



2011 *Annual report*





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The Mission

The Fund

THE MISSION

Initiated by KfW Entwicklungsbank (“KfW”) and International Finance Corporation (“IFC”), a member of the World Bank Group, co-managed by three leading private investment managers (BlueOrchard Finance S.A., Cyrano Management S.A. and responsibility Social Investments AG), Microfinance Enhancement Facility S.A., SICAV-SIF (“MEF”) was setup in February 2009 as a USD 500 million facility to provide short and medium-term financing to microfinance institutions (“MFIs”) facing difficulties in securing financing as a result of the global financial crisis and, in particular, the 2008/2009 liquidity crisis.

Recognised as a unique vehicle for the microfinance industry, MEF has an important signalling effect and contributes to the stabilisation of the microfinance sector. As demonstrated by the crisis situations in Bosnia and Herzegovina, Nicaragua, and most recently India, the crises in the microfinance industry are ongoing. In times of uncertainty, a vehicle that can respond quickly and decisively, such as MEF, can provide a stable source of funding.

As a complement to existing sources of funding, MEF focuses on providing liquidity that the market does not offer. MEF is a flexible vehicle structured to meet the needs of MFIs, without crowding out private sector initiatives.

As a demand oriented fund, seeking to respond to the needs of the market and of individual MFIs, it opens the possibility to provide financing to more than 100 microfinance institutions in up to 40 countries and to support lending to as many as 60 million low-income borrowers in many of the world’s poorest countries.

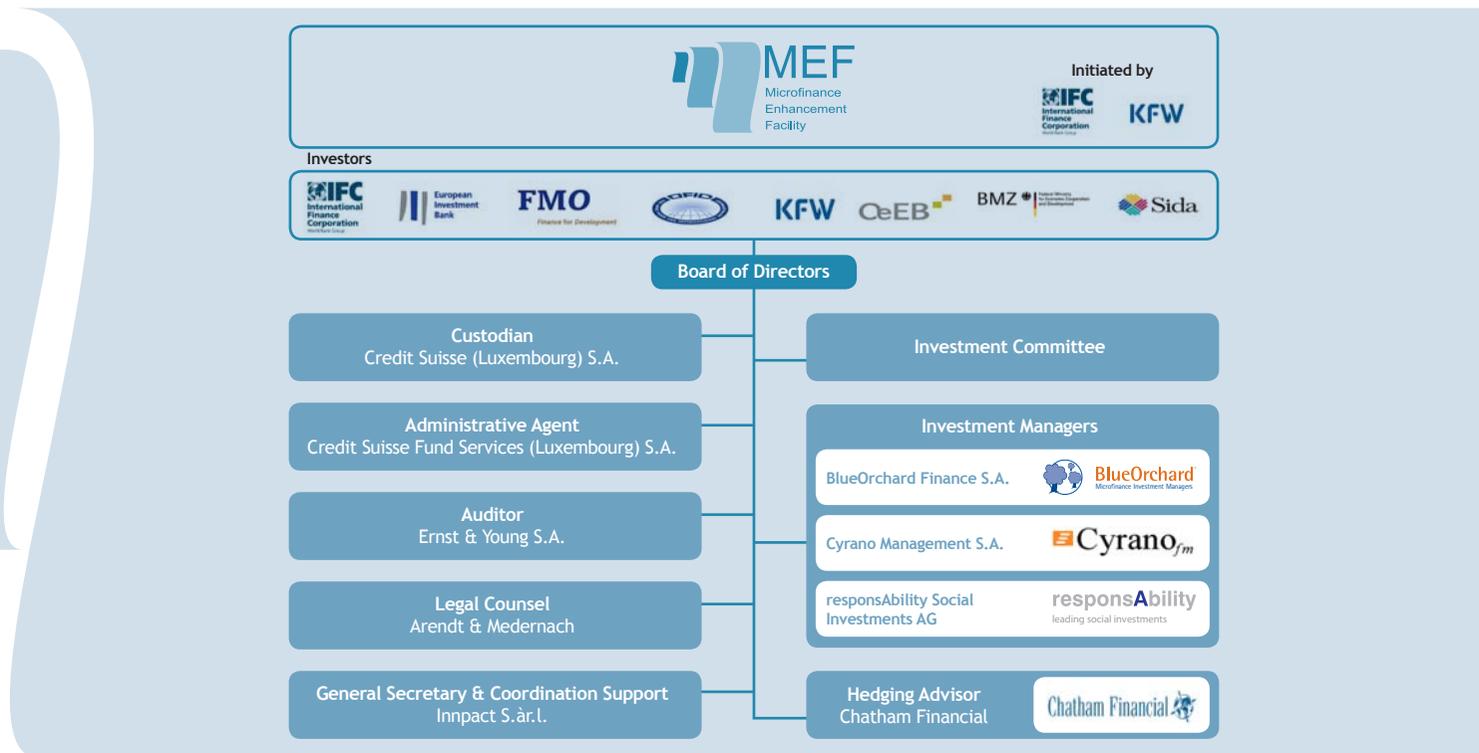
The investment managers are led by MEF’s Investment Committee, convening on a monthly basis and composed of reputable professionals of the microfinance industry, Mr. Syed Aftab Ahmed, Mr. Karlo de Waal, and Mr. Klaus Pfeiffer, who has been replaced by Dr. Klaus Glaubitt since 1 January 2012.

