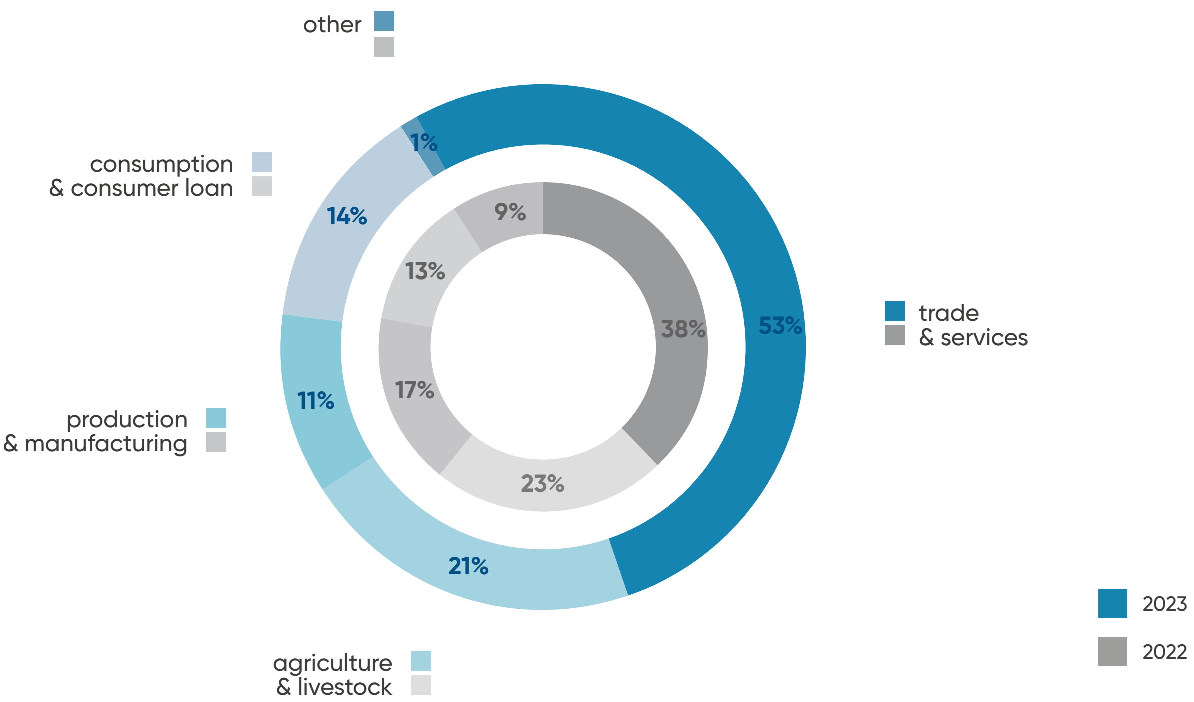
While microfinance activities can be associated with lending mainly in urban areas and to 'non-productive' sectors – like services and trade or for own consumption – a look at MEF Partner MFIs' 2023 data reveals a strong outreach to clients engaged in 'productive sectors' (such as agriculture & livestock and production & manufacturing).

In 2023, a sizeable share of close to one-third (32%) in Partner MFI lending supported productive sectors (compared to 40% in 2022). The year-on-year data may, however, not be fully comparable as fewer Partners MFIs reported on this aspect (70 out of 126 in 2023; 113 reported in 2022). Following consultations with their members, CERISE+SPTF updated the SPI tool to now differentiate 14 sectors, compared to the previous five. This change led to much less reporting. For comparability, CERISE+SPTF mapped the new categories against the previous ones. The year-on-year results showed higher shares of trade & services and lower shares of the productive sectors. CERISE+SPTF noted that this may be due to the nature of the reporting Partner MFIs.

While most regions had a share of the portfolio in productive sectors of around 30% in 2022, for 2023 the percentages ranged from 15% for Sub-Saharan Africa to 46% in South Asia, the region which again stands out with the highest share of the portfolio in the productive sectors (58% in 2022).

2023	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2023	Global 2022
productive sectors (in %)	42%	33%	38%	29%	19%	25%	46%	15%	**32%**	40%
agriculture & livestock (in %)	29%	24%	26%	13%	13%	8%	32%	10%	**21%**	23%
production & manufacturing (in %)	13%	9%	12%	16%	7%	17%	14%	5%	**11%**	17%

Distribution by activity of MEF Partner MFIs per their total portfolios



Based on December 2023 gross loan portfolio data as reported by 70 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.

AVERAGE INVESTMENT SIZE

With USD 3.9 million, MEF's outstanding average loan size per Partner MFI decreased in 2023, compared to USD 4.3 million in 2022. The decrease is due to limited new loans in 2023 in the context of the transition. The average can, however, also be misleading. A closer look shows that, while MEF's portfolio includes some large transactions, its size and 'deep pocket' allow MEF to align loan amounts with partner size. Partner MFIs with fewer active clients have a lower average loan, while those with large outreach have access to larger loan amounts. The average loan size in each of these outreach clusters follows the pattern observed in 2022.

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.

small outreach	medium outreach	large outreach
USD 1.9 M	USD 2.8 M	USD 5.1 M
USD 2.7 M	USD 3.0 M	USD 5.9 M

small outreach	number of borrowers <10,000	2023
medium outreach	>10,000 and <100,000	2022
large outreach	>100,000	

With an average loan outstanding of USD 3.9 million per Partner MFI (USD 4.3 million in 2022), MEF is above the microfinance fund benchmark of USD 3.2 million (in 2022, per 2023 PAIF Report). This reflects in part the size and 'deeper pocket' of MEF compared to the average microfinance fund, with MEF managing a portfolio of USD 459 million in 2023 (USD 570 million in 2022), well above the average microfinance fund size of 201 million (in 2022, per 2023 PAIF Report).

