MEF
Microfinance
Enhancement
Facility

Annual Report 2019

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Letter of the Chair

Set up as a public-private partnership, MEF combines an innovative and efficient structure with the expertise of four leading private investment advisors (BlueOrchard Finance AG, Incofin Investment Management, responsAbility Investments AG and Symbiotics SA). The Investment Advisors are supervised by the Investment Committee and the Board of Directors.

The low average loan amount per borrower (USD 1,801) underscores that the activities of MEF and its partner MFIs serve predominantly the microfinance segment. The Fund has demonstrated strong outreach to women as well as micro and small entrepreneurs and has progressively increased its offer of local currency financing to allow effective de-risking of its partner MFIs.

Dear Stakeholders,

We are pleased to present the MEF Annual Report 2019 to share with you an account of last year's activities and achievements in fulfillment of our global impact finance mission. That mission remains unchanged: to improve the livelihood of micro-entrepreneurs and low-income households in developing countries around the globe.

Risks to the global economy and reduced growth expectations flagged in last year's Annual Report resulted in a gradual deceleration of MEF's lending activities over 2019. The Fund closed the financial year with USD 770 million in total assets (USD 669 million in 2018) and recorded an outstanding net portfolio of USD 566 million (USD 600 million in 2018) placed with 133 MFIs in 43 countries. Demand for local currency continues to be strong. MEF responded to this global demand by increasing its total share of local currency lending from 56% to 62%, with hedged local currency positions representing more than half of the total portfolio for the second year in a row.

After having onboarded Symbiotics SA in early 2019 as MEF's fourth Investment Advisor, we were pleased to welcome Incofin Investment Management in replacement of Cyrano Global LLC whose expressed wish was to exit after ten years of fruitful collaboration with MEF. Incofin joins the existing Investment Advisors BlueOrchard Finance AG, responsAbility Investments AG and Symbiotics SA under the coordination of Innpact S.à.r.l as the General Secretary of MEF.

Focus on cost control and operational efficiency is reflected in the Fund's low Total Expense Ratio (TER) of 1.53% in 2019. The high quality and increasingly diversified global microfinance portfolio together with the strong financial performance of this structured fund has piqued the interest of a growing number of private investors. In 2019 several investors confirmed their confidence in the Fund, providing USD 130 million additional commitments from existing investors and one new institutional investor. This renewed investor interest allowed MEF to more than replace the USD 72 million of B Shares which matured in February 2020. As a result, the Fund's total assets increased from USD 669 million to USD 770 million over the year to December 2019 in anticipation of scheduled redemptions and projected portfolio growth in 2020.

The presentation of this Report comes at a time when the global health and economic impacts of the Covid19-crisis continue to evolve. Our full understanding of how the pandemic will ultimately affect the world, our partners and the Fund has yet to take shape. To assess and address the situation, Shareholders, Board and Investment Committee along with the four Investment Advisors, supported by the General Secretary, are in frequent communication. Regular portfolio and stress test updates, including the simulation of expected impairment and provisioning, aid the Board to analyse the possible risk impact and to structure and continuously adapt a response.

Letter of the Chair

MEF is well positioned to respond given its more than ten-year track record, the commitment of our shareholders, the increasing diversity of our investor base and the fact that MEF was originally conceived and structured as a global crisis response vehicle. Fundraising currently underway will help ensure the ability of MEF to respond fully to renewed demand in the context of repayments to the Fund delayed by forbearance granted, and to bridge the gap expected to be left as traditional funders become more conservative with their existing liquidity. Anchor investors in MEF have already expressed willingness and ability to support the Fund's role in this response. Similarly, conversations with private investors are expected to bear further fruit. As a first response to the crisis, MEF has given stronger focus to supporting micro- and small enterprises within its microfinance investment framework. The current circumstances imply potential opportunities, both to support economic recovery of micro-entrepreneurs and consequently low-income households, and to grow the Fund in line with its mission.

On behalf of the Board I would like to take the opportunity to express our gratitude to the committed investors of MEF for their ongoing support in this initiative. We are also grateful to the Investment Advisors, the service providers and the General Secretary for their efforts and dedication in supporting the development of MEF and for their commitment to the Fund's mission. I would be remiss not to mention our deep appreciation for the MFI partners with whom we work. These institutions provide much needed access to inclusive financial products and services to our ultimate clients who are among the most vulnerable members of society in 43 countries. Rest assured that MEF will persevere in its mission and remain a committed and constructive partner through these challenging times.

On behalf of the MEF Board of Directors
Ihno Baumfalk - Chair

Ihno Baumfalk

Key Portfolio Figures

MEF closed the year with USD 770 million in total assets (USD 669 million in 2018).

Per year end 2019, the Fund's loans to 133 MFIs in 43 countries recorded an outstanding net portfolio of USD 566 million (without accrued interest; USD 600 million in 2018).

42 new MFIs and 6 new countries were added to our portfolio: Mali, Myanmar, Pakistan, Tunisia, Uzbekistan and Zambia.

2019 Portfolio

Loan Portfolio	USD 566.1 M
Total Assets	USD 770.4 M
Total Net Asset Value	USD 579.6 M
Institutions Financed	133
Loans	204
Countries	43

Since Inception

USD 2.1 BILLION
INVESTED

56
COUNTRIES

249
INSTITUTIONS FINANCED

653
LOANS

MEF Impact at a Glance

as of 31 December 2019

475,000
Final borrowers
reached by MEF funding

USD 1,801 Average
USD 2,531 Median
Loan size to
final borrowers

84%
Women

83%
Individuals and
Micro-enterprises
(five or fewer employees)

57%
Rural

the smart campaign

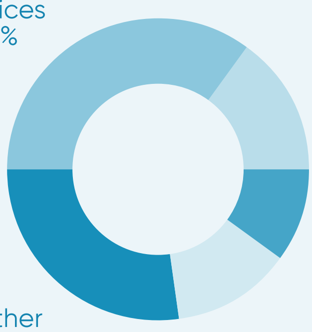
MEF endorses the
Client Protection Principles*

LUXFLAG MICROFINANCE

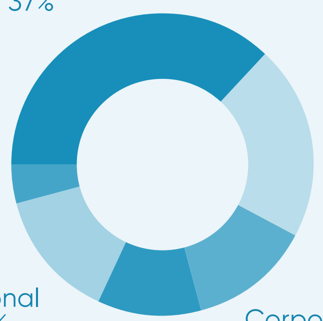
LuxFLAG Microfinance
Label since 2011

*smartcampaign.org; in transition to SPF and Cerise (www.centerforfinancialinclusion.org)

Distribution by Activity



Distribution by Loan Purpose



The charts reflect the distribution of the entire loan portfolios of the MFIs in MEF's portfolio.
Based on available December 2019 indicators as reported by the MFIs in MEF's portfolio.

Social Impact Analysis ALINUS

MEF Portfolio
Average SPI4-ALINUS* Score 70%

MEF introduced SPI4-ALINUS with its 2019 social performance reporting.

With an overall ALINUS score of 70%, **MEF partner MFIs demonstrate stronger social performance than their peers** (56%).

MEF partner MFIs outscore the Cerise benchmark in all dimensions.