THE FUND

MEF aims to support economic development and prosperity globally through the provision of additional development finance to micro-enterprises, via qualified financial institutions.

In pursuing its development goal MEF observes principles of sustainability and additionality, combining development and market orientations.

The Structure



Board of Directors

Board of Directors

Chairperson

Ms. Monika BECK (Chairperson since 1 July 2011 / Director since 5 February 2009)

Mr. Rolland SILLER (until 30 June 2011)

Directors

Mr. Robert Peck CHRISTEN (since 21 February 2012)

Ms. Andrea HAGMANN

Mr. Tassilo HENDUS

Mr. Martin HOLTSMANN

Mr. Klaus PFEIFFER (since 30 June 2011 and until 22 June 2012)

Ms. Mamta SHAH (until 12 October 2011)

Mr. Karl VON KLITZING (since 22 June 2012)

Investment Committee

Investment Committee

Chairman

Dr. Klaus GLAUBITT (since 1 January 2012)

Mr. Klaus PFEIFFER (until 31 December 2011)

Members

Mr. Syed Aftab AHMED

Mr. Karlo DE WAAL



Letter of the Chairperson

It is my great pleasure to introduce to you the 2011 Annual Report of the Microfinance Enhancement Facility (MEF).

The MEF was created in February 2009 as a response to the global financial crisis to provide short and medium term financing to MFIs that were encountering difficulties in securing financing despite continued strong performance of those MFIs.

2011 was another challenging year in the microfinance sector. Learning from the lessons of the various crises, such as in Nicaragua, Bosnia and Herzegovina and India, the sector has further matured. MFIs have made considerable efforts in improving their corporate governance, risk management processes and credit

methodology. Moreover, a fair treatment of the clients has been and is still an increasing concern for all MFIs as they gradually adopt encouraging social performance practices and implement the Client Protection Principles of the Smart Campaign.

In this context, the MEF continued its support to the microfinance sector in 2011, almost doubling its portfolio, increasing from USD 101 million at the end of 2010 to USD 193 million at the end of 2011 with cumulative disbursements since the establishment of the MEF of almost USD 250 million. This growth has been led by the firm objective to provide additionality to the microfinance market. The MEF has indeed lent to 21 additional MFIs in 2011 with a total of 42 MFIs and now serves 19 countries, with the

addition in 2011 of Sub-Saharan Africa that represents 9% of the portfolio. Pursuing the trend from 2010, the MEF continued to provide local currency loans to MFIs. Local currency loans in 8 different currencies, all hedged to USD, now represent almost a quarter of the total portfolio of the Fund. In 2011, the MEF was therefore able to provide a quick and flexible response to the increasing demand from MFIs.

