MEF
Microfinance
Enhancement
Facility

Annual Report 2020

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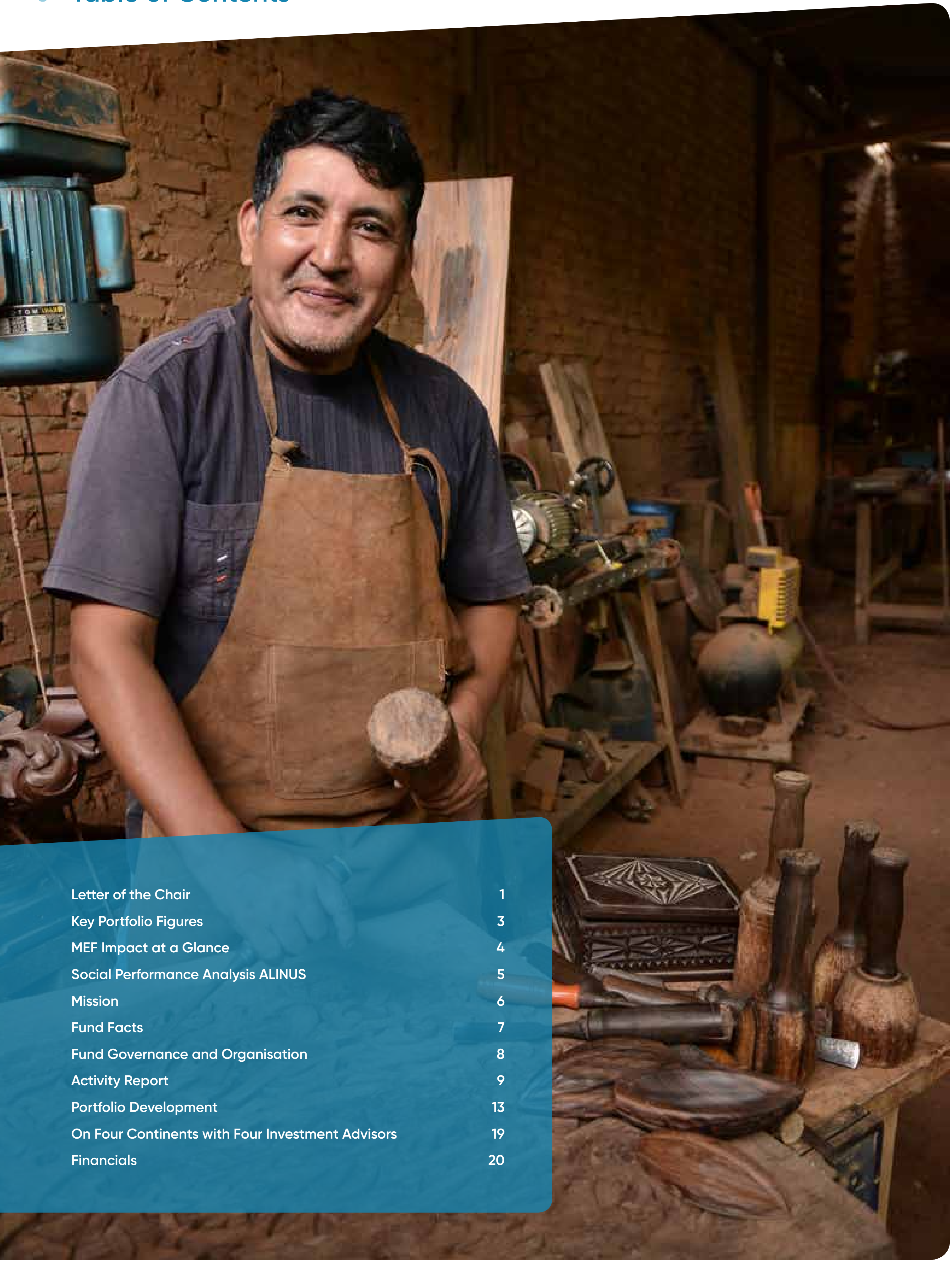


Letter of the Chair

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 1,439) 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 and their borrowers.

Dear Stakeholders,

Concluding on a turbulent year, palpably marked by the COVID-19 pandemic, we present the MEF Annual Report 2020. Having managed constructively and well through a year that demanded a lot from all of us, especially also our partner MFIs and their clients, we share with you an account of last year's activities and achievements in fulfilment 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 – already noticeable prior to the pandemic – were compounded and overshadowed by the effects of COVID-19. Demand for MEF loans in 2020, however, exceeded the Fund's lending activity of 2019, a year that had seen gradual deceleration of lending. The Fund closed the financial year 2020 with USD 760 million in total assets (USD 770 million in 2019) and recorded an outstanding net portfolio of USD 584 million (USD 566 million in 2019) placed with 139 MFIs in 45 countries.

Demand for local currency continues to be strong. MEF responded to this global demand again edging out its total share of local currency lending to 63 % of MEF's portfolio (62 % in 2019; including countries where USD and EUR are legal tender). Lending in local currencies without USD or EUR as legal tender grew more pronounced to nearly 48 % (close to 44 % in 2019).

