



# Microfinance Enhancement Facility

Annual Report 2018





MEF Annual Report 2018

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## Mission of the Fund

### THE MISSION

MEF supports 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 FUND

Microfinance Enhancement Facility S.A., SICAV-SIF (“MEF”) was set up in February 2009 as a facility to provide short and medium-term financing to financial institutions which support microfinance and micro-enterprises (“MFIs”) facing difficulties in securing financing as a result of the global financial crisis and, in particular, the 2008/2009 liquidity crisis.

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.

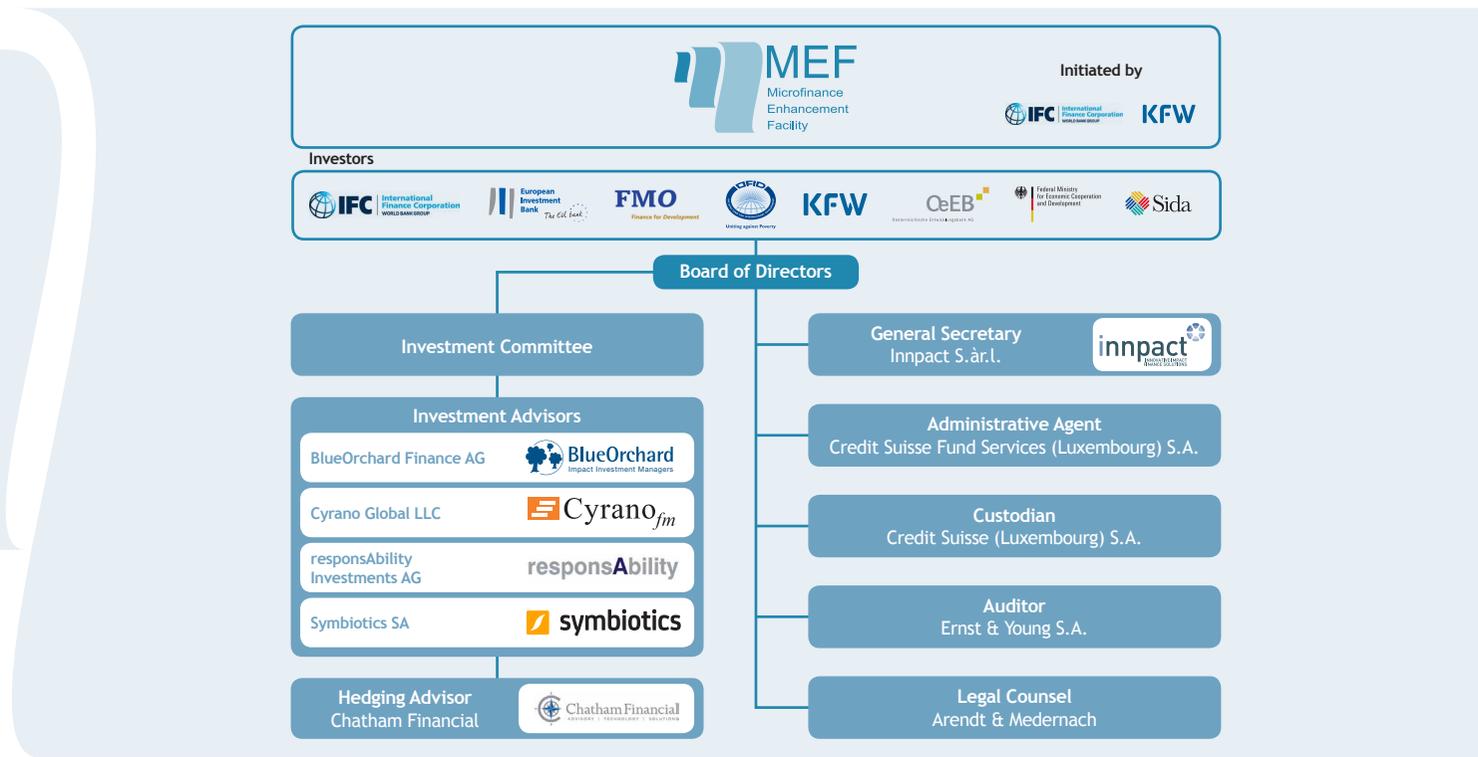
Positioned as an efficient microfinance debt fund - with liquidity buffer on stand-by maintained at all times MEF has an important signalling effect and contributes to the stabilisation of the microfinance sector.

As a demand-oriented fund, seeking to respond to the needs of the market and of individual MFIs, it has supported low income borrowers by providing over USD 1.9 billion to more than 195 financial institutions active in the microfinance space in 54 developing countries worldwide.

Initiated by KfW and the International Finance Corporation (“IFC”), a member of the World Bank Group, the fund is co-managed by four leading private Investment Advisors (BlueOrchard Finance AG, Cyrano Global LLC, responsAbility Investments AG and Symbiotics SA).

The Investment Advisors present funding proposals to MEF’s Investment Committee, convened on a monthly basis and composed of reputable professionals in the microfinance industry, Mr. Syed Aftab Ahmed, Mr. Karlo de Waal, Mr. Michael Neumayr and Dr. Klaus Glaubitt.

# Structure of the Fund



## Board of Directors

### Chairperson

Dr. Johannes Feist

### Directors

Mr. Ihno Baumfalk (since 25.10.2018)

Ms. Suzannah Carr (since 31.03.2018)

Ms. Andrea Hagmann

Mr. Angus Macrae

Mr. Swapnil Neeraj

Mr. Robert Peck Christen (until 31.03.2018)

Ms. Constance Kreiss (until 25.10.2018)

## Investment Committee

### Chairman

Dr. Klaus Glaubitt

### Members

Mr. Syed Aftab Ahmed

Mr. Karlo De Waal

Mr. Michael Neumayr



# Letter of the Chairperson



The MEF closed the year with USD 669 million in total assets and a record outstanding net portfolio of USD 600 million invested in 118 MFIs across 44 countries. Set up as a public-private partnership the MEF combines an innovative and efficient structure with the expertise of four leading private investment advisors (BlueOrchard Finance AG, Cyrano Global LLC, responsAbility Investments AG and Symbiotics SA) supervised by the Investment Committee and the Board of Directors. The low average loan amount per borrower (of USD 1,730) confirms that the activities of the MEF and its partner financial institutions serve predominantly the microfinance segment with a very strong outreach to women together with an increasing local currency funding progressively de-risking its financing of its partner institutions.