2012 will again be challenging for the sector and for the MEF. Following its mission of supporting MFIs experiencing liquidity issues, the MEF will accompany the continued growth of the sector and of its strong MFIs. We therefore expect that the portfolio of the Fund will rise again in 2012 while diversifying its outreach in terms of countries, types of MFIs and

currencies covered. This is made possible due to the strong support the Fund receives from its investors and various stakeholders.

Therefore, on behalf of the Board, I would like to thank MEF's investors, stakeholders and partner institutions as well as their commitment to the Fund's mission.

Ms. Monika Beck
Chairperson of the Board of Directors



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Supported by Three Investment Managers

BlueOrchard Finance S.A.

BlueOrchard Finance S.A. provides innovative financial instruments and solutions for placements in microfinance, bridging the gap between capital markets and microfinance institutions. This includes initial identification of, and due diligence on, microfinance institutions, as well as continuous monitoring and reporting on their activities and portfolios. BlueOrchard Finance S.A. manages the relationship

with all the parties involved and strictly adheres to the investment policies and guidelines of its clients. BlueOrchard believes in creating value through solid long-term relationships by providing mainly debt to microfinance institutions in all stages of their development. It shares their mission to provide financial services to those who have few resources and are excluded from mainstream financial services.

The assets managed by BlueOrchard overall are currently invested in 126 companies in 47 countries (as at 31 December 2011).



BlueOrchard
Microfinance Investment Managers

Portfolio MEF - BlueOrchard

Portfolio managed as at 31 December 2011		
Portfolio	USD	% total MEF portfolio
	91,419,243	47%



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Supported by Three Investment Managers

Cyrano Management S.A.

Cyrano Management S.A. is a pioneer fund manager specialized in the microfinance industry in emerging markets. Cyrano has developed a rigorous loan methodology to analyze in-situ and monitor on a monthly basis the qualitative and quantitative risks of all portfolio MFIs. Its key strengths are its loan methodology and risk monitoring. Cyrano managed the first

credit fund for MFIs in Latin America (LA-CIF), created the only mezzanine fund in microfinance (Solidus) and one of the most successful and solvent global funds (GMF). Cyrano also manages WMF, a local currency fund fully devoted to MFIs Ghana.

The assets managed by Cyrano overall are currently invested in 12 companies in 7 countries (as at 31 December 2011).



Portfolio MEF - Cyrano

Portfolio managed as at 31 December 2011		
Portfolio	USD	% total MEF portfolio
	77,000,000	40%



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Supported by Three Investment Managers

ResponsAbility Social Investment AG

responsAbility Social Investments AG with assets under management of more than USD 1 billion, responsAbility is one of the world's leading social investment companies. Its areas of focus include microfinance, fair trade, SME financing, and other development-related investment themes with potential for growth, such as health care, energy, and education. responsAbility's solutions give people in developing and emerging economies access to markets, information, and other services crucial to their

development; they enable private and institutional investors to earn a financial return while at the same time making a positive social impact.

Founded in 2003, responsAbility operates as an independent asset manager. Its shareholders are renowned Swiss financial institutions, a social venture capital company, and responsAbility's own employees.

The assets managed by responsAbility are currently invested in 373 companies and 72 countries (as at 30 March 2012).

responsAbility
leading social investments

Portfolio MEF - ResponsAbility

Portfolio managed as at 31 December 2011		
Portfolio	USD	% total MEF portfolio
	24,169,981	13%



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A facility enhancing MFIs

Key Figures

as at 31 December 2011

Portfolio in detail

	December 2011	Cumulative disbursements
Microfinance investment portfolio	USD 192.6 MM	USD 248.3 MM
Short term investments	USD 29.6 MM	-
Total assets	USD 222.2 MM	-
Microfinance portfolio as a % of total assets	86,7%	-
Total net asset value	USD 216.4 MM	-
Number of MFIs	42	50
Number of loans	64	81
Number of countries	19	19