Adherence to evolving social performance standards is a core component of MEF's commitment to responsible finance. In line with this commitment, the Board of Directors resolved to engage Cerise to assess social performance of MEF partner MFIs beginning in 2019. Cerise, a global leader in impact measurement, applies the widely recognised social audit tool SPI4-ALINUS.

This first year of collaboration with Cerise in the application of ALINUS coincided with the outbreak of Covid19. The typical challenges of any first attempt to apply a uniform and generally accepted standard of data collection across the MEF portfolio were compounded by the pandemic.

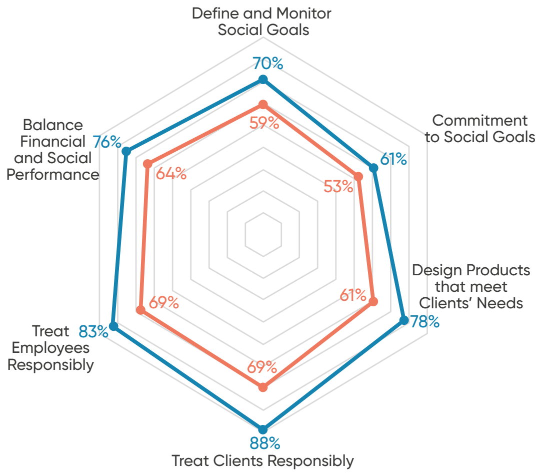
Nevertheless, working within the constraints posed by a transition in times of crisis, the analysis shared here is based on input from 45 out of the 133 MEF partner MFIs for which Cerise obtained data. Cerise considered the sample sufficiently robust and representative to serve as an initial basis for analysis. Cerise benchmarked the reporting group of MEF partner MFIs to their global database of 406 MFIs on this basis.

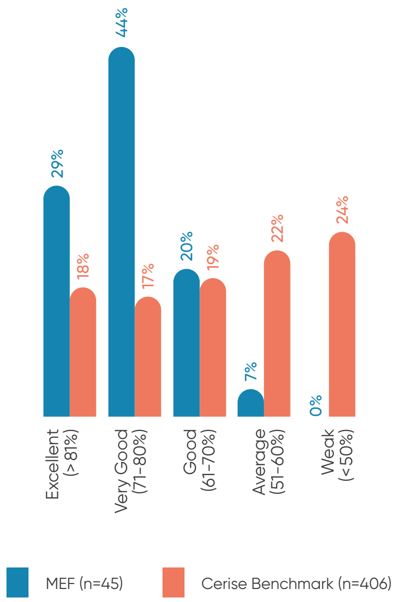
The results demonstrate that MEF partner MFIs outscore the Cerise global dataset in all dimensions with an overall score of 70% compared to 56% of the peer group.

MEF is delighted to have this independent external validation as a positive first measure of its impact using an industry standard social audit tool. These initial findings confirm that MEF policies supported by the robust processes of its four Investments Advisors and its Investment Committee have been successful in building a portfolio of MFIs with strong social performance.

As part of MEF's objective to support the development of an inclusive financial sector, MEF also finances MFIs that do not yet have a full reporting framework and best social impact practices in place. The Fund nevertheless will continue to ensure that its partner MFIs have minimum standards in place and, more importantly, are positioned to improve their practices over time.

While proud of the Fund's social impact score for 2019, the Board is also keenly aware that a similar analysis performed on the entire portfolio might have led to less positive results: There is a certain selection bias in the companies who are already fully adhering to global standards and capable of reporting. Despite this, MEF decided to publish these results and is mindful that next year's score – with a sample composed of more MFIs and among them more that would use SPI4-ALINUS for the first time – the result might look different. More details of this analysis performed by Cerise and its findings are available in MEF's forthcoming Impact Report.

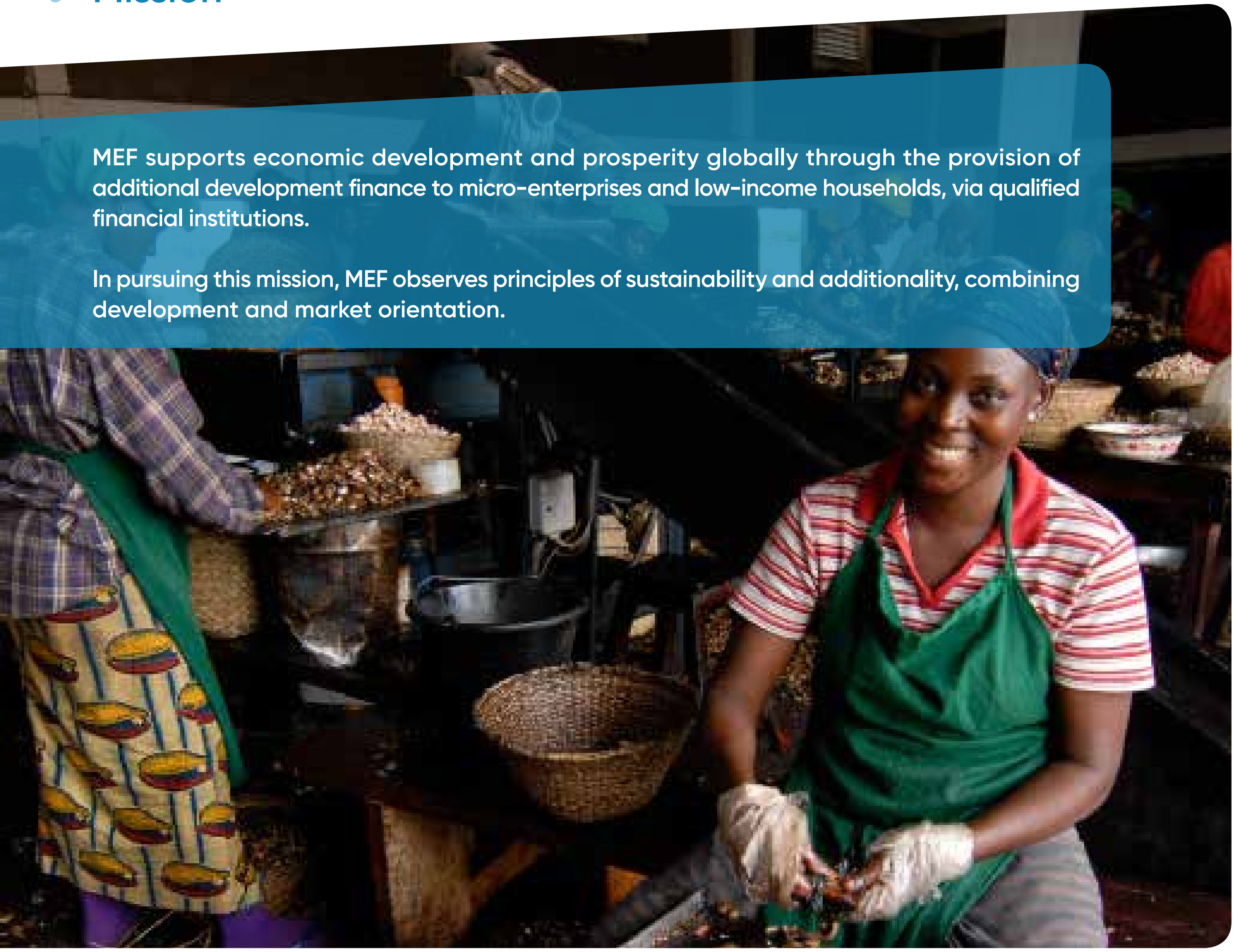




Cerise
SPI4 Alinus

*SPI4-ALINUS is a social performance assessment tool developed by Cerise and aligned with the Universal Standards for Social Performance Management. ALINUS stands for "ALigning INvestors due-diligence and reporting with the Universal Standards". (https://cerise-spm.org/alinus/)

Mission



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

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

THE 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, originally as a result of the global financial crisis and, in particular, the 2008/2009 liquidity crisis.