MEF's consistent focus on cost control and operational efficiency continues to be reflected in the Fund's low Total Expense Ratio (TER) of 1.55 % in 2020. The high quality, granularity and regionally diversified global microfinance portfolio along with the sound financial performance of this blended finance fund has again piqued the interest of a growing number of private investors. Several keystone and legacy investors also confirmed their confidence in the Fund in 2020 by renewing their commitment as well as making further commitments. Total additional capital for MEF amounted to close to USD 63 million in additional commitments and USD 30 million disbursement from a commitment made in 2019.

Against this backdrop, two of MEF's foundational public investors, EIB (the European Investment Bank) and FMO (the Dutch entrepreneurial development bank), exited the Fund in the first quarter of 2020, with their investments replaced by private capital. The exits are in line with their initial intention. Moreover, the arrival of the new private institutional investor further diversified MEF's investor base and is a clear signal of private capital markets' increasing appetite for well-structured impact investment opportunities. The new private investments, together with additional C Shares funding from BMZ, more than replaced the USD 72 million in B Shares which matured in February 2020. The additional investments, in particular the additional capital to be allocated to C Shares in 2021, explain the high cash position as part of the USD 760 million in total assets as of year-end 2020.

This report comes in the context of a fluid situation and continued uncertainty about the full impact and continued effects of COVID-19 on health, economics, people's well-being and opportunities, including on our partner MFIs and their clients.

The COVID-19 risks and impact on the Fund have been closely monitored and effects so far are relatively limited. The pandemic has not impeded the Fund's ability to operate on a going concern basis.

The impact linked to COVID-19 on MEF portfolio investees varies from country to country. The eventual depth of the impact for each will be a function of underlying national economic strength, policy response, capacity of public health infrastructure, and the ability and willingness of each population to adhere to policy and health recommendations. Virus mutations contribute to continued uncertainty.

Letter of the Chair

The Fund's shareholders, Board of Directors, Investment Committee, four Investment Advisors and Innpact, the Fund's General Secretary, are in ongoing communication regarding the impact of the pandemic. They receive frequent updates from portfolio investees which focus on asset quality evolution, debt service capacity / cash flows and capital adequacy. These inputs support model assumptions of expected impairments and provisioning. Regular stress tests provide the Board with a forward-looking view of possible impact and support a structured response.

The Fund responded to 26 requests from portfolio investees in 14 countries requesting extensions to loan maturities by 6 to 12 months. These handshake and restructuring agreements have been done either bilaterally or in coordination with other lenders. To date, the Fund has seen continued payment of interest under these agreements and is confident that its partner MFIs will meet future instalments.

MEF is well positioned to respond given its track record since 2009, the commitment of our shareholders, and the increasing diversity of our investor base with a growing share of private investment. Funding received from BMZ of close to USD 49 million (disbursed in late 2020 and allocated to C Shares in 2021) further supports MEF to be a reliable partner in buffering COVID-19 effects and building back better. This funding and the robust financial position of MEF overall will help ensure the ability of the Fund to manage in the context of repayments to the Fund delayed by forbearance granted and to yet respond fully to renewed demand. It will also help bridge gaps – such as those left if traditional funders become more conservative with their existing liquidity or when local banks' refinancing lines dry up as they might have to retrench to shore up resources to cover losses in their portfolios as a fall-out from the pandemic. The situation implies risks as well as potential opportunities, such as to support economic recovery of micro-entrepreneurs and consequently low-income households, thus to grow the Fund in line with its mission.

Continuously striving to live MEF's mission and strengthen the Fund's contribution to the industry, two noteworthy developments in early 2021 deserve highlighting and will be covered further in next year's Annual Report: First, in January 2021 MEF became a signatory to the Operating Principles for Impact Management (launched in 2019 as an industry standard). We are thrilled to participate and commit to implementing the Impact Principles as a global standard in impact investing to ensure transparency within all the investment processes. Second, MEF has also introduced disclosure as a Fund designated to sustainable investments as set out in the EU Sustainable Finance Disclosure Regulation (SFDR), Article 9. These standards on sustainable investments, effective since 10 March 2021, aim to stimulate sustainable investments in the EU in order to help achieve the climate goals of the Paris Agreement and the European Green Deal by increasing transparency on how sustainability risks and opportunities are integrated into the investment decisions. MEF is committed to both these initiatives and the greater transparency and standards they foster to promote sustainable impact investing.

On behalf of the Board, I take this opportunity to express our sincere gratitude to the committed investors of MEF for their ongoing support. 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. At this juncture perhaps more so than ever, our deep appreciation goes to our MFI partners for their resilience and adaptiveness in challenging times. It is them who provide much needed access to inclusive financial products and services to their and our ultimate clients, entrepreneurs and people who are among the most vulnerable members of society in the 45 countries where we were actively engaged. MEF continues to pursue its mission tenaciously and remains a committed and constructive partner through these demanding times.

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

MEF Board meetings swiftly adapted to the realities of the pandemic; business continuity was fully assured with online meetings since the first quarterly Board meeting in 2020.