AVERAGE LOAN SIZE TO FINAL BORROWERS

The outreach of MEF Partner MFIs is supported by their large distribution networks (31,221 branches in 2023; 28,265 in 2022) and their predominant orientation towards microfinance, as the following analysis of average loan amounts illustrates.

The outstanding loan amount per client of all MEF Partner MFIs was on average USD 2,044 in 2023 (USD 1,627 in 2022). With 90% of MEF Partner MFIs recording an average loan size to their clients of below USD 15,000 (as in previous years), they predominantly offer microfinance. While the regional averages vary substantially, they also remain well within the microfinance segment – with loan averages ranging from USD 657 per Partner MFI client in SSA (decreasing from USD 813 in 2022) to USD 7,744 in LAC-SA (increasing from USD 6,364 in 2022). 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 2023 the bandwidth of lowest to highest average by region remained broadly similar to previous years, for 2023 the average loan amount in SSA decreased significantly while it increased substantially in EAP, EECAU, LAC-CA and MENA.

Such variations in a year-on-year perspective can occur when, for instance, new MFIs in MEF's portfolio have a higher share of their portfolio focused on purposes other than microfinance than MFIs exiting the portfolio – as average loans for small enterprise, corporate or housing finance are typically higher, and outstanding loan amounts are often 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 small number of Partner MFIs.

Overall, benchmarked against microfinance funds, MEF's portfolio shows a focus on microfinance aligned with peer microfinance funds. The global average outstanding loan amount per client of MEF Partner MFIs increased to USD 2,044 in 2023 (from USD 1,627 in 2022). This compares to PAIF data for microfinance funds which indicates that the average loan size has largely remained stable – at between USD 1,250 and USD 1,500 over the decade prior to 2017 – and modestly increased in recent years, reaching medians of nearly USD 2,000 in 2021 and 2022. Overall, the report notes that microfinance funds remain well anchored in their markets and focused on ultimately serving the poorer end of their markets.

From an analytic perspective, a modest rise in average loan size may in part just reflect inflationary or exchange rate pressures or also be due to the success and maturing of the microfinance industry – with repeat loans to trusted clients often increasing in value.

2023	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2023	Global 2022
total loan portfolio all Partner MFIs (USD M)	2,759	22,807	5,489	4,663	17,292	469	14,249	1,540	**69,269**	54,728
number of clients	766,448	7,788,043	1,463,886	737,680	2,233,047	63,703	19,087,746	2,343,018	**34.5M**	34.1M
average loan amount per client (USD) client (USD)	3,600	2,928	3,750	6,321	7,744	7,359	747	657	**2,044**	1,627
number of branches	534	4,039	1,070	541	672	54	22,467	1,844	**31,221**	28,265

MEF, with 730,000 active clients in 2023 (740,000 in 2022) reaches a significant population in developing markets around the globe. The PAIF Report captures the median number of active clients financed per microfinance fund as around 130,000 in 2022 (for an average microfinance fund size of USD 201 million) and reports that this figure has been stable since 2020.

MEF IMPACT | OUTREACH

A PORTFOLIO FOCUSED ON MICROFINANCE

MEF Partner MFIs target predominantly the microfinance market – with 82% microfinance overall, split as follows:

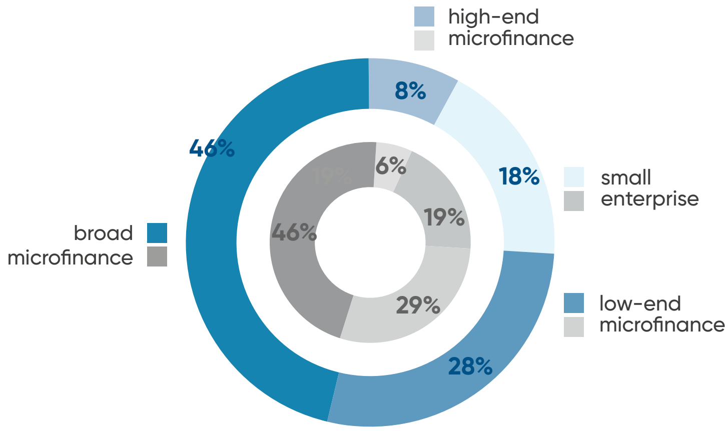
28% target the low-end microfinance market

46% target the broad microfinance market

8% target the high-end microfinance market

18% target small enterprises

This percentage differs from the 19% 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 client 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 client / GNI per capita

low-end microfinance	< 20%	2023
broad microfinance	between 20% and 150%	
high-end microfinance	between 150% and 250%	2022
small enterprise	< 250%	

OUTREACH TO WOMEN AND RURAL CLIENTS

Women clients encompass women-headed households or women-led micro or small enterprises. While MEF Partner MFIs' portfolios showed a high share of 86% of women as clients (78% in 2022), this is particularly true for South Asia which recorded a very high share of 96%. This reflects many Indian MFIs with a primary focus on lending to women. High shares of women clients are also characteristic of some of MEF's Partner MFIs in East Asia Pacific and Sub-Saharan Africa.

With 69% rural clients in 2023 (69% also in 2022), the global portfolio of MEF Partner MFIs showed a strong record on lending to rural clients as well. Almost all regional portfolios recorded at least 50% rural clients, with a markedly stronger outreach in East Asia Pacific and South Asia, each region with more than 70% rural clients.