The Fund is structured as a flexible vehicle designed to meet the needs of MFIs without crowding out private sector financing. Local currency debt financing and adherence to constantly evolving social performance standards are core components of MEF's approach to responsible finance. These elements have made the Fund a reliable partner in challenging or crisis situations.

Positioned as an efficient microfinance debt fund – with a liquidity buffer on stand-by maintained at all times – MEF financing provides an important market signalling effect and contributes to stabilising and strengthening the provision of responsible financial services to support income generation and employment that improve livelihoods of low income households.

As a demand-oriented Fund seeking to respond to the needs of the market and of individual MFIs, since inception MEF has supported low income borrowers by providing over USD 2.1 billion to more than 249 financial institutions active in the microfinance space in 56 developing countries worldwide.

Initiated by KfW (the German Development Bank) and IFC (the International Finance Corporation, a member of the World Bank Group), the Fund is supported by Innpact as General Secretary and co-managed 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 on a monthly basis and composed of reputable professionals in the microfinance industry, Dr. Klaus Glaubitt, Karlo de Waal, Syed Aftab Ahmed and Michael Neumayr (composition at year end 2019).

Fund Facts

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

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

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

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

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

INVESTMENT CURRENCIES
USD, EUR, local currencies

INCEPTION DATE
February 2009

INVESTORS

MEF was set up as a blended finance unlimited duration fund and is open to well-informed investors only.

The Fund is designed to leverage public funding by attracting commercial capital from multilateral and private institutional investors.

The Fund has three Shareholder classes (A, B, C) and one Noteholder class. Each share and note class has its own risk and return profile.

KfW (German Development Bank)

International Finance Corporation (IFC)

Development Bank of Austria (OeEB)

European Investment Bank (EIB)

OPEC Fund for International Development (OFID)

FMO (Dutch Entrepreneurial Development Bank)

German Federal Ministry for Economic Cooperation and Development (BMZ)

Swedish International Development Cooperation Agency (SIDA)

& private investors

Fund Governance and Organisation

BOARD OF DIRECTORS


Ihno
Baumfalk
Chair


Suzannah
Carr


Johannes
Feist
Chair until Q3 2019


Andrea
Hagmann


Angus
Macrae


Swapnil
Neeraj

INVESTMENT COMMITTEE


Karlo
de Waal
Chair


Dr. Klaus
Glaubitt
Chair until Q1 2020


Syed Aftab
Ahmed


Michael
Neumayr

Recent changes to Board of Directors
Departing: Johannes Feist (Q3 2019), Suzannah Carr (Q1 2020) and Angus Macrae (Q1 2020)
Joining: Momina Aijazuddin (Q1 2020) and Markus Schladt (Q2 2020)

Recent changes to Investment Committee
Departing: Dr. Klaus Glaubitt (Q1 2020) and Syed Aftab Ahmed (Q2 2020)
Joining: Suzannah Carr (Q1 2020), Rainer Hartel (Q1 2020) and Madhu Dutta-Sen (Q3 2020)

MEF
Microfinance
Enhancement
Facility

Initiated by
IFC International Finance Corporation World Bank Group · KfW

Investors
IFC International Finance Corporation World Bank Group · European Investment Bank The EU bank · FMO Finance for Development · OFID Uniting against Poverty · KfW · OeEB · Federal Ministry for Economic Cooperation and Development · Sida
& private investors

Board of Directors

Investment Committee

Investment Advisors
- BlueOrchard Finance S.A. (BlueOrchard Impact Investment Managers)
- Incofin Investment Management (incofin investment management)
- responsAbility Investments AG (responsAbility)
- Symbiotics S.A. (symbiotics)

Hedging Advisor
Chatham Financial (Chatham FINANCIAL)

General Secretary
Innpact S.à.r.l (innpact Innovative Impact Finance Solutions)

Administrative Agent
Credit Suisse Fund Services (Luxembourg) S.A.

Custodian
Credit Suisse (Luxembourg) S.A.

Auditor
Ernst & Young S.A.

Legal Counsel
Arendt & Medernach

Activity Report

Investor Interest

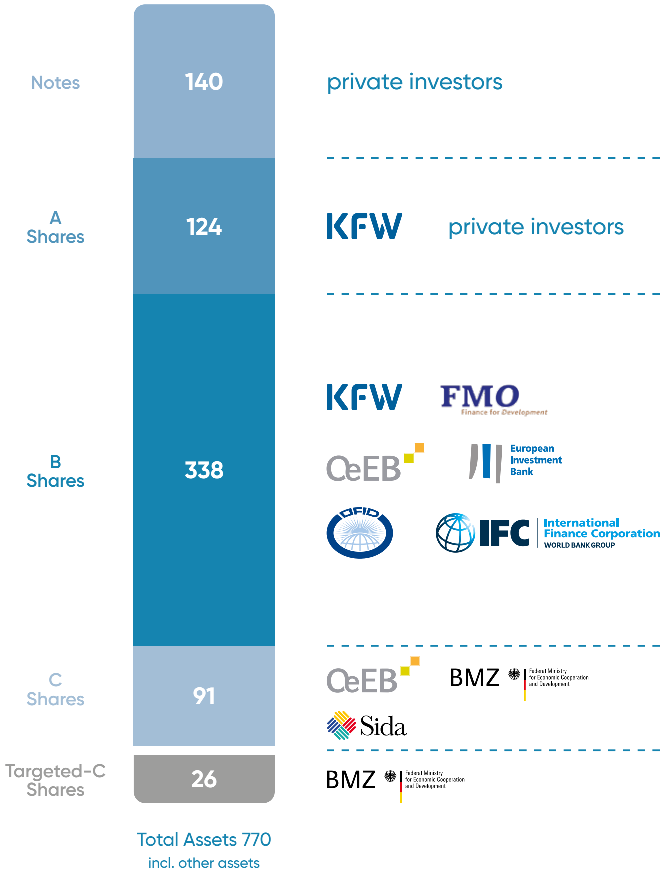
The high-quality, increasingly diversified global microfinance portfolio and strong financial performance of this structured fund has piqued the interest of a growing number of private investors. Several investors confirmed their confidence in the Fund in 2019:

- a follow-on investment by an institutional investor of approximately USD 28 million to replace its previous notes which matured in 2017 and 2018
- the diversification of the Fund's investor base was taken a step further with a new institutional investor committing USD 90 million disbursed between November 2019 and April 2020
- an additional EUR 9 million (USD 10 million) was subscribed by KfW, acting on behalf of the German Ministry for Economic Cooperation and Development, underscoring the German government's strong commitment to the Fund

This renewed investor interest allowed MEF to more than replace the USD 72 million of B Shares which matured in February 2020 and led to a temporary high cash positions recorded at year-end.