Key Portfolio Figures

MEF closed the year with USD 760 million in total assets (USD 770 million in 2019).

The Fund's loans to 139 partner MFIs in 45 countries recorded an outstanding net portfolio of USD 584 million per year-end 2020 (without accrued interest; USD 566 million in 2019).

While 28 institutions exited, MEF added 34 new institutions to its portfolio and 6 new countries: Colombia, Bosnia and Herzegovina, Turkey, South Africa, Indonesia, and Sri Lanka (with Turkey, Indonesia and South Africa included in MEF's portfolio for the first time).

2020 Portfolio

USD 584 M
Loan Portfolio

USD 760 M
Total Assets

USD 499 M
Total Net Asset Value

139
Institutions Financed

214
Loans

45
Countries

Since Inception

USD 2.3 BILLION
INVESTED

58
COUNTRIES

273
INSTITUTIONS FINANCED

739
LOANS

MEF Impact at a Glance

as of 31 December 2020

650,000
Final borrowers reached by MEF funding

USD **1,439** Average
USD **2,417** Median
Loan size to final borrowers

85%
Women

58%
Rural

MICROFINANCE LUXFLAG
LuxFLAG Microfinance Label since 2011

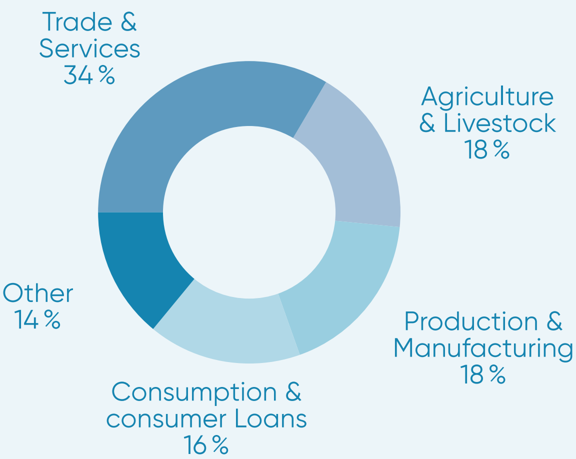
the smart campaign
MEF endorses the Client Protection Principles*

Operating Principles for Impact Management
Signatory of the Operating Principles for Impact Management since Q1 2021

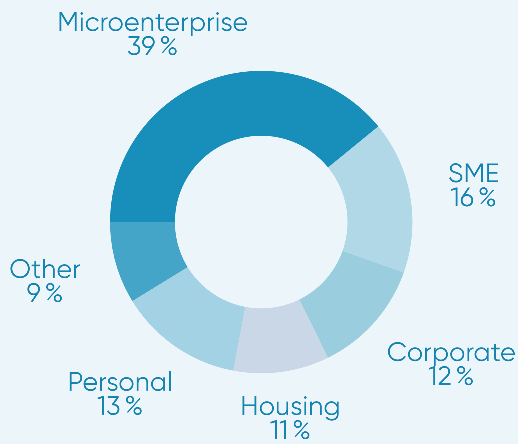
MEF contributes to the following SDGs

1 NO POVERTY
5 GENDER EQUALITY
8 DECENT WORK AND ECONOMIC GROWTH
10 REDUCED INEQUALITIES
17 PARTNERSHIPS FOR THE GOALS

Distribution by Activity of MEF's Partner MFI Total Portfolios



Distribution by Loan Purpose of MEF's Partner MFI Total Portfolios



Based on December 2020 gross loan portfolio data as reported by the MFIs in MEF's portfolio.
The charts reflect the distribution of the entire loan portfolios of the MFIs in MEF's portfolio, not the distribution for MEF's loans to the MFIs.

* https://cerise-spm.org/en/spi4/client-protection-resources/

Social Impact Analysis ALINUS

MEF Portfolio Average SPI4-ALINUS* Score 71 %

With an overall ALINUS score of 71 %, **MEF's partner MFIs demonstrate stronger social performance than their peers** (57 %) and outscore the CERISE benchmark in all dimensions.

Adherence to evolving social performance standards is a core component of MEF's commitment to responsible finance. For an external assessment of MEF's social performance, MEF and CERISE – a global leader in impact measurement – continued their collaboration initiated in 2019. The assessment is based on the widely recognised social audit tool SPI4-ALINUS.*

This second year evidences a strong performance for MEF with an overall ALINUS score of its 108 partner MFIs surveyed of 71 %, well above the 57 % peer group score of the CERISE global dataset (composed of 459 MFIs). It also compares favourably to last year's overall score of 70 % (based on a sample of 45 MEF partner MFIs, vs a score of 56 % for the peer group composed of 409 MFIs).

Taking a more granular view than the overall score, MEF outperforms the global benchmark in all dimensions (see spider graph) and more than half (53 %) of its partner MFIs reached a score of 'Very Good' or 'Excellent' compared to 24 % in the CERISE peer group.