2023	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2023	Global 2022
share of women clients (in %)	44	87	54	69	48	37	96	72	**86**	78
share of rural clients (in %)	49	82	54	30	19	34	75	48	**69**	69

With MEF Partner MFIs' serving 86% women clients (in 2023; 78% in 2022), they continued to be well above the industry average of 65% in 2022, per PAIF Report 2023. Similarly, with 69% rural clients served by MEF Partner MFIs (in 2023 and in 2022), they were above the industry average of 61% in 2022, per PAIF Report 2023.

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

For 2023, the data continued to demonstrate a significant percentage of investments in more vulnerable countries:

70% in high or very high-risk countries on the WorldRiskIndex

The share of MEF's portfolio invested in high or very high-risk countries on the WorldRiskIndex (USD 332 million | compared to USD 404 million in 2022) remained fairly stable – mainly due to largely unchanged categorisation of the countries as well as their share in MEF's portfolio.

high or very high risk on the WorldRiskIndex
70%
71% in 2022

7% in low Human Development Index (HDI)

The share of MEF's portfolio invested in low HDI countries slightly decreased mainly due to a decreasing portfolio in Nigeria (from 25 million in 2022 to 5 million in 2023).

As of year-end 2023, MEF was invested in the following low HDI countries: Haiti, Malawi, Nigeria, Pakistan, Tanzania, and Uganda.

low HDI (below 0.550)
7%
9% in 2022

3% in fragile and conflict-affected states

The share of MEF's portfolio invested in fragile and conflict-affected states decreased significantly (USD 14 million | compared to USD 43 million in 2022) mainly due to a shrunk portfolio in Nigeria (from 25 million in 2022 to 5 million in 2023).

As of year-end 2023, MEF was invested in the following fragile and conflict-affected states: Haiti, Kosovo, Lebanon, Myanmar, Nigeria, Palestine, and Timor-Leste.

fragile and conflict-affected states
3%
8% in 2022

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/en/

ALINUS SOCIAL PERFORMANCE ANALYSIS

Introducing MEF social performance analysis with ALINUS

The sustainability, intentionality and quality of 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 global leaders in social and environmental performance management. The Social Performance Task Force (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 stands for a global leader in impact measurement.

Cerise+SPTF manages the widely recognised social assessment tools on the SPI Online platform (https://en.spi-online.org/), aligned with the Universal Standards and articulated around 7 dimensions:

D1 | Social strategy
D2 | Committed leadership
D3 | Client-centred products and services
D4 | Client protection
D5 | Responsible human resources development
D6 | Responsible growth and return
D7 | Environmental performance management

For 2023 data collection and reporting, MEF's investment advisors used the SPI Online ALINUS tool to report on MEF Partner MFIs' social and environmental performance. In particular, they used the SPI5 tools, a new generation of audits, aligned with the updated Universal Standards launched in 2022.

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 and environmental performance management (SEPM)', CERISE+SPTF has benchmarked the scores of MEF's portfolio of Partner MFIs on SPI5-ALINUS to the full SPI database of financial service providers (FSPs). (Further information on CERISE+SPTF, SPI5-ALINUS and the Universal Standards is available in the section 'CERISE+SPTF | MEF's Partner on Social Performance Data').

The following pages provide more details on the standards, how MEF Partner MFIs scored against them, and how they fared 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.

2023 sample & benchmarking

For 2023, out of 126 Partner MFIs in MEF's portfolio, 126 reported quantitative and 110 reported qualitative data, although the level of completion varied. With a count of 504 financial institutions in the SPI global database for benchmarking, MEF Partner MFIs account for one quarter of the global peer group (25% in 2023; 30% in 2022). The 2023 reporting sample is largely consistent with that of 2022: out of 145 MFIs in MEF's portfolio in 2022, 138 reported quantitative and 127 reported qualitative data; with a global dataset covering 451.

CERISE+SPTF signalled that the increase of respondents in the global dataset was notably due to engaging with MFIs in MEF's portfolio in particular in 2021 and 2022 where 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 IMPACT | SOCIAL PERFORMANCE

OVERALL SCORES

MEF Portfolio | Average SPI5-ALINUS score

80% | 66% CERISE+SPTF global benchmark

74% in 2022 | 64% in 2022

With an overall ALINUS score of 80% MEF Partner MFIs demonstrate again stronger social performance than their peers (66%)

MEF Partner MFIs outscore the CERISE+SPTF benchmark in all dimensions.

With an overall score of 80% – compared to 66% for the peer group – the scores of MEF Partner MFIs increased compared to 2022 and again outscored the peer group captured in the CERISE+SPTF 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 74%.

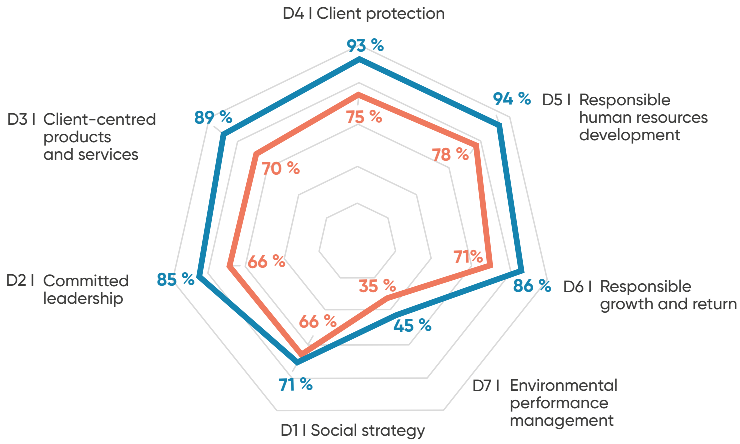
As in previous years, MEF Partner MFIs are largely high performers on overall scores: outperforming the 2022 results, in 2023, 85% of MEF Partner MFIs scored either 'Excellent' or 'Very Good' (i.e. scores above 71%), compared to 39% in the peer group.