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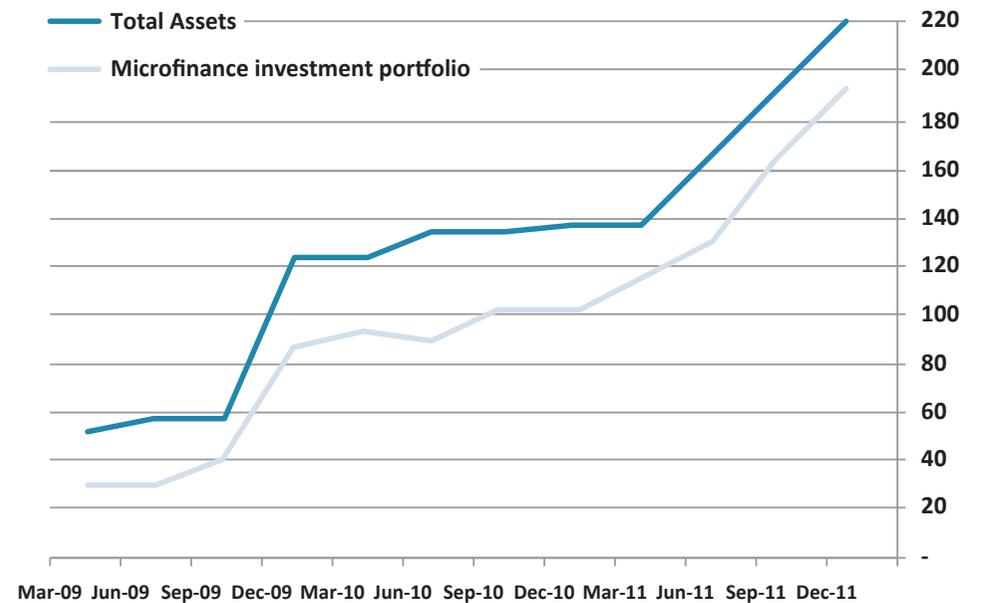
A facility enhancing MFIs

Key Figures

as at 31 December 2011

Portfolio evolution since launch

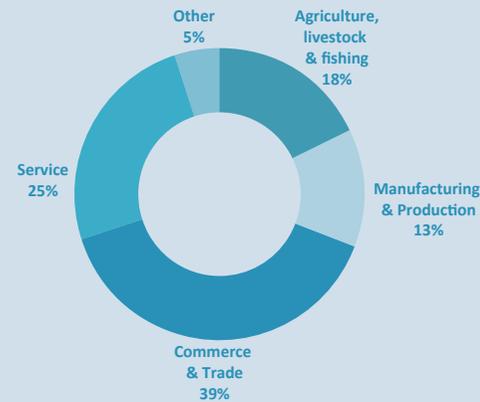
Equivalent USD MM



A facility enhancing MFIs

Impact Indicators
as at 31 December 2011

Sector Distribution of Portfolio



NB: - Three MFIs have not provided the information related to sectors distribution.

Level of adherence to the Client Protection Principles (self reported)



As in 2010, the diagram highlights the good scores of MEF's MFIs regarding the adherence to the Client Protection Principles.

NB: MFIs have reported pursuant to the above Client Protection Principles which have been revised as of July 2011.

Microfinance Institutions Reach

Borrowers reached	
Total, number:	148.946
Percentage of women:	51%
Percentage of loans in rural areas:	50%
Loans	Number
Average loan balance; in USD:	2.335
Client Type	Percentage of portfolio
Microfinance:	67%
SME:	17%
Mortgage:	3%
Consumer:	10%
Other:	3%
Product Type:	MFIs offer microfinance through
Direct loans:	86%
Group guaranteed loans:	14%

Adherence to social and environmental criteria

Adherence to the Client Protection Principles (CPP)	
MFIs having formally adopted the CPP	95%
Adherence to exclusion list	
Violations of the exclusion list	none

The percentage of MFIs having formally adopted the CPPs has significantly increased in 2011 (2010: 81%).

All figures are weighted by the importance of each MFI in MEF portfolio.