This year's good performance is a very positive trend for MEF, in particular as the 2020 sample was even more representative, comprising most of MEF's portfolio, including many MFIs which reported on Social Performance Management (SPM) indicators for the first time. Out of 139 MEF partner MFIs, 126 reported on quantitative data (91 % of total MEF portfolio) and 108 reported on most qualitative data (78 %). In comparison, the 2019 sample had consisted of only about one third of MEF partner MFIs, representing the MFIs that were already in CERISE's database at the time. This smaller sample reflected a 'teething period' as the scoring for MEF's portfolio was only kicked off in 2019 and the onset of the pandemic was an added challenge.

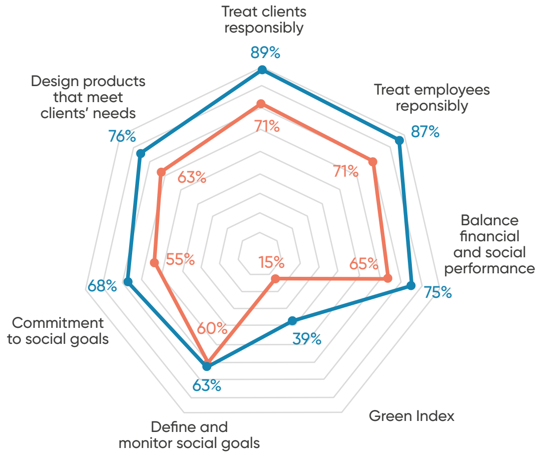
MEF is delighted to have this external validation as a measure of its impact using an industry standard social audit tool. This year's findings confirm that MEF policies, supported by the robust processes of its four Investment Advisors and its Investment Committee, have been successful in building a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

While it is gratifying to see such high results, MEF anticipates ups and downs within a reasonable margin. Such fluctuations may occur as MEF finances at times MFIs that do not yet have in place a full reporting framework nor best social performance practices. However, MEF will leverage its relationships and continue to ensure that its partner MFIs have minimum standards in place and, ever more importantly, are positioned to improve their practices over time, thus supporting the development of an inclusive financial sector, in line with MEF's mission, and leading to an overall improved social performance.

Further details of this analysis performed by CERISE and related findings are available in MEF's forthcoming Impact Report.