Investor Structure

Total Assets as of 31 December 2019
in USD million



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

Door Manufacture

Igor is a skilled metal worker who learned much of his trade abroad. When in 2008 Igor decided to return home to Moldova, he initially worked for a metal works company. Together with a co-worker he then decided to open his own business and called it 'Biraders'.

At first the company manufactured simple products like guard rails, fences and gates, responding to market demand. Enjoying his business, Igor began to invest in product quality and developed product lines for exterior and interior doors. In 2014 Biraders opened its first showroom in Chisinau offering a big assortment of doors for all market segments.

A loan from Microinvest in 2017 allowed the company to invest in an improved paint booth. This helped to double company sales and profit. Building on the success and a remarkable portfolio of clients, the owners continue to invest, such as in technologies for sound proofing and thermal insulation. Igor believes that continuous investment in innovation and safety distinguishes the company in a competitive market. Experience and dedication make Biraders' doors high-end products of a quality that has become the company's business card.

MEF disbursed four loans to Microinvest (a Moldovan MFI) with an outstanding exposure as of year-end 2019 of USD 400,000. An additional USD 4 million loan was disbursed in Q1 2020.

Moldova

Activity Report

Market Environment

Risks to the global economy and reduced growth expectations resulted in a gradual deceleration in 2019. Nonetheless, microfinance markets in all regions experienced continued growth with investors increasing their allocation to microfinance assets by 6% globally over the period (Global Impact Investing Network, 2020 Report).

Demand for local currency continues to be strong. MEF responded to this global demand by increasing its total share of local currency lending from 56% to 62%, with hedged local currency positions representing more than half of the total portfolio for the second year in a row. That said, market volatility exerted upward pressure on hedging costs exacerbating a price disadvantage for international lenders in many markets. Despite these headwinds, the Fund strives to continue to grow its local currency offer as only local currency funding that finances local currency lending can remove conversion risks from MFIs and their clients in emerging markets.

Operating and Financial Performance

Total Assets of the Fund increased from USD 669 million to USD 770 million over the year to December 2019 in anticipation of scheduled redemptions and projected portfolio growth in 2020. Focus on cost control and operational efficiency is reflected in the Fund's low Total Expense Ratio (TER) of 1.53% in 2019 (based on average total assets). In fact, TER was further reduced compared to the already low level of 1.66% in 2018.

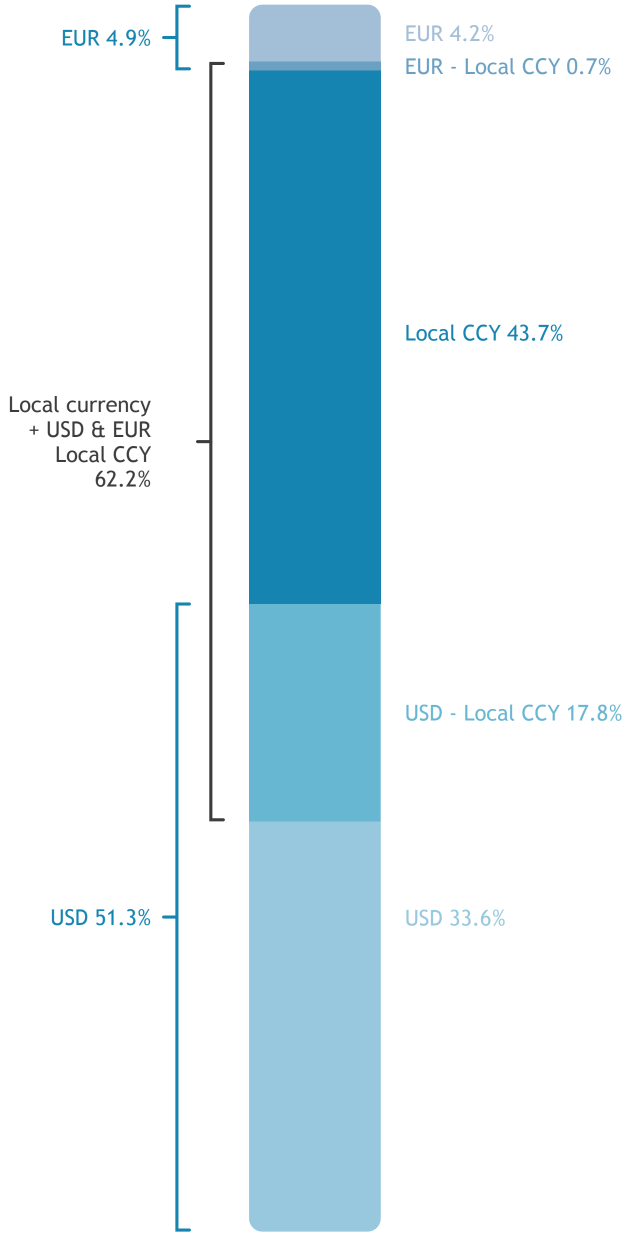
Despite the contraction in productive portfolio described above, distributable income nonetheless increased to USD 34 million in 2019 (from USD 31 million in 2018). This increase was driven by a decreasing LIBOR and consequent lower cost of funds and by higher spreads for deals disbursed in 2019 compared to those maturing in the same period in 2018 (500 bps vs 480 bps).

This allows MEF to pay target dividends to shareholders together with additional complementary dividends. Complementary dividend payments totalling USD 4.4 million for 2019 represent a 48% increase compared to year-end 2018. This performance is in line with consistent target dividend payments since inception in 2009.

Asset Quality

Provisions for impaired loans rose to 7.3% of gross portfolio over the reporting period, up from 6.8% in 2018. This represents a net increase of USD 642k. The Investment Committee continues to monitor closely the critical cases and remains active both as a negotiator and facilitator of suitable solutions in work-out situations.

The recovery rate illustrates again that cooperation between public and private lenders on the one hand, and the partner MFIs on the other, is a key success factor in not only recovering larger sums due but also in allowing distressed partner MFIs to rebound after a difficult situation.



Local currencies: BWP, CNY, GHS, HNL, HTG, INR, KES, KGS, KZT, MNT, MXN, NGN, PEN, PLN, RUB, THB, TJS, TZS, UZS, XOF, ZMW

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

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

All investments hedged to USD

Activity Report

2020 Outlook

We are deeply concerned by the global health and economic impacts of Covid19. As of this writing, our collective understanding of how the pandemic will affect the Fund continues to evolve. Shareholders, Board and Investment Committee along with the four Investment Advisors are in ongoing communication. Partner MFI updates focus on asset quality evolution, debt service capacity and cash flows as well as capital adequacy. These inputs support model assumptions of expected impairment and provisioning. The stress test model is aiding the Board to analyse possible impact and to structure an adequate response.

We see that impact of Covid19 on partner MFIs varies from country to country, and that its eventual depth for each will be a function of underlying economic strength, policy response, capacity of public health infrastructure, and the ability and willingness of each populace to adhere to policy and health recommendations.

We see financial institutions better positioned to continue to make and receive payments the more digitally engaged they are with their clients. Financial regulators in many countries have declared payment moratoria on principal and interest owed. Many financial institutions are not required to book and provision for impairment. These moratoria are expected to roll off by Q3 2020, at which point we expect to see the impact on partner MFIs' balance sheets more clearly. This timing may coincide with a reactivation in some economies, implying the strong possibility of additional demand for credit facilities both from our existing and from new partner MFIs.