## 2018 Market Environment

The effects of rising interest rates were felt in 2018 across all markets. Foreign borrowing became increasingly expensive as the USD 6-month Libor kept increasing in 2018 while, on the lending side, local interest rates adjusted only partially. Despite consequent increases in hedging costs, MEF maintained its portion of non-USD and non-EUR local-currency loans at 37% (fully hedged against USD) thereby de-risking many of its investees from currency fluctuations. Moreover, 2018 marks the first year where our disbursements in local currencies exceeded half of the portfolio: with 56% of the portfolio in local currencies (48.9% in 2017), including loans in countries where either the USD (Ecuador, El Salvador and Panama) or the EUR (Kosovo, Montenegro) is the legal tender. We strive to continue this trend as the years 2016 and 2017, in particular, have shown that hard currency liabilities not netted by respective hard currency assets are perhaps the single largest risks for MFIs in developing countries.

## Portfolio Developments

In this market context the MEF closed the year with USD 669 million in total assets (USD 652 million in 2017). MEF recorded an outstanding net portfolio of USD 600 million as the year closed (compared to USD 597 million in 2017) with 118 MFIs in 44 countries. This despite limited portfolio growth with disbursements amounting to USD 259 million to 52 MFIs while repayments were at a high level with USD 260 million. We added 30 new MFIs and 3 new countries to our portfolio: Jordan, Togo, and Lebanon. Meanwhile 27 MFIs exited the portfolio as well as (probably temporarily) 6 countries (Belarus, Bosnia and Herzegovina, Mali, Tunisia, Uzbekistan and Zambia). The majority of MEF loans disbursed in 2018 originated from Asia (29%), Latin America (46%) and Sub-Saharan Africa (15%). In terms of the outstanding MEF portfolio, India remained as the top exposure followed by Mexico, with Cambodia moving down to rank number 3.

In particular when looking at the challenges the microfinance sector has experienced over time, MEF has continuously played its role in providing a stable and reliable source of regular debt and liquidity funding to the sector. Since its inception in 2009, the MEF has lent over USD 1.9 billion to 195 MFIs across all developing regions. Due to volatility in access to private funding sources by MFIs, the MEF's portfolio development evidences its role as a complementary and stabilising source of funding.

In this report, we are pleased to highlight the achievements of 3 partner microfinance institutions (Sociedad Cooperativa de Ahorro y Microcrédito - El Salvador, La Fayette Microfinance Bank - Nigeria, MASKAPITAL - Mexico) and also the stories of some of the many successful entrepreneurs that the MFIs supported by the MEF have assisted - including mango farming and small breakfast restaurant in Cambodia, a souvenir shop in Mexico and a welding workshop in India.

## Asset Quality

Following three years of increasing provisioning, the portfolio quality remained fairly stable in 2018 with provisioning representing 6.80% (6.72% in 2017) of the gross loan portfolio with two new cases partially provisioned for small exposures.

The Investment Committee continued to closely monitor the critical cases and remained a key player, acting both as negotiator and facilitator of suitable solutions in work-out situations. The efficiency of the Fund's management was again demonstrated by the recoveries with the coordinated effort of the Investment Advisors, the Board of Directors and the Investment Committee. The case of Finca Azerbaijan, where a recovery rate of 88% was achieved for the MEF exposure, illustrates that cooperation between public and private lenders on the one hand, and the respective MFIs' shareholders on the other hand,



is a key success factor in not only recovering larger sums due but also in allowing MFIs to rebound after a difficult situation.

In continuation of the 2016 and 2017 trends and in reaction to the market conditions in certain regions, the MEF continued to shift its regional distribution by reducing its exposure in Eastern Europe and in Caucasus & Central Asia (from 7.3% and 3.1% in 2017 to 2.7% and 2.4% in 2018, respectively) while increasing its exposure in Latin America & the Caribbean (from 45.5% to 51.4% - with LAC-Central America increasing from 22.1% to 29.5% and LAC-South America decreasing slightly from 23.4% to 21.9%). MEF's portfolio slightly decreased in South Asia to 15% and increased in Sub-Saharan Africa to 10%.

#### Operating and Financial Performance

The distributable income rose to USD 31.0 million in 2018 (from USD 23.3 million in 2017) mainly caused by a rise in the Libor rate combined with limited additional impairments (only USD 0.7 million in 2018). MEF will once again pay the expected target dividends to its shareholders together with additional complementary dividends, in line with consistent target dividend payments since its creation in 2009. The continued focus on cost control and efficiency is reflected in our continued low Total Expense Ratio (TER) of 1.66% in 2018 (based on average total assets) and hence basically unchanged compared to 1.64% in 2017.

#### Investor Interest

Investors' across the capital structure confirmed their confidence in the Fund in 2018:

- In the first quarter one private investor doubled its USD 20 million investment to a total of USD 40 million.
- In the second quarter BMZ added USD 4 million as

C Shares. This in addition to the USD 14 million already subscribed as of the end of 2017 but recorded as C Shares only in 2018.

- In the last quarter one placement agent invested approximately USD 52 million in USD and EUR Notes on behalf of four institutional investors.

This renewed interest in the MEF more than replaced USD 75 million of Notes which were subscribed in 2013 and matured at the end of 2018.

#### 2019 Outlook

Overall, the risks to the global economy and recent downward adjustments to growth expectations flag a gradual deceleration for 2019. USD rates, trade tensions, and slowing global growth will remain the main risk factors influencing emerging market credit risk and somewhat tighter financing conditions. Political risk may play an increasingly significant role, with elections in India, South Africa and Nigeria as well as volatile political contexts in several countries in Asia and Latin America.

The microfinance sector and its financial intermediaries are overall projected to continue their expansion in a sustainable manner. In certain markets the importance of large downscaling banks and/or large commercial banks active in micro and SME lending is expected to provide funding opportunities for the Fund (e.g. Mexico). Fintech companies and new financial intermediaries offering new services to microentrepreneurs (like factoring and leasing) are also being targeted in some regions (Latin America and South Asia). Some markets that proved to be challenging in recent years became more attractive as a result of changes in regulations and this is expected to continue in 2019.