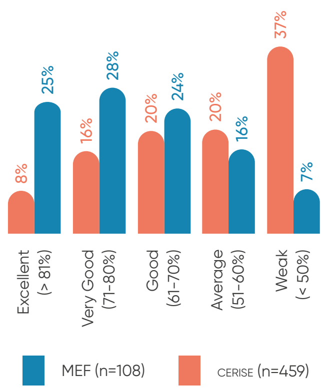
MEF Partner MFIs | Overall Scores

Benchmarked to their Peers



MEF Partner MFIs | Frequency of Scores

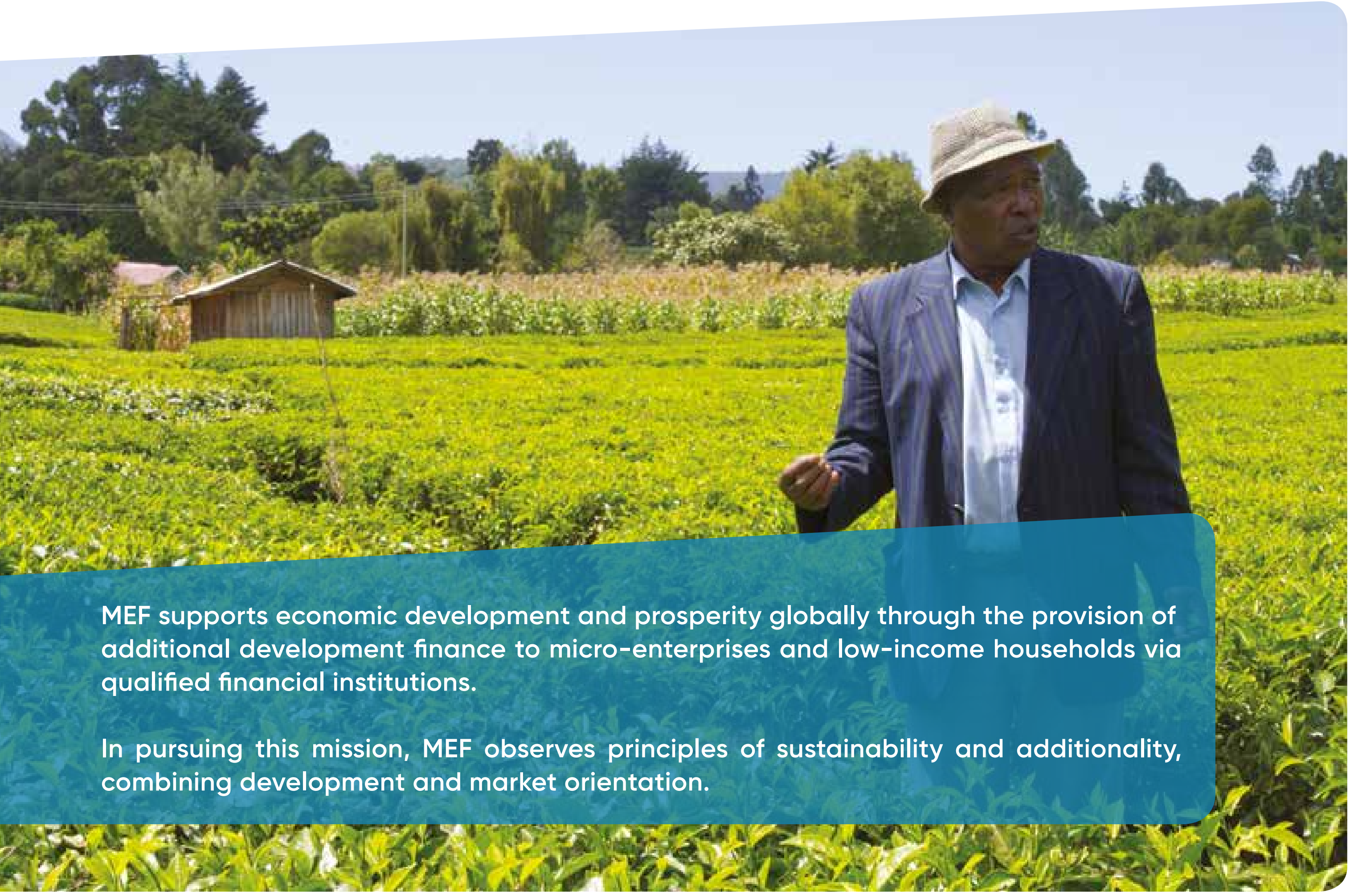
Benchmarked to their Peers



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

The Microfinance Enhancement Facility S.A., SICAV-SIF (MEF) was set up in February 2009 to provide short and medium-term financing to financial institutions which support microfinance and micro-enterprises (MFIs). The Fund was originally conceived with a focus on securing financing to MFIs in the wake of the 2008/2009 global financial crisis. As the microfinance market has matured and deepened, MEF has been a stable and reliable source of funding to MFIs, not only in challenging or crisis situations. The Fund has thereby strengthened the provision of responsible financial services to micro and small enterprises. This has contributed to the financial resiliency of entrepreneurs and low-income households as well as to economic growth and job creation, thereby helping to reduce poverty in developing countries around the globe.

MEF is structured as a flexible vehicle designed to meet the needs of MFIs without crowding out private sector financing. With its focus on local currency debt financing, MEF continues to de-risk many of its partner MFIs and their borrowers from currency fluctuations. This and the adherence to constantly evolving social performance standards are core components of MEF's approach to responsible finance.

Operating as an efficient and demand-oriented microfinance debt fund, MEF seeks to respond to the needs of the market and of individual MFIs. Since inception, MEF has supported low-income borrowers by providing over USD 2.3 billion to more than 273 financial institutions active in the microfinance space in 58 developing countries. MEF financing thereby provides an important market signalling effect.

MEF was initiated by KfW (German state-owned Development Bank) and IFC (the International Finance Corporation, a member of the World Bank Group), together with the Development Bank of Austria (OeEB) as keystone investors in the Fund. The Fund is supported by Innpact as General Secretary and co-advised on its investments by four leading private Investment Advisors (BlueOrchard Finance AG, Incofin Investment Management, responsAbility Investments AG and Symbiotics SA). The Investment Advisors present funding proposals to MEF's Investment Committee, convened on a monthly basis and composed of reputable professionals in the microfinance industry, namely Suzannah Carr, Karlo de Waal, Madhu Dutta-Sen, Rainer Hartel, and Michael Neumayr (composition at year-end 2020).

The Fund's global mandate, investments sourced through four leading Investment Advisors, and the support of committed DFI shareholders all combine to position MEF as a cornerstone of the microfinance industry.

Fund Facts

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

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

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

INCEPTION DATE
February 2009

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

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

INVESTMENT CURRENCIES
USD, EUR, local currencies

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) – *until Q1 2020*

OPEC Fund for International Development (OFID)

FMO (Dutch Entrepreneurial Development Bank) – *until Q1 2020*

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


Momina Aijazuddin


Andrea Hagmann


Swapnil Neeraj


Markus Schladt

INVESTMENT COMMITTEE


Michael Neumayr
Chair


Karlo de Waal
Chair until year-end 2020


Suzannah Carr


Madhu Dutta-Sen


Rainer Hartel

Recent changes to Board of Directors
Departing | Andrea Hagmann (year-end 2020)
Joining | Ruurd Brouwer (Q1 2021)

MEF Microfinance Enhancement Facility

Initiated by IFC International Finance Corporation, KfW

Investors

IFC International Finance Corporation, OFID, KfW, OeEB, BMZ Federal Ministry for Economic Cooperation and Development, Sida

& private investors

Board of Directors

- **Investment Committee**
- **Investment Advisors**
  - BlueOrchard Finance S.A.
  - Incofin Investment Management
  - responsAbility Investments AG
  - Symbiotics S.A.
- **Hedging Advisor** – Chatham Financial
- **General Secretary** – Innpact S.A.
- **Administrative Agent** – Credit Suisse Fund Services (Luxembourg) S.A.
- **Custodian** – Credit Suisse (Luxembourg) S.A.
- **Auditor** – Ernst & Young S.A.
- **Legal Counsel** – Arendt & Medernach

EIB and FMO are not reflected in the chart as of year-end 2020 as their shares matured in Q1 2020.
The exits are in line with their initial intention to be replaced by private capital.