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Activity Reports

BlueOrchard 2011 Activity Report

MARKET REVIEW

2011 was a difficult year in financial markets generally. Consequently, private investors have been more reluctant to invest in microfinance. However, microfinance showed positive trends since late 2010 in most countries, and MFIs reported stability or improvements in portfolio quality, profitability and healthy portfolio growth. The negative impact of the 2008/2009 global financial crisis proved to be relatively short-lived in most developing countries, and 2011 was by and large a very successful year for most MFIs, as they expanded their products and services and reached more clients, both as borrowers and depositors.

POOL PERFORMANCE

BlueOrchard had a very successful

year and had a significant contribution on MEF's portfolio outreach. The main developments of the BlueOrchard pool were reflected in:

- Portfolio growth of 127% in 2011
- The addition of 15 new MFIs
- The expansion of the geographical coverage to 16 countries (7 in 2010), including two countries in Africa.

In addition, BlueOrchard led efforts to open new markets for MEF, and it successfully registered the Fund in Colombia.

BlueOrchard has been selective in building partnerships with existing and new clients, with disciplined in-house investment and risk management processes. It has also incorporated its leading social performance due

diligence, measurement and reporting, SPIRIT, which is fully integrated in the overall investment process.

MARKET OUTLOOK

In 2012 BlueOrchard expects to see a continuation of the trends seen since late 2010 in microfinance, which include improved portfolio quality, healthy, moderated growth and greater attention to social performance issues, client protection and transparency. BlueOrchard plans to continue to increase the proportion of (hedged) local currency lending in MEF portfolio, increase its exposure in underrepresented markets, particularly in Africa and MENA, and further enlarge the outreach of the Fund and enhance its already wide portfolio diversification.



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Activity Reports

Cyrano 2011 Activity Report

MARKET REVIEW

2011 was a difficult year in financial markets. However, microfinance institutions have experienced impressive portfolio growth during 2011, preserving solvency and developing new credit and saving products. This positive evolution is driven by growth of GDP in emerging markets and stronger regulation and supervision of authorities. It is worth underlining that most of the MFIs in Cyrano's pool are regulated and collect deposits.

POOL PERFORMANCE

Cyrano's portfolio pool has not experienced any day of arrears, nor defaults. Consequently, no provisions were required.

The main developments of the Cyrano pool were reflected in:

- Portfolio growth of 161% in 2011 (96.7% in 2010)
- The addition of 5 new MFIs (3 in 2010)
- The expansion of the geographical coverage to 4 countries (2 in 2010).

MARKET OUTLOOK

The potential economic recession in developed countries may impact the growth of GDP in emerging markets and affect the portfolio quality of MFIs during 2012. Cyrano has sent MFIs an Aide Memoire that highlights areas

which should be closely analyzed during this time of uncertain risks. Cyrano considers that management teams of MFIs are more prepared to face this difficult time in comparison with the crisis experienced in 2009. In any event, Cyrano maintains a close risk monitoring of MFIs. The portfolio will grow during 2012 but at a slower pace compared to 2011.



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Activity Reports

responsAbility 2011 Activity Report

MARKET REVIEW

Since the beginning of 2012, growth in emerging markets has continued to slow as export demand from Europe and the United States has declined. Given the way concerns about economic overheating had clouded the mood in the course of 2011, this slowdown is by and large a welcome development.

POOL PERFORMANCE

In 2011 portfolio quality improved for the second year running. The share of loans more than 30 days in default (PAR 30 or portfolio at risk) declined from 5% to 3% worldwide. The percentage of refinanced loans in the responsAbility core portfolio (74 Microfinance institutions) declined substantially, from 2.3% at the end of

2010 to 0.6% a year later. Write-offs fell by half over the same period. This shows that the microfinance sector has managed to absorb the effects of the global financial crisis.