The economic recovery in parts of Central Asia continued in 2018 and market demand for business loans has increased and is projected to gradually increase in

2019. Preference for local currency financing is now widespread and the liberalisation of currency controls and improved political risk in some countries (e.g. Uzbekistan) could result in new opportunities with MSME-focused banks.

Overall, pressure on returns is expected to continue and the increasing international interest rates are compressing the margin of MFIs. The volatility of local currency rates and of hedging costs remains a challenge for both renewal of existing exposures and potential new investments.

After having successfully secured in 2017 the Fund's long-term ability to fulfil its mandate with the renewed commitments of the Fund's key shareholders, 2018 confirmed the need to have a unique instrument such as the MEF which can actively support MFIs in their stabilisation and growth.

On behalf of the Board I would like to take the opportunity to express our gratitude to the committed investors of the MEF for their ongoing support in this initiative as well as the service providers and the General Secretary for their efforts and dedication in supporting the development of the MEF and for their commitment to the Fund's mission. And I want to address our investees, the MFIs who reach out with great dedication to our ultimate clients, the most vulnerable parts of the population in 44 countries: rest assured that the MEF will continuously stand firm to its mission and remain a committed and constructive partner even in difficult times.

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

# A Facility Supporting Microfinance and Micro-Enterprises

## Key Figures

as at 31 December 2018

### Portfolio Evolution Since Launch



### Portfolio in Detail

	December 2018	December 2017	Cumulative
Microfinance investment portfolio	USD 600.4 M	USD 598.6 M	USD 1.949 B
Cash	USD 49.3 M	USD 42.5 M	-
Other short term investments	USD 18.8 M	USD 10.5 M	-
Total assets	USD 668.5 M	USD 651.7 M	-
Total net asset value	USD 573.4 M	USD 530.2 M	-
Microfinance portfolio as a % of total assets	89.8%	91.8%	-
Number of MFIs	118	113	195
Number of loans	196	191	563
Number of countries	44	45	54

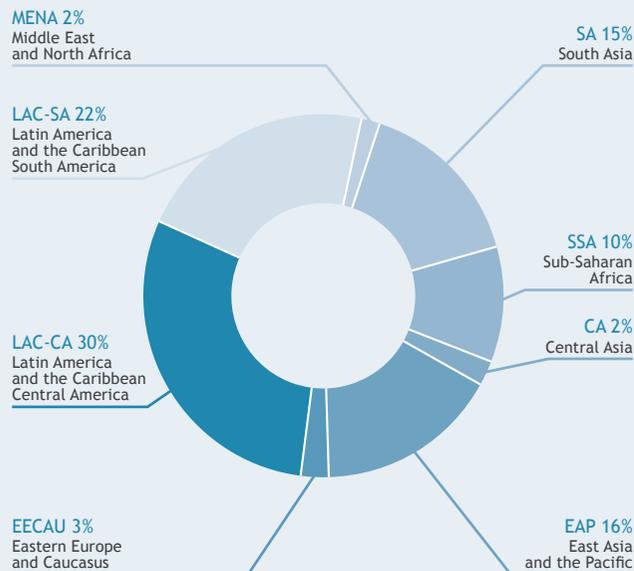
As per abridged IFRS-based financial statements