Activity Report

Investor Interest

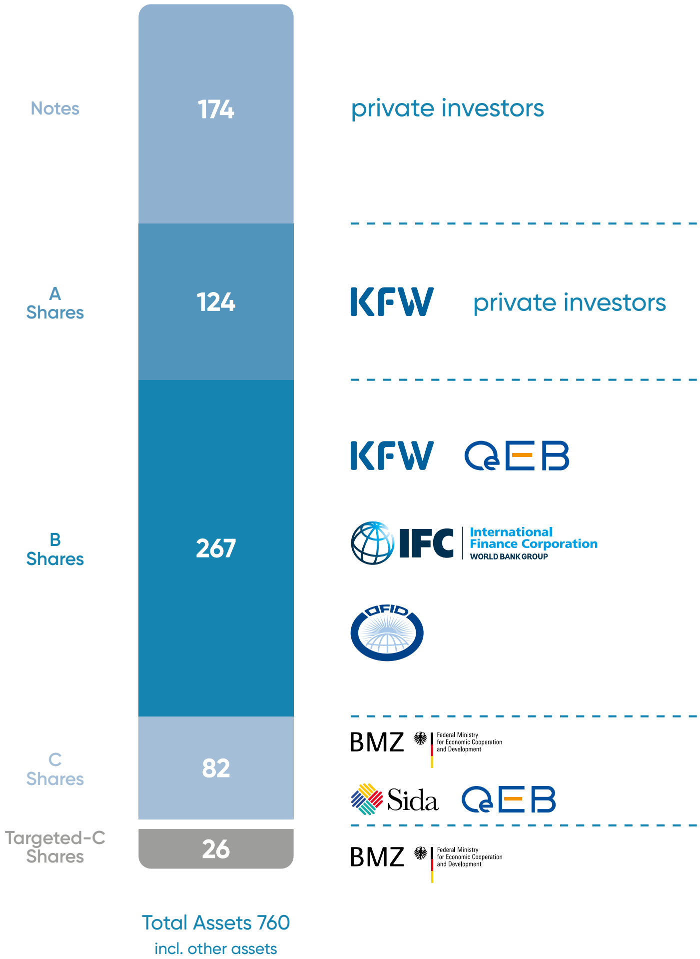
The quality, granularity and regionally diversified global microfinance portfolio along with the sound financial performance of this structured fund has again piqued the interest of a growing number of private investors. Several keystone and legacy investors also confirmed their confidence in the Fund in 2020 with additional capital for the Fund as follows:

- a new institutional investor had committed USD 90 million to MEF in 2019, of which a final disbursement of USD 30 million was made in February 2020;
- a longstanding private institutional investor renewed its commitments in the first quarter of 2020;
- further keystone funding from BMZ of approximately USD 10 million in C Shares were added also in the first quarter of 2020;
- further funding from BMZ of close to USD 4 million earmarked for Nigeria and Malawi were added just before year-end 2020, to be allocated to C Shares in 2021;
- further supporting MEF to be a reliable partner in the COVID-19 crisis, BMZ added close to USD 49 million disbursed to the Fund just before year-end 2020 and to be allocated to C Shares in 2021.

Against this backdrop, two of MEF's foundational public investors, EIB (the European Investment Bank) and FMO (the Dutch entrepreneurial development bank), exited the Fund with their investments replaced by private capital. This exit is in line with their initial intention. Moreover, the arrival of the new private institutional investor further diversified MEF's investor base and is a clear signal of private capital markets' increasing appetite for well-structured impact investment opportunities. The new private investments, together with the additional C Shares funding from BMZ, more than replaced the USD 72 million in B Shares which matured in February 2020. The additional investments, in particular the additional capital to be allocated to C Shares in 2021, explain the high cash position as of year-end 2020.

Investor Structure

Total Assets as of 31 December 2020
in USD million



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

Activity Report

Market Environment

Starting on an optimistic note with macroeconomic data improving, 2020 was rapidly overtaken by the COVID-19 pandemic. The pandemic affected all markets though not all to the same extent, partly due to varying degrees of severity of outbreaks and government responses, such as lockdowns as well as payment moratoria or holidays[1]; and partly due to differing effects by type of business (such as tourism being heavily affected, whereas impact on agriculture has been limited).

Many governments and central banks or banking regulators in developing and emerging markets took steps aiming to stabilise their financial systems and institutions as well as to provide temporary debt relief to borrowers. Many financial institutions halted or substantially curtailed operations for several weeks or months. Resulting cashflow reductions were substantial and led many of them to seek short-term debt rescheduling. In response, international lender coordination and support focused on extending maturities to mirror moratoria offered to financial institutions' clients.