The main developments of the responsAbility pool were reflected in:

- The addition of new 4 MFIs (6 in 2010)
- The expansion of the geographical coverage to 7 countries (4 in 2010)

MARKET OUTLOOK

The new year looks promising in terms of anticipated microfinance activity. Most MFIs are seeing continuous improvements in terms of portfolio quality and operational processes. We also expect all regions to post solid growth, which is likely to increase MFI refinancing demand. Asia and South

America are still the regions with the greatest demand for microfinance financing. Even so, the microfinance market will not be able to completely escape the effects of any worsening in the situation in Europe or a rekindling of recessionary fears in the United States. Economic slowdowns generally have a slightly delayed impact on the microfinance market.

Client Stories

Multi-services kiosk and bus driver



Mr. Rrahim Gegaj is a 50 year old Albanian living in the village of Lladroc. He is the head of a 15 person household with four sons. Their village of Lladroc is located in the Malisheve municipality in central Kosovo, a place that was devastated by the conflict. When the conflict began his family joined the refugees fleeing to refugee camps in Albania. When his family returned after the conflict, they found their home and his business burnt and destroyed.

In the hopes of recovering from this financial disaster, Rrahim decided to apply for a loan from the FINCA Kosovo program at the newly opened Malisheve branch. He joined a solidarity credit group that went by the name of 'Pavarsia' which means 'Independence'.

With the initial small loan he purchased a key copying machine which was enough to begin a small business. Over time he found success and he was able purchase more equipment, inventory. Rrahim started with a small key copying machine, now he is running a business from his kiosk and offering several services to his customers.

Rrahim intended to further improve his business by purchasing a mini-bus. With this bus he could provide regular transportation for travelers between Malisheve and his village of Lladroc. In order to purchase this bus he applied for yet another FINCA loan. It was approved and he now has an operating bus which you can sometimes find parked in front of the key copying shop when it isn't on the Lladroc/Malisheve road.

Rrahim Gegaj is currently on his 15th loan cycle with FINCA. His loan today is a €2700 Individual loan, far from his original 'Pavarsia' group loan. Through Rrahim's hard work and determination, with the help of FINCA's loans, the Gegaj family has been employed and enjoys modest prosperity.

He credits FINCA for helping his family survive their crisis and recover in these past 10 years of peace. He says, "After the war, there was nothing left, everything was destroyed and burned. FINCA was the first to come and offer me a loan. Thanks to their loans I have been able to start and improve my business, so that I could renovate my home and keep a roof over my family's head. I hope FINCA will stay with us for the next 100 years."



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Client Stories

Milk producer in Kyrgyzstan

Following the collapse of the Soviet Union, [Kopaisin Ganibaeva](#) lost her job at a collective farm, like tens of thousands of other people in the mountainous and sparsely populated country of Kyrgyzstan. In order to help her husband support their family and put their two boys and two girls through school, she started her own farm near the village of Kadyrsha in the Karasuu region, planning to sell her produce in the local market.

She rose early each morning to milk her two cows, and then set off to the

village to sell the milk at the market. Things went slowly at first, but Kopaisin soon started buying additional milk from her neighbors to sell, because she saw there was enough demand in the village, with its large families. She knew she could do better if she could buy more milk to sell—and even better if she could purchase more cows and expand her farm’s production of milk.

Kopaisin learned about FINCA from her neighbors and she realized it could provide her with the capital she needed to build up her business and

boost her family’s living standards. Kopaisin joined a local FINCA Village Banking group and borrowed 1,000 Kyrgyz Soms (\$21) so she could buy more milk from neighboring farms. She plowed her profits into the farm and, over the years, her business has grown steadily, as have her FINCA loans. Today, Kopaisin owns ten cows that produce up to 70 liters of milk a day. Kopaisin is proud that she has significantly increased her family’s income and all her children have completed their educations.



FINCA[®]
Small Loans-Big Changes

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Client Stories

Finca Azerbaijan

FINCA Azerbaijan, LLC, is a non-bank credit organization, operating under limited license from the National Bank of Azerbaijan, providing micro-credit to clients across Azerbaijan. FINCA Azerbaijan is a subsidiary of FINCA International, Inc., a network of microfinance institutions based in Washington, D.C., with operations in 21 countries around the world.