# A Facility Supporting Microfinance and Micro-Enterprises

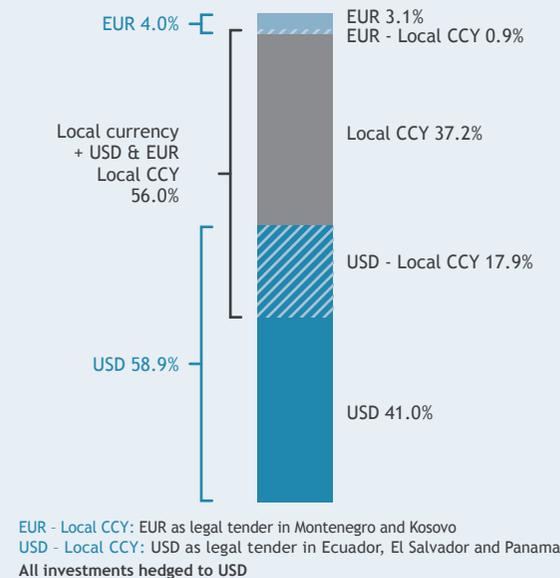
## The Portfolio

as at 31 December 2018

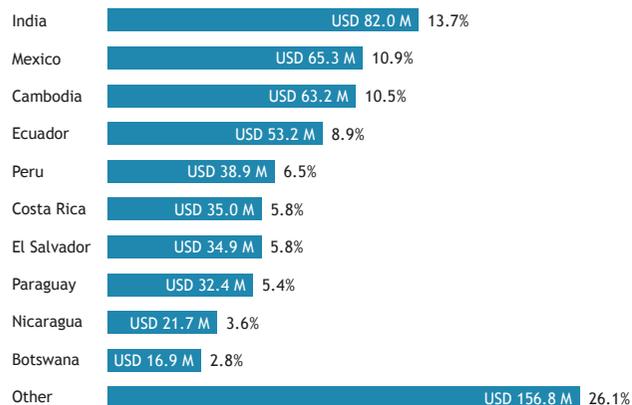
### Regional Distribution



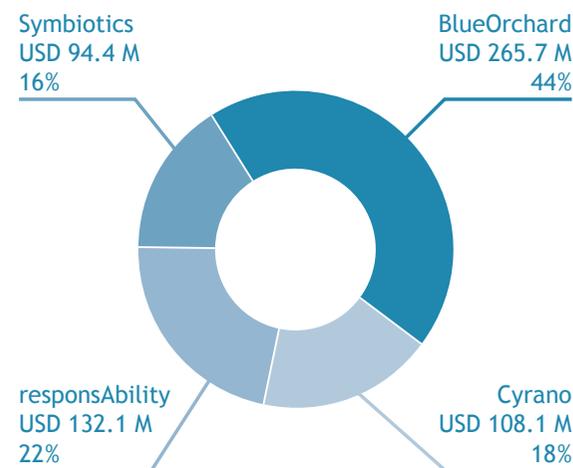
### Currency Distribution



### Country Distribution

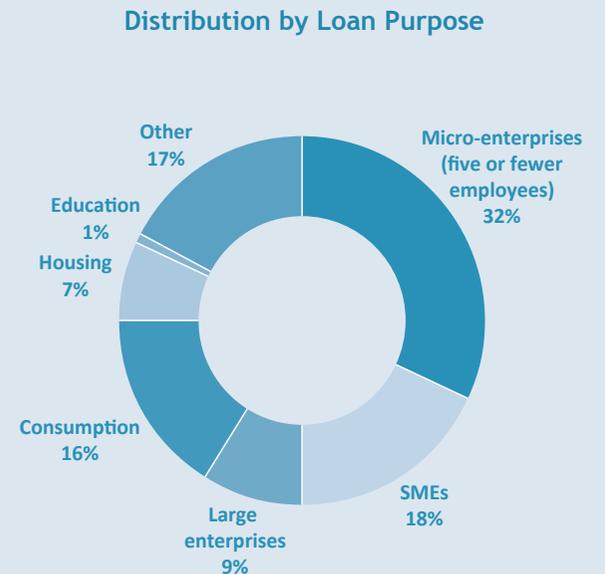
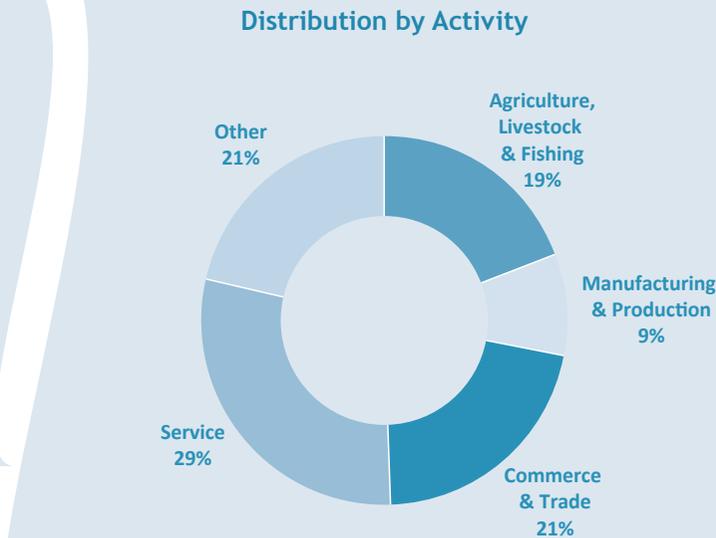


### Investment Advisors Distribution



# A Facility Supporting Microfinance and Micro-Enterprises

Impact Indicators  
as at 31 December 2018



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



**488,000**  
Final borrowers reached by MEF funding



**80%**  
Women



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



**68%**  
Rural



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



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



**MICROFINANCE** LuxFLAG Microfinance Label since 2011



BlueOrchard Finance AG is a globally leading impact investment manager specialised in fostering inclusive finance and sustainable growth. Founded in 2001 at the initiative of the UN as the first commercial manager of microfinance debt investments worldwide, today BlueOrchard provides investors globally with investment solutions including credit and private equity, and is a trusted partner of leading DFIs. With its global presence and offices on four continents, to date BlueOrchard has invested more than USD 5.7 billion across 80 emerging and frontier markets, enabling tangible social and environmental impact.

BlueOrchard is a licensed Swiss asset manager of collective investment schemes authorised by the Swiss Financial Market Supervisory Authority (FINMA). Its Luxembourg entity, BlueOrchard Asset Management S.A., is a licensed UCITS management company as well as a licensed alternative investment fund manager (AIFM) authorised by the Luxembourg regulatory authority CSSF.



Cyrano Global LLC is a pioneer assets manager specialised in the microfinance industry in emerging markets. Cyrano has developed a rigorous risk assessment methodology to analyse in-situ, and to monitor on a monthly basis, the qualitative and quantitative risks of all portfolio MFIs. This discipline and risk management approach generates a solid portfolio quality for MEF.

Cyrano managed the first credit fund for MFIs (LA-CIF), created the only mezzanine fund in microfinance (Solidus) as well as one of the most successful and solvent global funds (GMF) that reached an AA pre-sale rating by Fitch. Cyrano also managed WMF, a local currency fund fully devoted to MFIs in Ghana, created with the investment participation of the national Pension Fund in Ghana and KfW.



A leading asset manager for impact investments in emerging economies, responsAbility manages USD 3 billion of assets through a variety of investment vehicles that provide private debt and private equity to some 540 companies with inclusive business models across 90 emerging economies. Founded in 2003, the company is headquartered in Zurich, Switzerland, and has local offices in Bangkok, Geneva, Hong Kong, Lima, Luxembourg, Mumbai, Nairobi, Oslo and Paris. Its shareholders include a number of reputable institutions in the Swiss financial market as well as its own employees. responsAbility is registered with the Swiss Financial Market Supervisory Authority (FINMA).



Incorporated in 2004, Symbiotics SA is a leading investment company dedicated to inclusive and sustainable finance in emerging and frontier markets. The company currently manages and advises over USD 1.8 billion in assets and has been offering tailor-made solutions to a diversified range of investors. Since inception, Symbiotics has financed over 425 institutions across over 3,600 transactions and originated over USD 4.8 billion of fixed income investments across 83 countries. Symbiotics has offices in Amsterdam, Cape Town, Geneva, London, Singapore, Zurich. Symbiotics is an asset manager licensed by the Swiss Financial Market Supervisory Authority (FINMA).

For the purpose of efficient management, the Fund has opted to have its assets managed by four Investment Advisors under the supervision of the Investment Committee and the Board of Directors.

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# A Facility Supporting Microfinance and Micro-Enterprises

On 4 Continents with 4 Investment Advisors

# A Facility Supporting Microfinance and Micro-Enterprises

## Investment Activity Reports

Portfolio managed as of 31 December 2018



USD 66 million were disbursed to 14 MFIs in 9 countries in 2018. Although the BlueOrchard pool decreased from USD 363 million to USD 266 million due availability of alternative market sources BlueOrchard's portfolio nevertheless remains the largest pool with 44% of the MEF portfolio.

USD 265.7 million  
44% of total MEF portfolio



In continuation of the trend observed since 2015, the outstanding portfolio of Cyrano decreased from USD 114 million to USD 108 million given Cyrano's shifting business model.