The ability of the Fund to respond fully to this renewed demand, especially in the expected context of repayments delayed by forbearance granted, will depend on fundraising currently underway. Development Finance Institutions that are anchor investors in MEF have already expressed willingness and ability to support the Fund's role in this response. Existing conversations with private investors are also expected to bear fruit. In this context, MEF is well-positioned to step into the gap given its ten-year track record, the nature of its shareholders, and the fact that it was originally conceived and structured as a global crisis response vehicle. The current circumstances imply potential opportunity, both to support economic recovery in micro- and small business segments and to grow the Fund in line with its mission.

Clothes Manufacturing

Hilda has been INSOTEC's client since August 2009. She used the first loan of USD 600 to buy her first sewing machine and start her own business. Since then, INSOTEC loans have helped Hilda finance improvements to her workshop and also diversify and increase her income.

In the more than ten years since, Hilda took out eleven further loans and used them mainly to purchase industrial machinery and materials. These investments allowed her to diversify into more services around the core business of manufacturing clothes. With her sixth loan, she managed to finish building her own house.

Currently, she and her husband have a USD 50,000 loan they invested in buying a bus. Her husband runs a transport service for the people of San Pedro de Pelileo in Ecuador's Tungurahua province. Both being self-employed, the couple finds they can spend more time with their children and their quality of life has improved.

"INSOTEC has always trusted me. They helped in providing training to start my own business and allowed me to become self-employed. I am grateful that they continue trusting me again with loans for my workshop, my house and now my bus," says Hilda.

MEF disbursed five loans to INSOTEC (an Ecuadorian MFI) with an outstanding exposure as of year-end 2019 of USD 8.2 million.

Ecuador

Portfolio Development

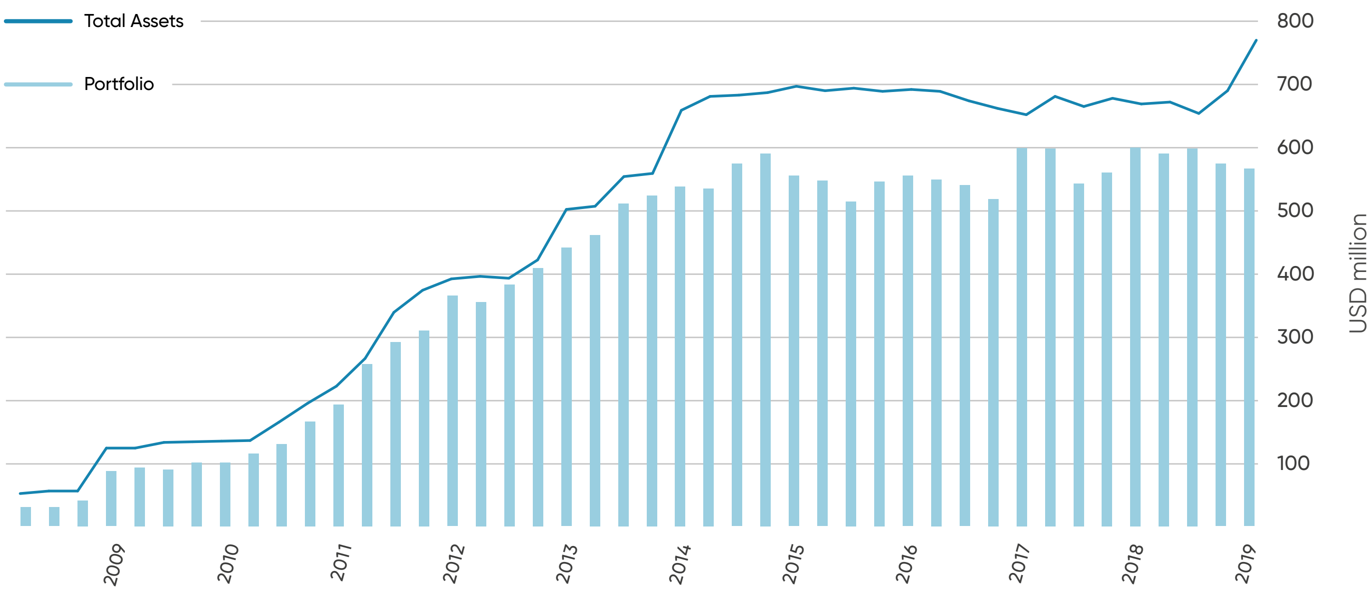
The generally slowing global economic growth fed through to the portfolio. MEF closed FY 2019 with an outstanding net portfolio of USD 566 million over 133 positions in 43 countries. This amounts to a YoY contraction of USD 34.3 million (5.7%). Fewer deals were disbursed, with only 67 transactions compared to 79 in 2018.

In the meantime, in anticipation of scheduled redemptions and projected portfolio growth in 2020, the total assets of the Fund increased from USD 669 million to USD 770 million over the year. In fact, 2019 disbursement was the lowest since 2016 (USD 57 million vs. USD 67 million). Average loan size increased slightly by USD 0.2 million.

At the same time, the portfolio became more balanced across regions, with decreasing concentration in Latin America and the Caribbean (LAC), especially in Central America. This was complemented by a steady increase in Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA).

Unpacking these trends reveals the addition of 42 new MFIs and 6 new countries: Mali, Myanmar, Pakistan, Tunisia, Uzbekistan and Zambia. Over the same period, 29 MFIs exited. India, Ecuador and Cambodia remained highest country exposures for MEF.

Portfolio Evolution



Wholesale Shop

Salomey owns a wholesale shop and has been a client of Advans Ghana for the past ten years. Starting out as a street vendor in Accra's central business district, in 2009 she received her first loan of GHC 500 (Ghanaian Cedi; 95 USD-equivalent). Financing through an ongoing relationship with Advans Ghana allowed her to invest in her business. She now owns two shops with six employees.