FINCA Azerbaijan was founded in 1998, with support from the United States Agency for International Development (USAID). The mission of FINCA Azerbaijan is to provide financial services to Azerbaijan's lowest-income entrepreneurs so they can create jobs build assets and improve their standard of living.

FINCA Azerbaijan's Head Office is located in Baku, the capital of Azerbaijan, operating in four regions: Absheron, Southern, Western and Central through a total of 27 branches and 35 market offices (as of 31 December 2011).

Since 1998, FINCA Azerbaijan has grown to become the leading non-bank credit organization in Azerbaijan, currently serving more than 124,000 active clients (as of 31 March 2012). The majority of clients operate businesses in rural areas, therefore the subsidiary's outreach is focused on serving farmers who operate small farms and grow crops specifically for sale in the marketplace, engage in animal husbandry, operate dairy

production businesses, trade in rural produce and operate other small businesses.

During 2011, FINCA Azerbaijan experienced rapid growth with its number of active clients increasing 23%, and its loan portfolio increasing by 39%. In February 2011, FINCA Azerbaijan surpassed the 100,000 client milestone, becoming the third subsidiary in the FINCA network to achieve this outstanding accomplishment.

In addition, FINCA Azerbaijan continued to focus on improving its quality of customer service by redesigning all branches to present an even more professional, client-

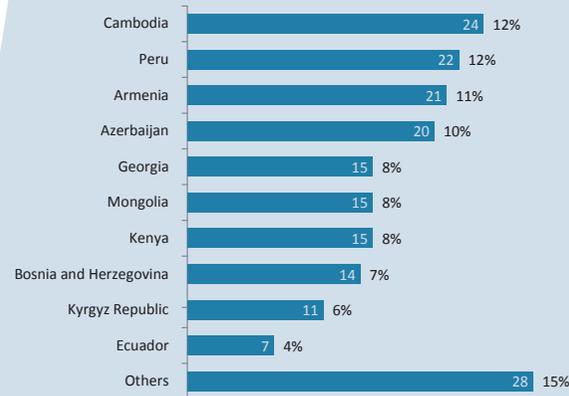
friendly environment, and developing Customer Relationship Management tools which enable staff to provide a better and more responsive service to clients. This input is also helping to inform the development of products and services to better meet the needs of clients.

The MEF decided to provide financing to Finca Azerbaijan to support its growth at a time the market was unable to provide the MFI with sufficient liquidity. The senior debt financing of USD 12,5 million allowed the MFI to increase the number of customers reached and to improve the quality of its services.

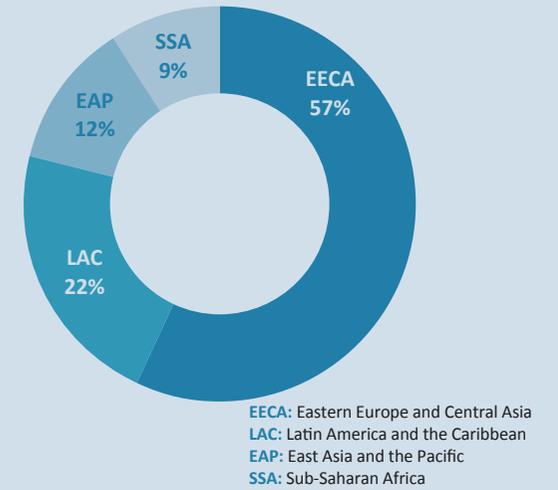
The Portfolio

as at 31 December 2011

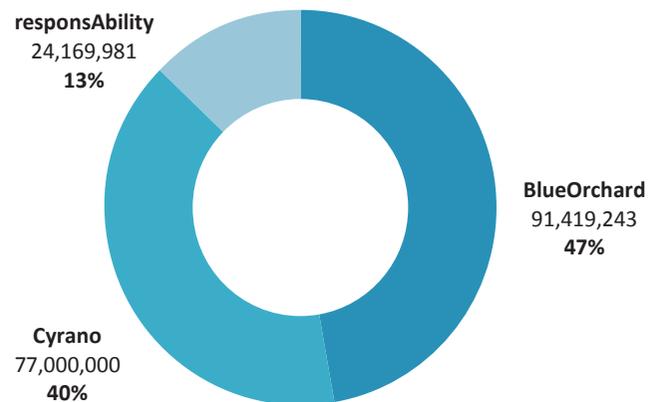
Country distribution
Microfinance investment portfolio
Equivalent USD MM