As lockdown measures eased in many markets starting in Q3 2020, repayments gradually resumed as well as lending activity. The negative impact was most visible during the second quarter of 2020: disbursements of MFIs to their clients dipped sharply, recording the lowest disbursement levels in April 2020. Repayments of MFIs' clients show similar curves, mainly due to payment moratoria.

While uncertainty continues, especially with further waves of the pandemic, mutations of the virus, and lockdowns, liquidity concerns have not materialised as expected. Many institutions entered the crisis with equity cushions, while others have provisioned well for potential write-offs.

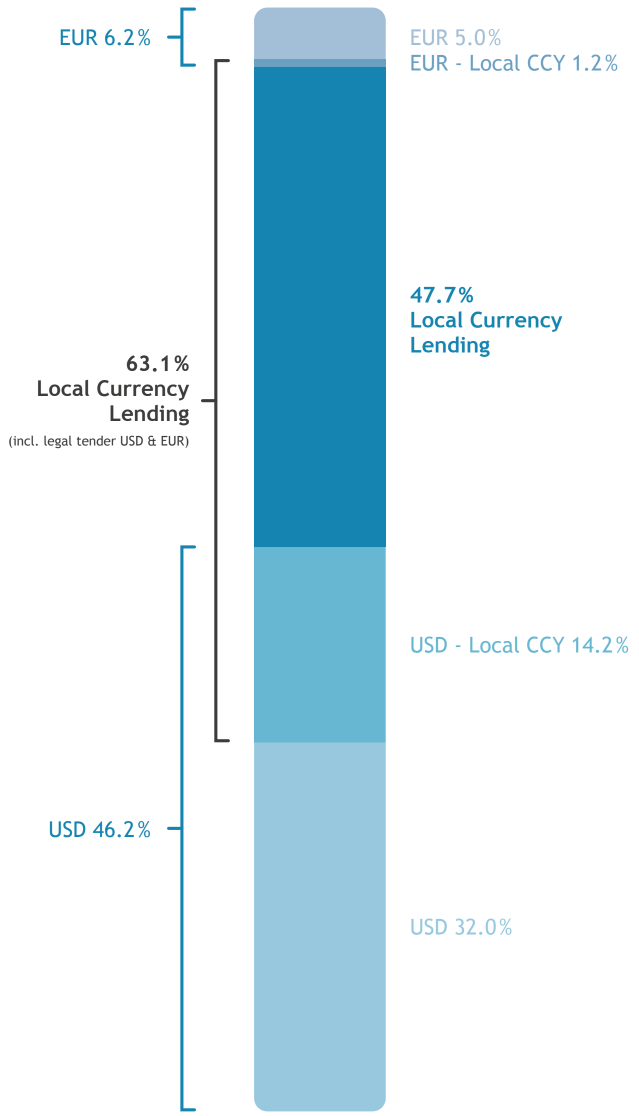
Despite strong signals of resilience in 2020, the industry remains fragile with profitability and solvency outlooks highly dependent on the level and outcome of the restructured portfolios and on further effects of the pandemic.

MEF played a key role to ensure smooth, fair, transparent and coordinated loan renewals to avoid critical liquidity shortages in the industry – through industry initiatives and through its four Investment Advisors who orchestrated, with other key industry lenders, a framework agreement defining common terms of hand- shake and rescheduling agreements. This gave an important signal to all stakeholders demonstrating once again that, in stressful times, MEF remains at the forefront of best lending practices yet delivering a decent return to its investors. As buttressed in 2020, MEF continues to closely stress-test and monitor its portfolio given the continued headwinds of the pandemic and its effects.

[1] Payment moratoria or holidays defined broadly as periods of delay in the repayment of debt as mandated by lawmakers or regulators or as granted to clients by financial institutions.

Notably, especially in this context, demand for local currency continued to be strong. MEF managed to overall again edge out its total share of local currency lending to 63% (62% in 2019; including countries where USD and EUR are legal tender). Lending in local currencies without USD or EUR as legal tender grew more pronounced to nearly 48% (close to 44% in 2019). Again, however, market volatility exerted upward pressure on hedging costs exacerbating a price disadvantage for international lenders in many markets. As only local currency funding that finances local currency lending can remove conversion risks from MFIs and their clients in developing markets, the Fund strives to further grow its local currency offer.

Currency Distribution



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

Asset Quality

Provisions for impaired loans stood at 6.7% of gross portfolio over the period, down from 7.3% in 2019. This reflects an increase of USD 23 million in provisions and USD 25 million in write-offs already provisioned in previous years.

Partner MFIs in Lebanon accounted for most of the impairments in 2020 caused mainly by the country experiencing a difficult political-economic situation exacerbated by the pandemic. Mexico contributed markedly to impairments as well, while the remainder of the impairments were spread over 7 countries.

Additionally, the Fund received 26 requests from partner MFIs in 14 countries to extend loan maturities by 6 to 12 months. These handshake and restructuring agreements amounting to USD 47 million – done either bilaterally or in coordination with other lenders – have been scrutinised and approved by the Fund's Investment Committee. To date, the Fund has seen continued payment of interest under these agreements and is confident that its partner MFIs will meet future instalments.