Overall, the 2023 data confirmed several observations since the introduction of SPI-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 client-centred products and services in Dimension 3, on client protection in Dimension 4, and on responsible pricing, a key factor in Dimension 6 on responsible growth and return.

The findings thus confirm that MEF successfully continued building a portfolio of Partner 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.

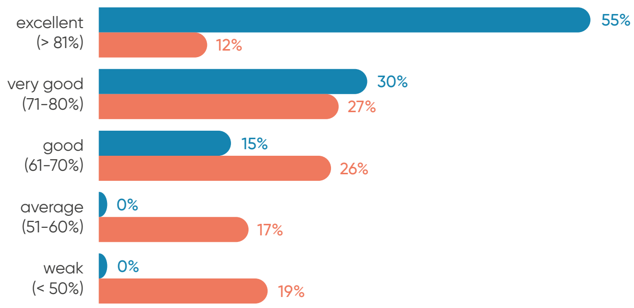
MEF Partner MFIs | Overall scores

benchmarked to their peers



MEF Partner MFIs | Frequency of scores

benchmarked to their peers



On the basis of a sample of 110 MEF Partner MFIs analysed by CERISE+SPTF for this scoring and benchmarking (127 in 2022).

The benchmarking is based on a global peer group dataset, collected and analysed by CERISE+SPTF, covering 504 respondents for 2023 (451 for 2022).

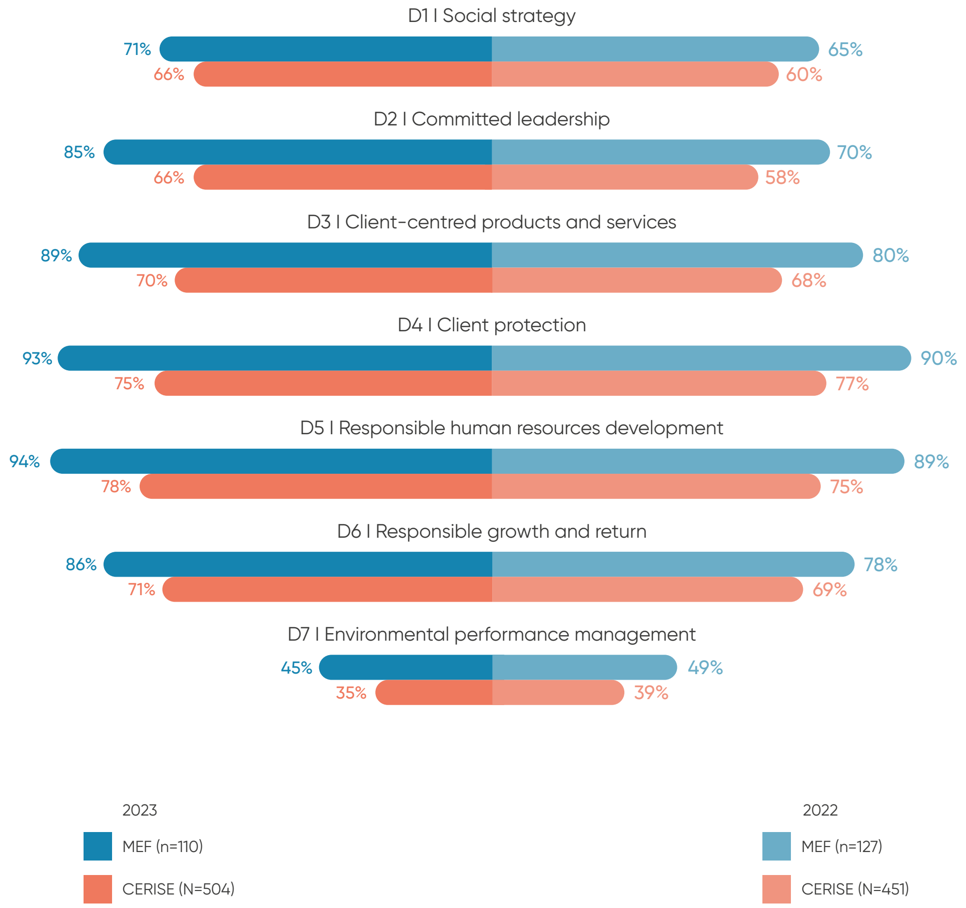
MEF IMPACT | SOCIAL PERFORMANCE

SCORES PER DIMENSION

The overall high performance is gratifying to see as are the improved year-on-year scores for 2023 on all dimensions, except for the Environmental Performance Management (45% compared to 48% in 2022, then the 'Green Index').

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 leveraged its relationships and continued to ensure that its Partner MFIs have minimum standards in place, or are committed to improving their practices over time. In 2023, in light of transitioning to the new gender-smart investment strategy, MEF also paid particular attention to the performance on gender aspects.

Scores 2023 and 2022



CERISE+SPTF

MEF IMPACT | SOCIAL PERFORMANCE

Dimension 1 | Social strategy

Average D1 Score

71% | 66%

65% | 60% in 2022

MEF score compared to global benchmark

MEF Partner MFIs again showed strong practices in defining and monitoring social goals, higher than the benchmark (71% for D1 | compared to 66% for their peers), as CERISE+SPTF highlighted. This score is above the findings of 2022 (65% for D1 | compared to 60% for the benchmark).