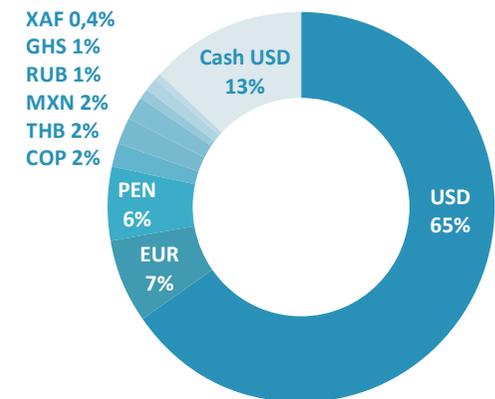
Regional distribution in %
Microfinance investment portfolio



Investment Manager distribution in %
Microfinance investment portfolio - Equivalent USD



Currency distribution in %
Total portfolio
All investments hedged to USD





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The Investors

KFW

OeEB

BMZ  Federal Ministry
for Economic Cooperation
and Development

 **Sida**

 **IFC**
International
Finance
Corporation
World Bank Group

 **European
Investment
Bank**

FMO
Finance for Development

 **OFID**
FUND FOR INTERNATIONAL DEVELOPMENT



Balance Sheet *

ASSETS	as at 31 December 2011	as at 31 December 2010
Loans to MFIs	192,589,223	101,286,937
Current assets	29,594,006	33,621,072
of which : Cash & cash equivalent	25,713,748	31,653,639
Other assets	35,166	13,582
Total Assets	222,218,395	134,921,591
LIABILITIES	as at 31 December 2011	as at 31 December 2010
Current liabilities	5,775,223	4,131,160
of which : Cash & cash equivalent	4,678,376	3,355,164
Accruals and deferred income	---	---
Total Liabilities	5,775,223	4,131,160
Net Assets	216,443,172	130,790,431

* in USD



Income Statement *

INCOME	2011	2010
Interest on loans	9,404,807	6,761,676
Upfront fees	1,115,842	659,690
Other income	26,373	116,167
Total Income	10,547,022	7,537,533

EXPENSES	2010	2010
Management fees and incentive bonus	(1,836,287)	(1,207,314)
Legal, advisory and audit fees	(293,930)	(291,415)
Administration, custodian and domiciliation fees	(243,906)	(193,593)
Other expenses	(831,234)	(916,812)
Total Expenses	(3,205,357)	(2,609,134)

NET OPERATING RESULTS	2010	2010
Net income from investments	7,341,665	4,928,399
Net realized and unrealized gains/losses on foreign exchange	(1,941,925)	(1,091,351)
Net realized and unrealized gains/losses on swaps and forwards	22,380	(84,230)
Value adjustments relating to loans	(300,491)	(1,801,599)
Net increase/decrease in Net Assets as result of operations for the year/period	5,121,629	1,951,219

MOVEMENT IN CAPITAL	2010	2010
Subscription of shares	85,209,488	9,790,200
Redemption of shares	---	---
Advance of dividend	(4,678,376)	(3,355,164)
NET ASSETS AT THE END OF THE YEAR/PERIOD	216,443,172	130,790,431

* in USD

Board of Directors

as at 29 March 2012



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Microfinance Enhancement Facility SA, SICAV-SIF

5, Rue Jean Monnet
L- 2180 Luxembourg

Investment Managers:

- BlueOrchard Finance S.A.
32 rue de Malatrex
1201 Geneva Switzerland
- Cyrano Management S.A.
Calle Bolivar # 472 / Ofic. 702 - 703
Miraflores Lima 18 Peru
- responsAbility Social Investments AG
Josefstrasse 59 8005 Zurich
Switzerland

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