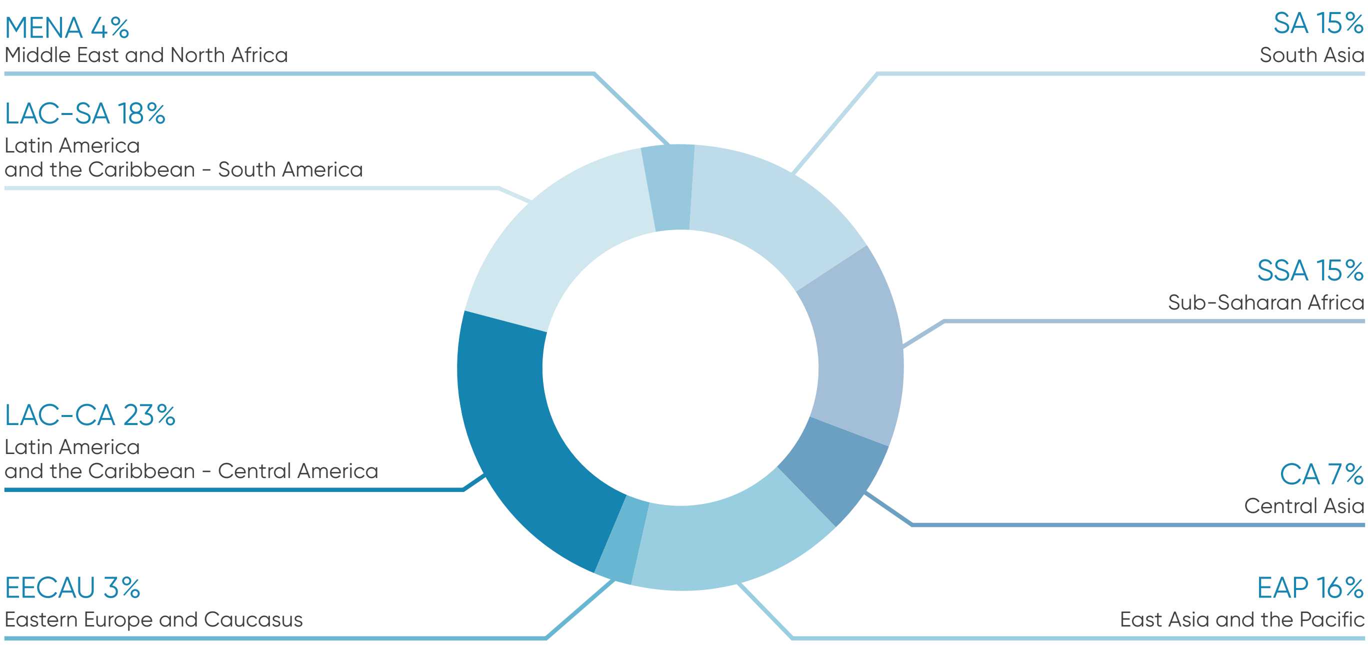
Salomey knows the Advans Ghana staff in the branch near her shop well. She regularly visits the branch or sends one of her employees to take care of business banking. She says she always feels welcome and she highly appreciates the staff's down-to-earth approach and excellent customer service. Salomey happily recommends Advans Ghana to her friends and business contacts.

MEF disbursed one loan to Advans Ghana (part of the Advans Group of MFIs) with an outstanding exposure as of year-end 2019 of USD 1.5 million.

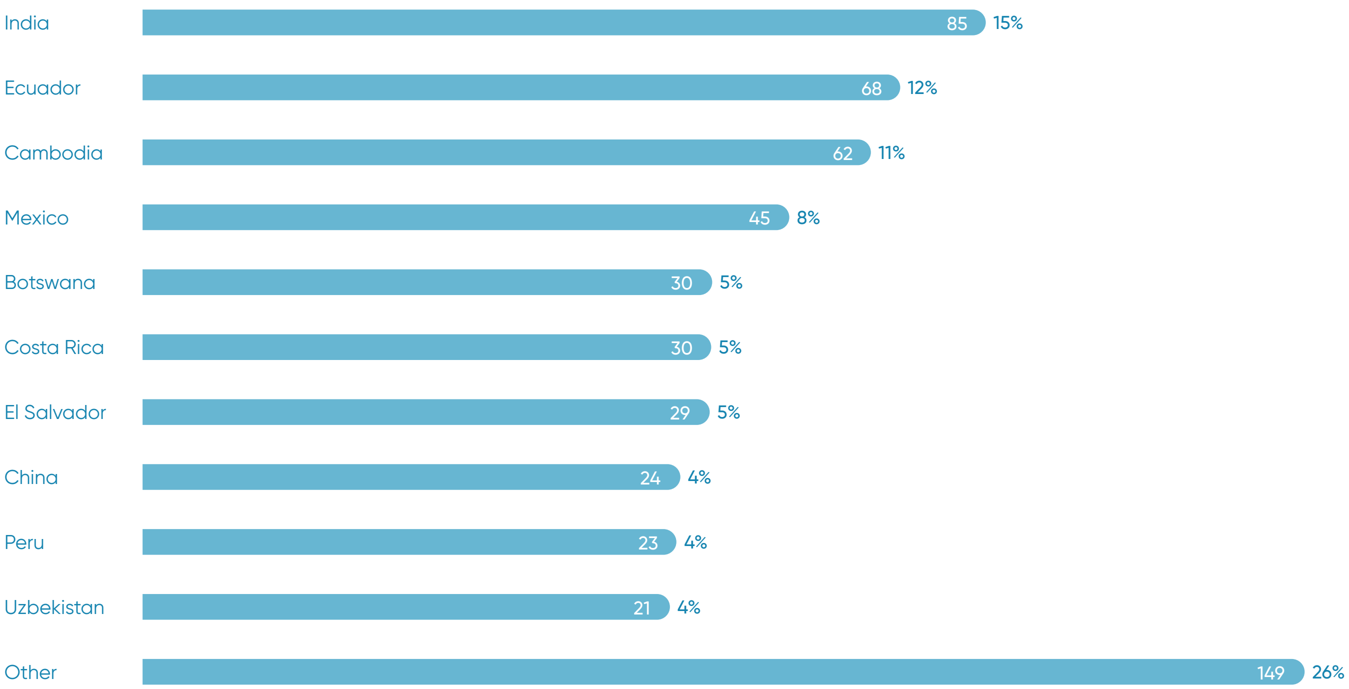
Ghana

Portfolio Development

Regional Distribution



Country Distribution in USD million



Portfolio Development Highlights

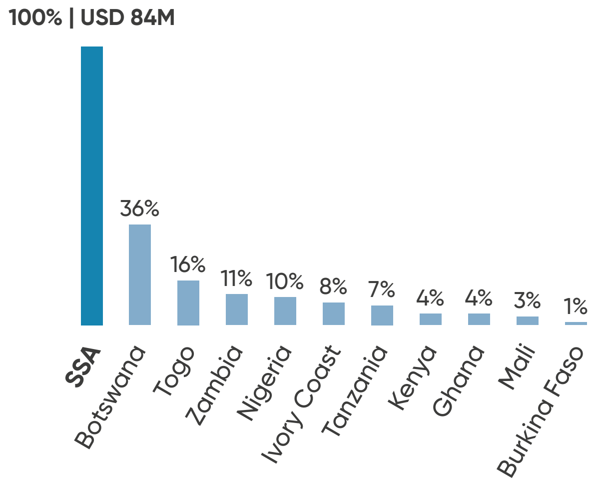
Africa

MEF increased its exposure to Sub-Saharan Africa by around 40% over 2019, to close the year at almost 15% of the global portfolio. As in other regions, hedging costs were high and volatile.

A competitively priced offer is a challenge in Africa even under the best of circumstances given the high degree of subsidy from both local and international lenders. Moreover, comparatively weaker regulatory environments (despite strengthened capital requirements in important markets such as Nigeria) and less mature institutional governance continue to present obstacles to growing the book.

MEF's portfolio growth in Africa was in part due to the lack of domestic sources of capital for microfinance companies, further emphasising the importance of MEF.

Digital transformation and mobile money were also key growth drivers for the region. These trends imply an inherent capacity to boost financial inclusion.



Local Currency Funding for Microfinance

ASA International, Nigeria, started as the Association for Social Improvement and Economic Advancement (ASIEA) in 2009. Part of the ASA International group, it offers access to financial services for the entrepreneurial poor to improve their economic and social condition.