USD 108.1 million  
18% of total MEF portfolio



After two years of decrease, the responsAbility pool increased from USD 106 million to USD 132 million supported by USD 73 million disbursed to 18 MFIs in 9 countries. responsAbility's portfolio includes 32 institutions across 20 countries, a significant expansion of outreach compared to the 22 institutions and 17 countries in 2017.

USD 132.1 million  
22% of total MEF portfolio



Having joined as a new Investment Advisor mid-2017, Symbiotics brought a significant contribution to MEF's portfolio increasing its share from 2% at the end of 2017 to 16% by year-end 2018. At the end of 2018, Symbiotics' outstanding net portfolio amounts to approximately USD 94 million across 16 institutions and 11 countries, thus contributing sizeably to the MEF's portfolio development and market outreach.

USD 94.4 million  
16% of total MEF portfolio



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# A Facility Supporting Microfinance and Micro-Enterprises

Regional developments

Most Latin American markets have weathered recent global macroeconomic headwinds comparatively well. That said, decelerating regional macro growth on the back of lower commodity prices and political uncertainty along with increasing competition have led to slower MFI balance sheet growth. Financial deepening in many markets has provided more local currency available to MSME financial companies through domestic capital markets, including commercial banks and quasi-state second-tier institutions. Counter-cyclical central bank monetary policy has also supported local liquidity levels and increased price competition with international sources. Nonetheless, attractive opportunities along with requirements for supportive intervention remain for international lenders given MFI needs for diversification of funding sources. Demand from Mexican MFIs was high in 2018 leading to a year-on-year doubling of MEF's position in this market. Mexico is now the second largest exposure in our portfolio. Regional asset quality has been generally stable (except for Nicaragua which tumbled into a deep and prolonged political crisis) with regulatory frameworks and institutional governance comparatively strong, although MFI margins remain under pressure overall.

African MFIs have exhibited flat growth across most markets for similar macro reasons. Yet unlike Latin America, African economies lack increasingly robust domestic sources of capital. In that regard, MEF investment opportunities as well as requirements for supportive intervention continue to exist.

The Sub-Saharan Africa portfolio grew and diversified, with transactions in Burkina Faso, Ghana, Nigeria,

Tanzania and Togo. Challenges arise from less mature regulatory environments (in spite of recently strengthened capital requirements in some jurisdictions) and institutional governance. Subsidised lending rates, both domestic and international, continue to distort risk-priced financing. Even so, we see a growing role of the MEF in satisfying unmet demand for financing and financial inclusion in particular, albeit not only, in some West African economies. As in other regions, hedging costs are up on volatility and rate differentials. Local currency financing is nonetheless the overriding demand. Most domestic commercial banks are still not significant retail competition nor are they sources of liquidity for MFIs. That said, Kenyan domestic banks are starting to fund MFIs more than in the past and some DFIs are engaging down-market directly.

MFIs in Eastern Europe and Caucasus have exhibited renewed growth in recent periods, after years of contraction and currently still representing a comparatively small exposure for the Fund. Lessons learned from FX-related problems of the past have strengthened asset-liability management and asset quality has improved (although this may to some extent be distorted by rapid growth). Unlike Latin America, in this region as well, Micro, Small and Medium Enterprises (MSMEs) financial company liabilities structures show no significant domestic sources of local currency financing. Neither do MFIs source funds from the domestic capital markets or local second-tier entities. These conditions result in significant potential demand for MEF going forward.

Unlike Eastern Europe, Asian markets represent significant exposure for the MEF. Growth has resumed in India over 2018 as the microfinance industry rebounded somewhat after the implementation of demonetisation in November 2016. MFIs have found both opportunity and constraints in capital markets, with increased regulatory complexity in securities placements. Regional growth for the Fund has been concentrated in India, although many other international lenders are nearing country exposure limits. MEF disbursements in India were lower in 2018 than demand might otherwise have allowed. In other parts of the region, notably the Philippines and also Cambodia are cooling off. Contrary to overall market trends, however, Cambodia remains a key market for MEF, though existing loans were only partly renewed. More broadly, we see some consolidation as regional commercial banks acquire more MSME financial companies, potentially moderating need for additional international funding to finance balance sheet growth. Household debt levels have risen in many markets as have other leading indicators of weakening asset quality. The MEF Board and Investment Committee are following the political and financial situation attentively.



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## Client Story

### Mango farming and small breakfast restaurant

Cambodia

“Before this loan, we only had the mango farming business as family income. However, getting a loan from LOLC gave us the chance to start a small breakfast restaurant at home,” said Mrs. Chen.

By the end of 2015, Mrs. Chen and her husband, Phom Vy, decided to apply for the first loan of USD 2,000 to open a restaurant in front of their home. This to have another source of income for daily expenses and to reduce the family’s dependence on a single source of income. As the new business began to run well she saw that their total income increased to USD 25 daily while she spent only USD 7.50 on everyday expenses.

There were two things that made Mrs. Chen’s business successful: Using the budget properly and saving some of her daily profits. This meant that she could support her 3 children attending school and enjoying a decent living standard such as with nutritious food, access to toilet, sanitation and clean water, and good dress. Her eldest son is studying in grade 11.

In 2017, Mrs. Chen received a second loan of USD-equivalent 3,000 to buy fertilisers and farming materials for her mango farm. As the family’s income was improving and she was able to generate a daily cash surplus of USD 12.30 she decided to apply for a third loan: a USD-

equivalent loan of 3,000 for 24 months to buy a plot of land and materials for her small restaurant. In addition to the restaurant and taking care of their mango farm, the couple now also expanded by renting mango farms within the village.

“Through the experiences with LOLC loans as investment capital I dare to dream of something big like expanding our businesses into a large-scale shop and farm, and I want my children to become teachers one day,” said Mrs. Chen.

Since the first loan granted in 2012 MEF disbursed USD 31.5 million to LOLC Cambodia with USD 15.6 million outstanding exposure as of end 2018.