A closer look reveals:

- among MEF Partner MFIs, a higher proportion had a formalised social strategy to achieve social goals than in the benchmark sample (83% | compared to 78%)
- they scored above the peer group on collecting and disclosing client-level data (58% | compared to 53%)
- the share of MEF Partner MFIs having a strategy that defines the demographic and socioeconomic characteristics of target clients was above the peer group (83% | compared to 73%)

Dimension 1 | Social strategy

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 | Committed leadership

Average D2 Score

85% | 66%

70% | 58% in 2022

MEF score compared to global benchmark

MEF Partner MFIs overall showed a stronger commitment to social and environmental goals than their peers (85% for D2 | compared to 66%). As CERISE+SPTF highlighted, MEF's Partner MFIs still largely outperformed the benchmark, which was above the previous year's score (70% for D2 | compared to 58% for the benchmark, in 2022).

A closer look reveals:

- this was driven by a committed governance with 75% of MEF Partner MFIs having their boards use, at least annually, the analysis of the risk of client over-indebtedness to monitor client protection (compared to 55% for the benchmark), and 61% where boards take corrective actions promptly upon identifying risks to clients or employees, or when the provider is not achieving its social goals (compared to 41% for the benchmark)
- MEF Partner MFIs had a committed management – with 82% of MEF Partner MFIs where senior management analyses and assesses client protection risks at least annually (compared to 66% for the benchmark)
- MEF Partner MFIs scored below the benchmark regarding women in management (30% | compared to 37%) and marginally above the benchmark regarding women as board members (31% | compared to 30%), albeit improved from last year (24% | compared to 27%)

Dimension 2 | Committed leadership

A company's social strategy is only strong if the board and management 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.

Dimension 3 | Client-centred products and services

Average D3 Score

89% | 70%

80% | 68% in 2022

MEF score compared to global benchmark

MEF Partner MFIs well outscored their peers on products designed to meet clients' needs (89% for D3 | compared to 70% for their peers). This is above the findings of 2021 (80% for D3 | compared to 68% for the benchmark).

A closer look reveals:

- MEF Partner MFIs outscored their peers in designing well-tailored products, especially when it comes to conducting market research and monitoring client feedback (92% | compared to 72%) and in ensuring benefits to clients through product and services diversity (86% | compared to 68%)
- on regular client satisfaction surveys, MEF Partner MFIs also scored well above the benchmark (73% | compared to 52%), and similar to 2022 (76% | compared to 54%)
- MEF Partner MFIs also fared better than their peers on benefits to clients through diversity of product and services (86% | compared to 68%) – including offering voluntary insurance (29% | compared to 17%); while they were fairly aligned with the benchmark when it comes to offering non-financial services (56% | compared to 54%) and voluntary savings (40% | compared to 41%)

Dimension 3 | Client-centred products and services

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 | Client protection

Average D4 Score

93% | 75%

90% | 77% in 2022

MEF score compared to global benchmark

MEF Partner MFIs were particularly strong in client protection (CP) practices (93% for D4 | compared to 75% for their peers). This is consistent with previous years' findings (90% for D4 | compared to 77% for the benchmark, in 2022). The performance was high in this dimension once again this year – with scores reached among the highest compared to other dimensions; and with improvements since last year.

As noted by Cerise+SPTF, client protection continues to be MEF DNA and a cornerstone, including the careful analysis of, and commitment to, client protection issues. The high scores and good practices of MEF Partner MFIs have consistently demonstrated robust client protection practices since 2019.

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

- MEF stood out with 97% of MEF Partner MFIs adhering to a comprehensive code of conduct for CP (compared to 73%)
- MEF Partner MFIs also excelled in transparency and client empowerment, with 79% of informing clients about the usage and sharing of their data, obtaining explicit consent before any utilisation (compared to 62%), as well as providing their clients with a key facts summary document before they sign a contract (92% of MEF Partner MFIs | compared to 67%)

Dimension 4 | Client protection

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 (governance), D3 (adapted services), and D6 (responsible pricing).

Dimension 5 | Responsible human resources development

Average D5 Score

94% | 78%

89% | 75% in 2022

MEF score compared to global benchmark

MEF Partner MFIs clearly showed stronger practices in treating employees responsibly (94% for D5) than their peers (78%). This is slightly above the findings of 2022 (89% for D5 | compared to 75% for the benchmark).

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

- in communicating terms of employment (98% | compared to 89%)
- in monitoring employee satisfaction and turnover (93% | compared to 74%)
- in assessing health and safety risks faced by its employees and auditing its existing safety measures (75% | compared to 39%)
- in having a formal grievance mechanism that allows employees to raise workplace concerns in a confidential manner (88% | compared to 43%)

Dimension 5 | Responsible human resources development

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. Staff at all levels should be recruited, evaluated and incentivized on financial and social targets.

Dimension 6 | Responsible growth and return

Average D6 Score

86% | 71%

78% | 69% in 2022

MEF score compared to global benchmark

MEF Partner MFIs outperformed their peers on balancing financial and social performance (86% for D6 | compared to 71% for their peers). This is above the findings of 2022 (78% for D5 | compared to 69% for the benchmark).