ASAI Nigeria adheres to the SMART Campaign Client Protection Principles. The average client loan is USD 128. Women entrepreneurs are the focus for the basic group loan. Presently, ASAI Nigeria operates in 14 of Nigeria's 36 states.

Facing limited funding in Nigerian Naira, in 2019, MEF's Naira loan offered ASAI access both to Naira and a trusted international lender. Local currency loans de-risk the institution and its clients. Prior USD-funding to the MFI had been costly and complex to manage.

MEF's Naira loan - easier to manage and of longer term - will contribute to portfolio growth while also help maintain sound liquidity. ASAI Nigeria stabilised its portfolio in 2019 ahead of a merger with the sister company ASHA. Growth is expected to resume after the merger is finalised. MEF's funding will help growth also when 17 new branches open in 2020. The loan means more funds to serve more local microentrepreneurs and serve them better, e.g. offering loan amounts adapted to their needs.

MEF is a crucial source of funds for ASAI Nigeria, as the only lender apart from the mother company, ASA International. As of December 2019, MEF's loan accounted for 91% of senior debt and 11.5% of the MFI's total loan portfolio.

MEF disbursed one Naira loan to ASAI Nigeria in July 2019 with an outstanding exposure as of year-end 2019 of USD-equivalent of 2.9 million.

Nigeria

Portfolio Development Highlights

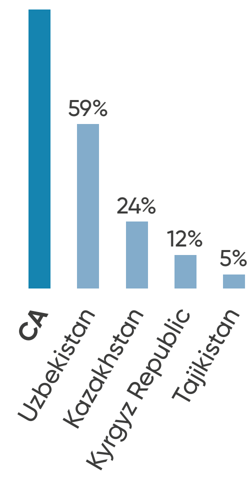
Asia

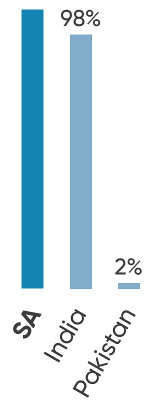
South Asia and Asia Pacific saw only moderate economic growth over 2019. India, the Fund's largest single country exposure, reversed the growth experienced in 2018. Q3 GDP figures showed a slowdown to 4.5% YoY, marking the slowest pace of expansion in more than 6 years. Uncertainty surrounding the liquidity crunch in non-bank financial institutions and its potential spill over to the banking sector has been a major factor. Capital controls have complicated the repatriation of MEF assets.

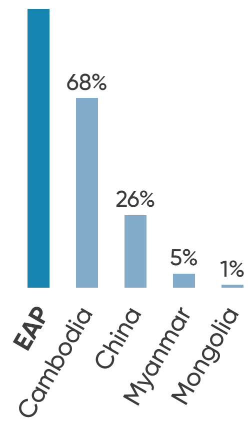
Cambodia remained a key market in Asia. Existing loans were renewed to historical MEF clients, although concerns about asset quality and negative press coverage of social performance practices triggered closer monitoring of all partner MFIs.

Elsewhere in the region we see emerging opportunities in Indonesia and Sri Lanka as a result of the stabilising political situation and improving hedging costs. Myanmar offered two opportunities in 2019 which are performing well, but the sector and its institutions are immature and opaque.

MEF Board and Investment Committee remain attentive to both risk and opportunity. They are carefully following the political and financial evolution of these markets.







Handicraft as Sustainable Livelihood

Karadagadia, a village in India's Khordha District, is known for its hand-made paper masks and wooden sculptures. Handicraft, a key industry, is seasonal and the artisans' incomes are low and irregular. Most families live in poverty. That shaped Manjulata's life as much as that of her neighbours.

In 2015, staff of Annapurna Finance approached her and other village women introducing their work: encouraging micro and small entrepreneurship and improved livelihood with loans and business & finance training. Eleven women including Manjulata formed a Self-Help Group. They secured a loan of Indian Rupees Rs 20,000 that helped them procure raw material and increase production.

Manjulata and her husband started visiting urban fairs to sell more. Family members helped in production to satisfy growing demand and explore new markets. Within a year she doubled her monthly income. In 2018, the group received a third loan from Annapurna of Rs 40,000 per member.

Having grown as a leader, the handicrafts association in Odisha has called on Manjulata as a trainer. Her flourishing business has given Manjulata financial independence. Yet, she still regularly attends financial trainings. Heeding good financial practice, she married her daughters comfortably using her savings. Her son completed higher education and now works while her youngest daughter attends a senior secondary school. She also renovated her house and plans to install a toilet with Annapurna's Water and Sanitation loan.

MEF disbursed three loans to Annapurna Finance (an Indian MFI) with an outstanding exposure as of year-end 2019 of USD 7 million.

India

Portfolio Development Highlights

Latin America

Latin America had a tumultuous year in terms of political unrest with increasing volatility on all fronts. Most local currencies saw strong depreciation with respect to the US Dollar, again emphasising the importance of our ability to provide hedged facilities. Despite the expected deceleration of global MFI balance sheet growth noted above, the microfinance industry continued to demonstrate positive results in most markets in this region.

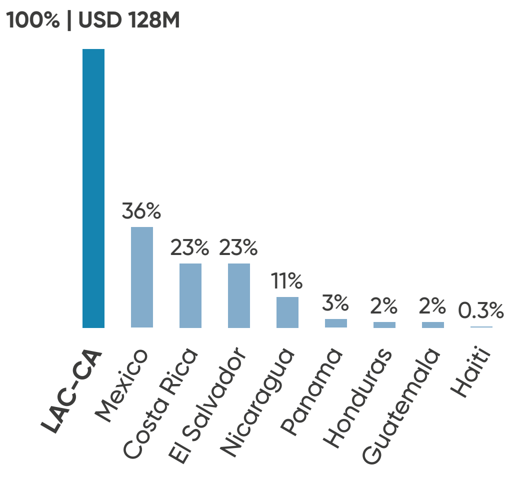
In economies like Peru, macro fundamentals are solid. MEF did not observe material impact on the performance of partner MFIs.

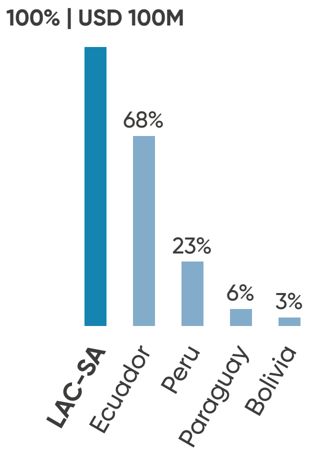
In Mexico, an increasingly important market for the Fund, a slowdown in manufacturing and investment linked to policy uncertainty stalled GDP growth at 0.1%. Nonetheless, Mexico has a diversified economy and strong banking sector. Its low banking penetration rate continued to provide considerable room for growth in 2019, driven by SME leasing and factoring opportunities as well as traditional microfinance.

Markets like Nicaragua and Bolivia proved challenging in 2019. Social unrest rippled through to the real economy.

In Ecuador, an important market for MEF, growth was hampered by country exposure limits in addition to a challenging socio-political and economic environment.

Overall, MEF decreased portfolio concentration in the region to 40% of total with a lower concentration particularly in Central America. The Fund maintained asset quality in the region overall.