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## Client Story

AMC de RL de CV

El Salvador

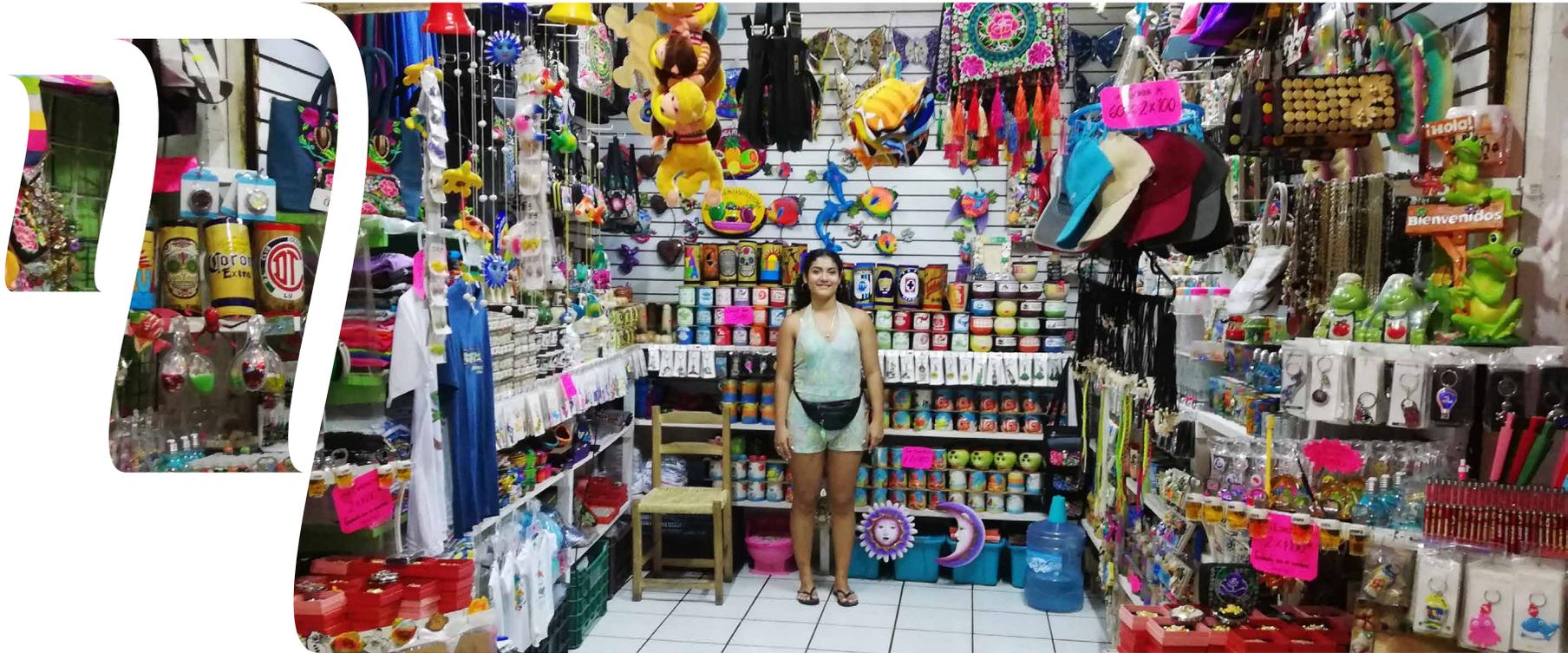
The [Local Economic Development Agency of Morazán](#) (Adel Morazán) initiated a microcredit programme in 1996 with the goal of developing MSMEs in the western Region of El Salvador. Given the success of the programme, in December 2000 AMC was constituted as a Savings and Loan Cooperative by shares. As such, AMC is a private Limited Liability Company not regulated or supervised by the Superintendence of El Salvador.

The entity is fully devoted to financing micro-enterprises and low-income people of the rural sector in El Salvador. 54% of its portfolio represents loans extended to micro-entrepreneurs.

AMC's strategy during the last years has been to expand its services geographically having presence in 12 of the 14 departments of the country with a network of 14 branches and serving

more than 16 million active clients. The majority shareholder is CONFIANZA, S.C. de R.L. with 81.43% of the shares. CONFIANZA is the Holding Company that manages the share capital investments of the ADEL Morazán Foundation. The MFI is rated by SCRiesgo, a local Rating Agency.

[MEF disbursed one loan to AMC de RL de CV in 2017 for which the outstanding exposure as of year-end 2018 is USD 3 million.](#)



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# Client Story

Souvenir shop

Mexico

Erika has been a client of Finlabor (Mexico) for four years. She is one of the first clients of the branch in Zihuatanejo in Guerrero State and over the years she has received loans during 13 group lending cycles. She started with a group loan of USD 500 and then received larger loans according to the credit policy. She currently has a USD 2,400 loan that she invests in her souvenir business. Upon receiving her first loan she moved to a better location where her sales

increased significantly and allowed her to buy wholesale at significantly lower cost. Then she started with wholesaling souvenirs in craft markets in parallel to selling them in her own shop. Now she has merchandise in stock worth approximately USD 6,500. Her living conditions have improved over the last four years. In her previous store her business was not prospering and had discouraged and stressed her. With business going well and expanding she now enjoys having a

much more stable situation for both her business and her family.

Financial education she has been offered by FinLabor has been very useful in this process of expansion and she plans to continue investing.

Since the first loan granted in 2016 MEF disbursed USD 3.5 million to Financiera Labor with USD 2.4 million outstanding exposure as of end 2018.



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## Client Story

La Fayette Microfinance Bank

Nigeria

La Fayette Microfinance Bank (La Fayette MFB), part of the Advans Group, was created in June 2012 as part of a vision of building a model group of financial institutions which contribute to strengthening local businesses, creating and sustaining jobs, and improving clients' living standards in order to foster private sector-led economic and social development in Africa, the Middle-East and Asia. La Fayette MFB started full operations in February 2013 and has built a strong client base serving customers through eight branches, all deliberately positioned within close proximity of its customers.

La Fayette MFB's mission is to respond to the need for financial services of Micro, Small and Medium-sized Enterprises (MSMEs) and other populations who have limited or no access to formal financial services. Through providing a range of tailored financial services in a sustainable and responsible manner La Fayette MFB has been able to reach out to the underserved population and financially excluded individuals.

With over 55% of female borrowers La Fayette MFB has empowered women to take charge of their business and life with financial services adapted to their

business needs. Clients are at the heart of everything La Fayette MFB does and in the coming years, La Fayette MFB plans to continue its expansion to cover other regions in the country.