A closer look at the numbers reveals:

- MEF Partner MFIs scored especially high on responsible pricing (92% | compared to 80%), thus they predominantly comply with the client protection indicator on responsible pricing; also, as last year, CERISE+SPTF noted a few outliers that calculated the interest using flat pricing rather than on declining balance, which in itself does not indicate inappropriate practice, but it is a flag to take a closer look
- MEF Partner MFIs were also more likely to disclose loan interest on a declining balance and according to the exact date of payment (91% | compared to 80%)

Dimension 6 | Responsible growth and return

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

Dimension 7 | Environmental performance management

Average Green Score

45% | 35%

49% | 39% in 2022

MEF score compared to global benchmark

MEF Partner MFIs outperformed the benchmark on CERISE+SPTF's Environmental Performance Management (45% for D7 | compared to 35% for their peers) – previously the 'Green Index'. This is a slightly lower score than in the 2022 findings (49% | compared to 39% for the benchmark) and not fully comparable year-on-year. CERISE+SPTF flagged that the 2023 results come with a new version of Dimension 7, including more analysis on client vulnerability, which is quite challenging to report on and led to limited datapoints.

A closer look at the numbers shows that:

- MEF Partner MFIs outperformed on managing environmental risks, with a higher share that identify clients' adverse impacts on the environment (39% | compared to 20%), and a higher share that categorise loan applications according to their level of environmental risks and implement risk mitigation analysis, clauses or limits for loan applications with high environmental risks (37% | compared to 7%)
- MEF Partner MFIs outperformed peers on fostering green opportunities as well, with a higher share that raise awareness of clients on their vulnerability to environmental degradation (34% | compared to 19%), and a higher share that build capacity of clients to reduce this vulnerability (20% | compared to 17%)

Dimension 7 | Environmental performance management

Environmental Performance Management 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, protecting clients against vulnerability to climate change and environmental threats, and offering green financial products and capacity-building.

CP Pathway

Focus on client protection

After closing the Smart Campaign in December 2020, CERISE+SPTF launched the Client Protection Pathway in September 2021 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. The 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.

When joining the pathway, FSPs have access to a global network of financial service providers who are committed to client protection, a roadmap for implementing the Client Protection Standards and staying on track and up-to-date with the latest issues on CP, and a way to deliver responsible products and to communicate this progress to investors.

As of February 2024, a total of 311 FSPs have committed to implementing Client Protection, out of which 75 are in MEF's portfolio.

For further details see https://cerise-sptf.org/join-the-client-protection-pathway/

While officially committed MEF Partner MFIs are expected to increase in numbers, the 93% score for Dimension 4 'Client Protection' indicates that MEF Partner MFIs – albeit not all CP-enlisted – are particularly strong in client protection practices (compared to 75% for their peers).

ALINUS | GLOBAL BENCHMARKING

	MEF	CERISE
D1 | Social strategy	**71%**	**66%**
1A | Social strategy	83%	78%
1B | Reporting of client-level data	58%	53%
D2 | Committed leadership	**85%**	**66%**
2A | Board accountability	80%	63%
2B | Senior management accountability	91%	69%
D3 | Client-centred products and services	**89%**	**70%**
3A | Client needs and preferences	92%	72%
3B | Benefits to clients	86%	68%
D4 | Client protection	**93%**	**75%**
4A | Prevention of over-indebtedness	92%	78%
4B | Transparency	96%	79%
4C | Fair and respectful treatment of clients	93%	75%
4D | Privacy of client data	90%	76%
4E | Mechanisms for complaint resolution	94%	66%
D5 | Responsible human resources development	**94%**	**78%**
5A | HR policy	90%	72%
5B | Communication of terms of employment	98%	89%
5C | Employee satisfaction	93%	74%
D6 | Responsible growth and return	**86%**	**71%**
6A | Growth rates	91%	72%
6B | Alignment of objectives	92%	73%
6C | Responsible pricing	75%	68%
D7 | Environmental performance management	**45%**	**35%**
7B | Environmental strategy	47%	20%
7C | Managing environmental risks	48%	39%
7D | The provider fosters green opportunities	42%	31%
TOTAL AVERAGE SCORE	**80%**	**66%**
number of responding financial institutions	110	504