Farming

José is a farmer in Cuambo, a community located 100km north of Ecuador's capital Quito. He has been farming for over twenty years and specialises in onions and peppers. Together with his wife and sons he cultivates several plots he owns and sells the produce to local markets.

He has been a Vision Fund client since 2009, back when the MFI was an NGO, and has always benefited from group loans. The first such loan he was part of amounted to USD 900 divided between three local farmers. He used this loan to buy harvesting tools. In 2019, José together with another farmer received a loan totalling USD 3,000. For his part he invested in onion bulbs and pepper seeds.

José is keen to continue expanding his business by acquiring more land. He is also considering diversifying his income by adding tomatoes. In future he wants to guide his sons to become farmers for them to eventually manage the family business.

MEF disbursed two loans to Vision Fund Ecuador (part of Vision Fund International MFIs) with an outstanding exposure as of year-end 2019 of USD 3.5 million.

Ecuador

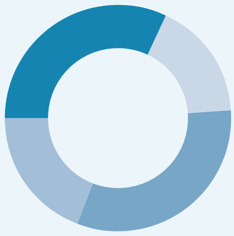
On Four Continents with Four Investment Advisors

Investment Advisors – Portfolio Distribution

as of 31 December 2019

BlueOrchard
USD 179.6 M 32%

responsAbility
USD 107.3 M 19%



Incofin
USD 98.5 M 17%

Symbiotics
USD 180.6 M 32%

BlueOrchard

In the context of USD 168M repayments in 2019, the BlueOrchard pool contracted by USD 86 million (-32.4%) despite disbursing USD 73.4 million. These transactions consisted of 20 new loans across 10 countries and included new exposures in Africa totalling USD 15 million. The outstanding portfolio pool as of 31 December was USD 179 million (32% of MEF global total). This consisted of 70 loans across 21 countries. BlueOrchard introduced to the Fund four new investees and Zambia as a new country. Overall, BlueOrchard's pool was most active in South Asia during 2019, with this region comprising 31% of the disbursements, followed by Sub-Saharan Africa and East Asia and the Pacific with 20% respectively, and Central and South America with 19%.

BlueOrchard Finance is a leading global impact Investment manager dedicated to fostering inclusive and climate-smart growth. Founded in 2001 at the initiative of the UN as the first commercial manager of microfinance debt investment worldwide, today BlueOrchard provides investors globally with investment solutions including credit and private equity and is a trusted partner of leading global development finance institutions. With its global presence and offices on four continents, to date BlueOrchard has invested more than USD 6 billion in over 80 emerging and frontier markets, enabling tangible social and environmental impact.

Incofin

Incofin Fund Management joined as Investment Advisor in July 2019, acquiring the portfolio previously managed by Cyrano. Cyrano's outstanding portfolio stood at USD 108.2 million as of year-end 2018 and contracted to USD 95 million over the first semester of 2019. Building quickly on this base, Incofin closed 10 transactions and disbursed a total of USD 23.3 million over the remaining six months of 2019. In the context of additional maturing positions, this nonetheless resulted in a net contraction of 8.9% compared to 2018. Incofin added seven new investees and six new countries to the MEF portfolio.

Incofin Investment Management is a global independent impact investment firm, focused on rural and agricultural finance, driven by a purpose to promote inclusive progress. It is an AIFM licensed fund manager and has over EUR 1 billion in assets under management. As a leading impact investment firm, Incofin has invested (via equity and debt financing) over EUR 2.1 billion in more than 320 investees, 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 contracted to USD 107 million over 2019, a net decrease of 24.8 million (18.7%) compared to 2018. This contraction came in the context of growth of responsAbility's other funds. This contrast is consistent with MEF's stated objective of not crowding out private capital, and with the decreasing rate environment in many markets previously noted. In total, responsAbility disbursed approximately USD 25 million in Africa, Central Asia and South America. responsAbility's portfolio includes 29 institutions across 21 countries, indicating the outreach potential of this MEF Investment Advisor.

A leading impact asset manager with a 17-year track record, responsAbility manages more than USD 3 bn of assets invested in 450 high-impact companies across 90 emerging economies. Since the company's inception in 2003, responsAbility-managed funds have disbursed more than USD 10 bn in private debt and private equity to companies in the sectors of climate finance, sustainable food and financial inclusion whose business models directly support the United Nation's Sustainable Development Goals (SDGs).

symbiotics

Symbiotics joined MEF as Investment Advisor in mid 2017. By increasing its share of the global portfolio from 16% as of year-end 2018 to 32% by year-end 2019, Symbiotics contributed to MEF's portfolio development and market outreach with disbursements to 42 institutions in 24 countries, almost doubling its outstanding portfolio from approximately USD 95 million to approximately USD 180 million.

Symbiotics is the leading market access platform for impact investing, dedicated to financing micro- small and medium enterprises and low- and middle-income households in emerging and frontier markets. Since 2005, Symbiotics has structured and originated some 4,000 deals for over 425 companies in almost 90 emerging and frontier markets representing more than USD 5 billion. These investments have been purchased by more than 25 fund mandates and more than 50 third party specialised fund managers, forming a growing ecosystem and marketplace for such transactions.

Financials

BALANCE SHEET

ASSETS	as of December 2019	as of December 2018
Loans to MFIs	565,054,772	599,722,666
Current assets	205,337,482	68,804,240
of which: cash & cash equivalent	187,512,360	49,296,080
Other assets	953,475	800,037
Total Assets	771,345,729	669,326,943
LIABILITIES		
Notes	140,512,500	52,863,000
Current liabilities	51,224,410	43,039,798
of which: dividend payable	29,833,370	26,662,162
Total Liabilities	191,736,910	95,902,798
NET ASSETS	579,608,819	573,424,145

INCOME STATEMENT

	as of December 2019	as of December 2018
Net assets at the beginning of the year	573,424,145	530,216,678
INCOME		
Interest on loans	53,840,354	49,208,540
Upfront fees	1,550,258	2,027,608
Other income	1,808,768	1,882,437
Total Income from investments	57,199,380	53,118,585
EXPENSES		
Management fees	(6,504,330)	(7,355,328)
Legal, advisory and audit fees	(318,271)	(379,141)
Administration, custodian and domiciliation fees	(747,226)	(702,654)
Interest expenses on Notes	(2,365,315)	(3,505,641)
Other expenses	(3,461,577)	(3,242,670)
Total Expenses	(13,396,719)	(15,185,434)
Net income from operations	43,802,661	37,933,151
Net realised and unrealised gains/losses on foreign exchange	415,404	(15,820,186)
Net realised and unrealised gains/losses on swaps and forwards	(15,503,255)	10,184,834
Value adjustments relating to loans	(653,456)	(535,354)
Net increase/decrease in Net Assets as result of operations for the year/period	28,061,354	31,762,445
MOVEMENT IN CAPITAL		
Subscription of shares	7,956,690	38,107,184
Redemption of shares	–	–
Advance of dividend	(29,833,370)	(26,662,162)
NET ASSETS AT THE END OF THE YEAR/PERIOD	579,608,819	573,424,145

In accordance with Luxembourg GAAP

Microfinance Enhancement Facility S.A., SICAV-SIF

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DISCLAIMER:

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

Please note that the images in this report originate from the Investment Advisors and KfW and may not always reflect the companies and the individuals mentioned. Photo material of members of MEF's governance structures are true reflections of such members.