La Fayette MFB is a member of the Advans Group, a microfinance holding, currently active in ten countries contributing to economic development and poverty alleviation through financial inclusion.

Since the first loan granted in 2014 MEF disbursed USD 2 million to La Fayette Microfinance Bank with USD 1 million outstanding exposure as of end 2018.



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## Client Story

Welding workshop

India

Ravi has been the owner of a welding workshop in Katni (India) for the past five years. After having worked in a welding workshop for ten years he started his own business, also to improve the standard of living for his family. At the beginning he had only a welding machine and drilling equipment. He was very keen to grow his business because

he had the skills and was ready to work hard to fulfill his dreams. With just a few tools, however, he had to turn down customers. Thanks to a loan from Aye Finance he purchased a drill and a portable welding machine which allowed him to significantly expand his services. On the back of the growth in business Ravi hired ten full-time workers. He feels

he can achieve his dreams by continuing at this pace of growth and proudly says, "Since my business has grown I do not have to say 'No' to my customers anymore!"

MEF disbursed one loan to Aye Finance in 2017 for which the outstanding exposure as of year-end 2018 is USD 3.7 million.



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# Client Story

MASKAPITAL

Mexico

**MASKAPITAL S.A. de C.V. SOFOM E.N.R.** (MASKAPITAL) is a private non-regulated financial institution dedicated to providing microlending services to low-income women using the solidarity-group (joint liability) lending methodology. The entity started operations in 1993 in Oaxaca state, one of the poorest states in Mexico. Its mission is to help women achieve a better quality of life through financial services. Nowadays MASKAPITAL continues to offer microfinance loans to the bottom of the pyramid, operating in southern Mexico through a network of 45 branches

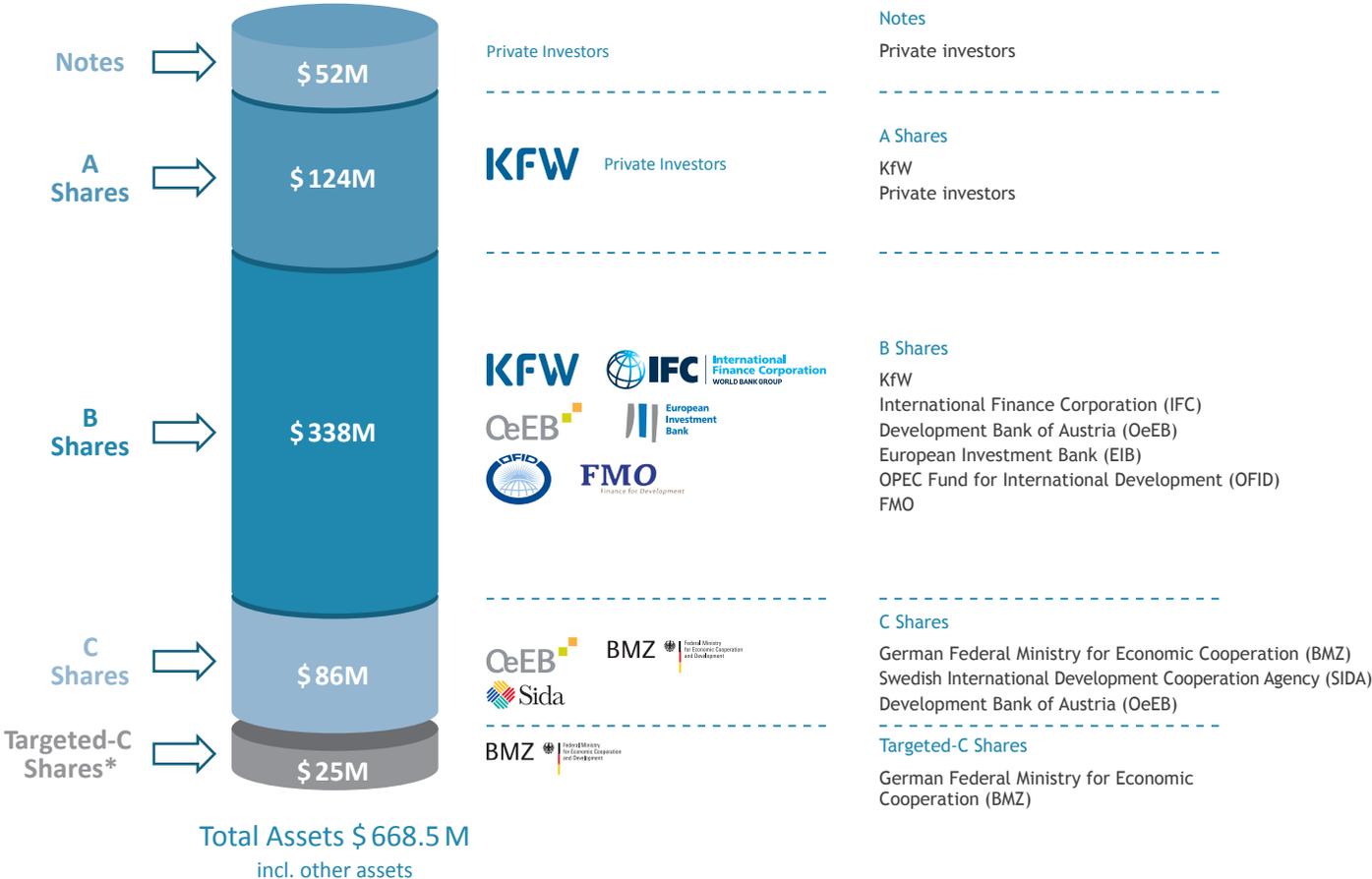
in 8 states. As of 2018, 22,498 clients are served with a total portfolio volume of USD 19 million.

In line with its business model, the entity's portfolio is composed entirely of solidarity-group loans, a product that mainly targets women who live in semi-urban and rural areas. These women must have a similar economic background and live close to one another. The group members meet on a weekly or bi-monthly basis. The loan tenors are short, between 16 and 20 weeks, and have an average

loan amount of USD 500. Clients who repay timely can request a higher amount for a follow-on loan, subject to approval of the whole solidarity-group as each member is jointly liable. The main activities of these clients are related to trade and services and the financing is mainly used for working capital and to expand their businesses.