FUND ORGANISATION

FUND FACTS

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

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

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

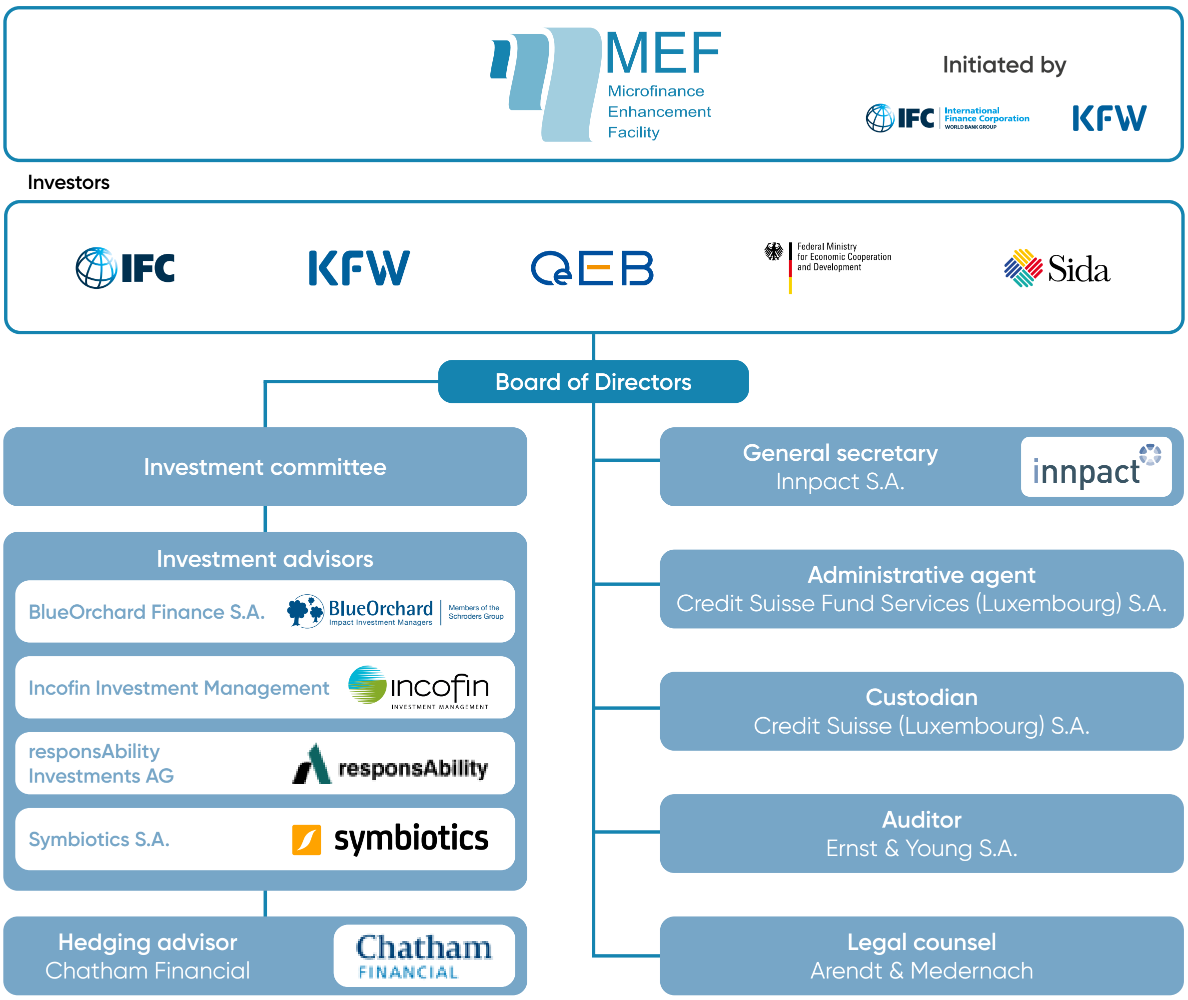
INCEPTION DATE
February 2009

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

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

INVESTMENT CURRENCIES
local currencies, EUR, USD

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

No changes to the Board or the Investment Committee in 2023.

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 10 billion.

FUND ORGANISATION

ON FOUR CONTINENTS WITH FOUR INVESTMENT ADVISORS

Investment advisors | portfolio distribution

as of 31 December 2023

*as of 31 December 2022

BlueOrchard Impact Investment Managers | Members of the Schroders Group

The BlueOrchard pool, with USD 57 million outstanding at year-end 2023, accounted for 13% of MEF's total portfolio. Year-on-year the pool contracted by USD 43 million, a 43% decrease. The pool was diversified across 22 Partner MFIs in 17 countries. In 2023, BlueOrchard disbursed one new loan in Eastern Europe and Caucasus totalling USD 5 million, an 88% decrease in new disbursements compared to the previous year. Portfolio quality remained stable 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 and has disbursed over USD 10 billion across more than 100 countries. Being an expert in innovative blended finance mandates, the firm is a trusted partner of leading global development finance institutions.

incofin INVESTMENT MANAGEMENT

The Incofin pool with USD 219 million outstanding at year-end 2023 accounted for 48% of MEF total portfolio. The pool was diversified across 47 Partner MFIs in 27 countries. Year-on-year the pool shrank by USD 23 million, corresponding to a 9% decrease. In 2023, Incofin disbursed loans totalling USD 42 million, a 64% decrease compared to 2022. New transactions comprised 13 loans across 11 countries. By region, Incofin was most active in East Asia Pacific with 38% of the disbursements, followed by South Asia with 32%, and Central America with 14%. Portfolio quality improved over the year.

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 1.3 bn in assets under management. Incofin has a team of more than 90 professionals based in its headquarters in Belgium and in local investment teams in Colombia, Kenya, India and Cambodia. As a leading investment impact firm, Incofin has invested (via equity and debt financing) over USD 4 bn in more than 180 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 91 million outstanding at year-end 2023, accounted for 20% of MEF's total portfolio. Year-on-year the pool grew by USD 23 million, a 35% increase. The pool was diversified across 23 Partner MFIs in 14 countries. In 2023, responsAbility disbursed loans totalling USD 43 million, a 15% increase compared to 2022. New transactions comprised 9 loans across 8 countries. By region, responsAbility was most active in East Asia Pacific with 75% of the disbursements, followed by Central America with 16%. Portfolio quality improved over the year.

A leading sustainable asset manager with a 20-year track record, responsAbility Investments AG is a leading impact asset manager specialising in private market investments. Since its inception in 2003, responsAbility has deployed over USD 14 billion in impact investments. With over 270 employees collaborating across eight offices, as of 1 October 2023 the company manages USD 4.7 billion in assets across approximately 270 portfolio companies in 72 countries. Since 2022 responsAbility is part of M&G plc, the international savings, and investments business, and contributes to enhancing M&G's capabilities in impact investing.

symbiotics

The Symbiotics pool, with USD 92 million outstanding at year-end 2023, accounted for 20% of MEF's total portfolio. Year-on-year the pool contracted by USD 68 million, a 43% decrease. The pool was diversified across 34 Partner MFIs in 20 countries. Symbiotics disbursed two loans in Central Asia totalling USD 12 million, an 85% decrease compared to 2022. Portfolio quality recorded a slight improvement over the year.