**MEF disbursed one loan to MASKAPITAL in 2018 for which the outstanding exposure as of year-end 2018 is USD 1.9 million.**

# Investor Structure



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

## Investors



As well as Private Investors



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# Financial Information

## Balance Sheet

	2018	2017
<b>ASSETS</b>		
Loans to MFIs	599,722,666	597,443,943
Current assets	68,804,240	55,013,401
of which : cash & cash equivalent	49,296,080	42,541,806
Other assets	800,037	256,831
<b>Total Assets</b>	<b>669,326,943</b>	<b>652,714,175</b>
<b>LIABILITIES</b>		
Notes	52,863,000	75,000,000
Current liabilities	43,039,798	47,497,497
of which : dividend payable	26,662,162	19,453,860
<b>Total Liabilities</b>	<b>95,902,798</b>	<b>122,497,497</b>
<b>NET ASSETS</b>	<b>573,424,145</b>	<b>530,216,678</b>

In USD as of 31 December 2018 in accordance with Luxembourg GAAP



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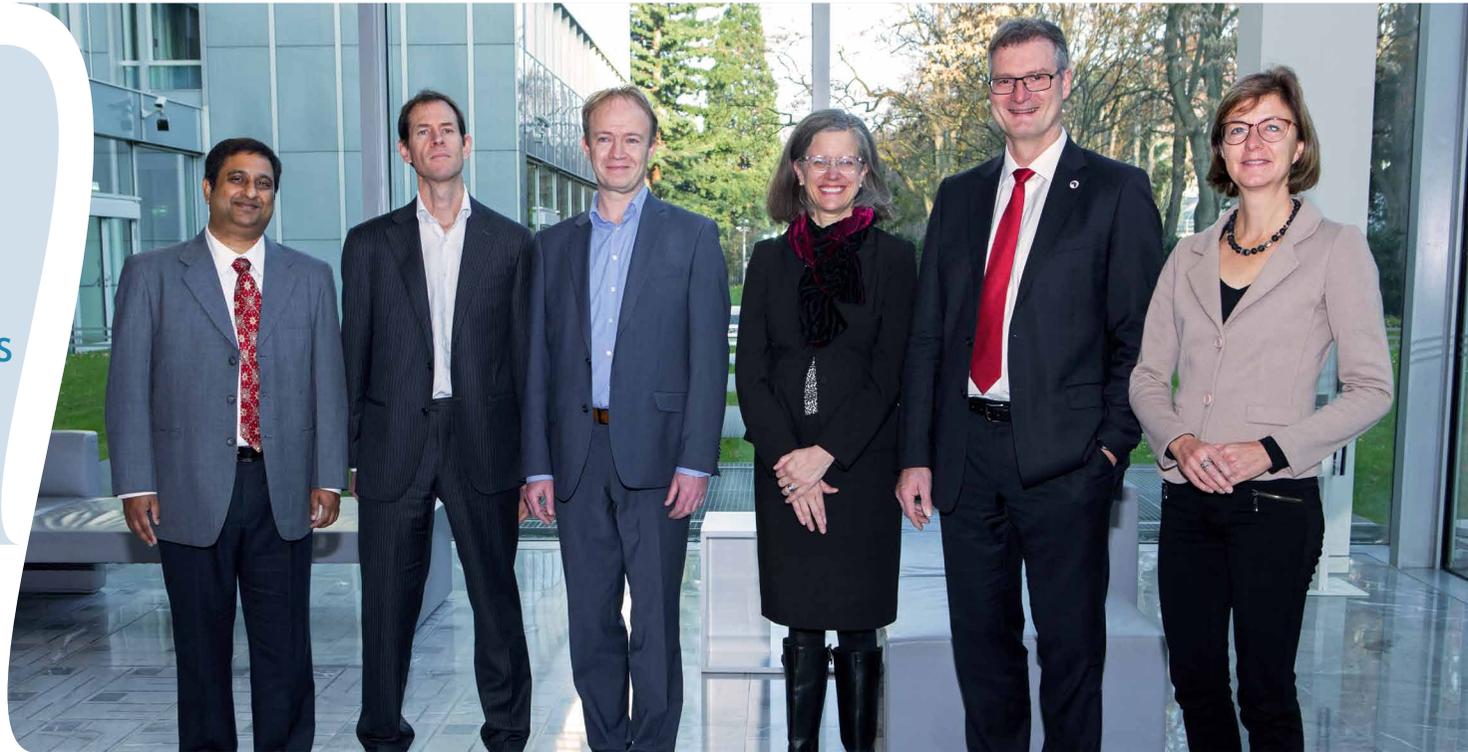
# Financial Information

## Income Statement

	as at 31 December 2018	as at 31 December 2017
<b>INCOME</b>		
Interest on loans	49,208,540	43,773,583
Upfront fees	2,027,608	2,055,982
Other income	1,882,437	1,836,834
<b>Total Income</b>	<b>53,118,585</b>	<b>47,666,399</b>
<b>EXPENSES</b>		
Management fees	(7,355,328)	(7,098,922)
Legal, advisory and audit fees	(379,141)	(442,706)
Administration, custodian and domiciliation fees	(702,654)	(672,681)
Interest expenses on Notes	(3,505,641)	-
Other expenses	(3,242,670)	(6,767,913)
<b>Total Expenses</b>	<b>(15,185,434)</b>	<b>(14,982,222)</b>
<b>NET OPERATING RESULTS</b>		
Net income from investments	37,933,151	32,684,177
Net realised and unrealised gains/losses on foreign exchange	(15,820,186)	7,758,413
Net realised and unrealised gains/losses on swaps and forwards	10,184,834	(19,315,554)
Value adjustments relating to loans	(535,354)	(27,266,600)
<b>Net increase/decrease in Net Assets as result of operations for the year/period</b>	<b>31,762,445</b>	<b>(6,139,564)</b>
<b>MOVEMENT IN CAPITAL</b>		
Subscription of shares	38,107,184	3,980,100
Redemption of shares	-	-
Advance of dividend	(26,662,162)	(19,453,859)
<b>NET ASSETS AT THE END OF THE YEAR/PERIOD</b>	<b>573,424,145</b>	<b>530,216,678</b>

In USD as of 31 December 2018 in accordance with Luxembourg GAAP

## Board of Directors



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# Microfinance Enhancement Facility SA, SICAV-SIF

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#### General Secretary

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