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, (return expectations, 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 2.83 billion at 31 December 2023. The group covers over 600 impact finance companies spanning 90+ emerging and frontier economies.

CERISE | MEF's PARTNER ON SOCIAL PERFORMANCE DATA

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.

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.

For further information on Cerise+SPTF see https://cerise-sptf.org

The Universal Standards for Social and Environmental Performance Management ("the Universal Standards") is a comprehensive set of best practices to help financial service providers put clients and the environment at the center of all strategic and operational decisions. They show financial service providers how to align their policies and procedures with responsible business practices. The Universal Standards were developed, tested, refined, and finalized by financial service providers and their stakeholders (investors, donors, rating agencies, researchers, consultants, etc.) all over the world, so they are highly practical. They do not just describe a vision or set forth high-level principles, they provide a clear roadmap that financial service providers can follow to achieve their goals. First launched in 2012 and they are since 2022 in their third edition.

SPI Online an integrated platform of resources for impact-driven organizations to assess and improve their social and environmental performance: 7 audit tools, technical resources, trainings and e-learnings, human resources, and financial support. You can find on SPI Online the right tool and resources for your needs, whether you are an expert or a novice in social and environmental performance management. SPI Online offers tools for ESG risk management, reporting, responsible investment selection, social audit, and client protection certification. Since 2003, more than 800 FSPs have used the SPI tools.

- **SPI5 Full** offers a 360° review of social and environmental management practices, integrating demanding new standards and approaches that place clients, employees and the environment at the center of strategic and operational decisions.
- **SPI5-ALINUS** is a shorter version of the SPI5 Full that gets investors speaking the same language. It is built on the seven dimensions of the Universal standards and integrates Green indicators and client protection indicators. Reducing reporting burden while improving comparability of social data and guiding support for social and environmental management is what drove the development of ALINUS (**AL**igning **IN**vestor due-diligence to the **U**niversal **S**tandards). The 68 Universal Standards indicators were selected by an investor working group through a collaborative and iterative process. ALINUS indicators are now used by over 45 social investors in responsible finance.

See more details here:

SPI Online platform https://en.spi-online.org/

State of practices and SPI users https://en.spi-online.org/news/view/state-of-practice-sepm

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 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 areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (see https://www.hcvnetwork.org/)

FUND FINANCIALS

BALANCE SHEET

	December 2023	December 2022
ASSETS		
Loans to MFIs	458,765,673	569,614,051
Current assets	142,170,518	151,174,100
of which: cash & cash equivalent	115,790,533	112,205,691
Other assets	836,701	387,242
Total Assets	601,772,892	721,175,393
LIABILITIES		
Notes	90,000,000	116,681,250
Current liabilities	45,247,182	55,991,552
of which: dividend payable	26,477,645	19,250,702
Total Liabilities	135,247,182	172,672,802
NET ASSETS	466,525,710	548,502,591

INCOME STATEMENT

	December 2023	December 2022
Net assets at the beginning of the year	548,502,591	545,286,731
INCOME		
Interest on loans	46,042,276	45,787,565
Upfront fees	697,129	2,148,106
Other income	3,817,522	2,435,889
Total income from investments	50,556,927	50,371,560
EXPENSES		
Management fees	(4,759,725)	(6,475,189)
Legal and audit fees	(372,624)	(310,662)
Administration, custodian and domiciliation fees	(635,393)	(729,049)
Interest expenses on notes	(7,440,415)	(3,832,452)
Other direct operating expenses	(5,748,997)	(4,546,277)
Total expenses	(18,957,154)	(15,893,629)
Net income from operations	31,599,773	34,477,931
Net realised/unrealised gains/(losses) on foreign exchange, forward, swaps	(1,891,023)	(6,192,910)
Value adjustments for unrecoverable amounts on loans and advances to MFIs	(5,505,536)	(5,818,459)
Net increase/decrease in net assets as result of operations for the year/period	24,203,214	22,466,562
MOVEMENT IN CAPITAL		
Subscription of shares	-	-
Redemption of shares	(79,702,450)	-
Advance of dividend	(26,477,645)	(19,250,702)
NET ASSETS AT YEAR-END	466,525,710	548,502,591

In accordance with annual financial statements prepared under Luxembourg GAAP.

ABBREVIATIONS

ABBREVIATIONS

CP	Client Protection
DFI	Development Finance Institution
ESG	Environmental, Social and Governance
EUR	Euro
FSP	Financial Service Provider
Fund	MEF
GGSF	Global Gender-Smart Fund S.A., SICAV-SIF
LuxFLAG	Luxembourg Finance Labelling Agency
MEF	Microfinance Enhancement Facility S.A., SICAV-SIF
MFI	Microfinance Institution
MSME	Micro, small and medium enterprise
PAIFs	Private Asset Impact Funds
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 Dollar

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 investment fund is registered in the Grand Duchy of Luxembourg as an investment company with variable capital – specialised investment fund subject to Luxembourg law of 13 February 2007 on specialised investment funds (the "2007 Law") on specialised investment funds. This investment 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, institutional investors, professional investors and/or well-informed investors as defined under article 2 of the 2007 Law, 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 United States of America 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 of the investment fund (the "Issue Document") is available at the registered office of the investment 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 investment fund and its share classes is calculated without taking into account any placement or redemption fees and assuming constant reinvestments of dividends. The investments made by the investment fund 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; accordingly, no assurance can be given that the objectives stated in this document will be achieved.

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