Operating and Financial Performance

Total assets of the Fund decreased from USD 770 million to USD 760 million over the year to December 2020. This moderate decrease mainly results from the net between subscriptions and redemptions of shares and notes, reduced by additional provisions taken over the course of the year. Focus on cost control and operational efficiency is again reflected in the Fund's low Total Expense Ratio (TER) of 1.55% in 2020 (based on average total assets; 1.53% in 2019).

As a result of the asset quality deterioration described above, distributable income decreased to USD 23 million in 2020 (from USD 34 million in 2019). This decrease was mainly driven by the rapid drop of the 6-month USD LIBOR which reduced the income from outstanding loans.

Despite the challenges posed by the effects of the pandemic, MEF was able to pay target dividends to shareholders in line with consistent target dividend payments since inception in 2009. Complementary dividends, however, totalled USD 1.9 million for 2020, thus a 56% decrease compared to year-end 2019 (USD 4.4 million).

Dressmaker

Nasreen shares a house with 15 family members. Unemployment was never an option for her given the many mouths she has to feed and provide for clothing, education and health care. Rising expenses and uncertainty compelled her to take matters into her own hands and start a tailoring business. Previously, Nasreen and her husband struggled to meet their daily expenses. But with her new enterprise she has been able to improve the well-being of the household. Over the years, she applied for more loans and advanced from earning nothing to becoming financially independent, Nasreen is now confident that her business will continue to expand and further improve her family's living conditions.

The loan from Kashf Foundation, a microfinance institution in Pakistan, has not only provided Nasreen with the confidence to become an entrepreneur but pulled her family out of poverty. Since becoming a recipient of the loan, she has wed two of her sons, trained her daughters and four other girls in the community on tailoring, provided her children with better nourishment and gained respect in the community.

Pakistan

2021 Outlook

Our 2021 outlook is cautiously optimistic. Lingering and renewed effects of the COVID-19 pandemic and further waves and mutations of the virus are cause for concern and suffering. Yet, in most regions economic recoveries are blossoming. Market data indicate gathering clouds but no storm for the sector.

The Fund's partner MFIs have mostly resumed forward-looking operations with disbursements moving towards pre-pandemic levels, albeit with a prudent approach taking into consideration a context of continued uncertainty. Downside external risks for the industry include renewed restrictions, delay in vaccine availability and public backlash.

While the industry has not faced the structural threat many had feared in 2020, institutions have started the year 2021 with higher levels of restructured portfolios. For large institutions these are well covered by equity cushions and provisioning, but on weaker institutions these could have an impact depending on the extent of the losses.

In the first quarter of 2021, outlooks for a couple of MEF's key markets in Asia became overshadowed: For India by the second wave of the pandemic where the situation remains very fluid with downside risks. For Myanmar by the military coup and continued civil action and its violent repression. The situation led MEF's Board to the decision to hold off on any new business in Myanmar until further notice, while honouring its contractual obligations to existing clients and monitoring this closely.

The risks related to what some analysts have coined 'long COVID' remain closely monitored by the Fund and its Investment Advisors through regular stress tests. In 2021, we expect to see some divergence of performance between stronger institutions, which are able to access liquidity and equity or equity-like funding, and smaller institutions, which may face challenging negotiations with shareholders and lenders as they attempt to replenish their capital. In this context, stronger institutions may be looking to expand market share, by lending to more resilient sectors (such as agriculture), and some consolidation in the industry may accelerate with smaller institutions being acquired.

The Fund will re-emphasise both financial and social performance of partner MFIs in its selection process, as customer-centric business models coupled with strong social performance are key in navigating the crisis and preserving portfolio quality. As restructured portfolios of institutions unfold, we expect to see portfolio-at-risk deteriorate before it improves again as loan restructuring may be needed. The coordinated approach with industry lenders will remain in place as another crucial aspect of a constructive and healthy support to partner MFIs and their clients through the crisis and its aftermath.

We also expect to see a gradual rebalancing of the regional portfolio breakdown as resilience of markets and institutions will fluctuate strongly amongst regions and countries. The Fund, together with its Investment Advisors, will continue to reinforce its forward-looking view and analytical tools to take all emerging risk elements into consideration and ensure a sound portfolio growth.

The crisis is also expected to give rise to several new investment opportunities. Across regions, we are seeing some growth in demand for SME lending, to address the "missing middle", as well as for specialised financing (such as factoring, leasing, salary-based lending contributing to financial inclusion) and for agriculture lending, a sector that showed great resilience through the pandemic. In addition, we also see more and more mature financial institutions with sound performance turn to MEF for funding as they seek to diversify their funding base.

We remain confident that there will be continued solid demand for microfinance investments in 2021. As a reliable partner, the Fund will continue adjusting its lending practices and forward-looking approach to ensure continuity with its solid track record and pursue a prudent deployment of its capital to foster financial inclusion.

Portfolio Development

COVID-19 is unprecedented with a strong impact that evidently fed through to MEF's 2020 portfolio. Reflective of the pandemic, the focus shifted initially to supporting existing partner MFIs through rollovers and handshake agreements during Q2 and Q3, then to selectively onboarding new partner MFIs in Q4.

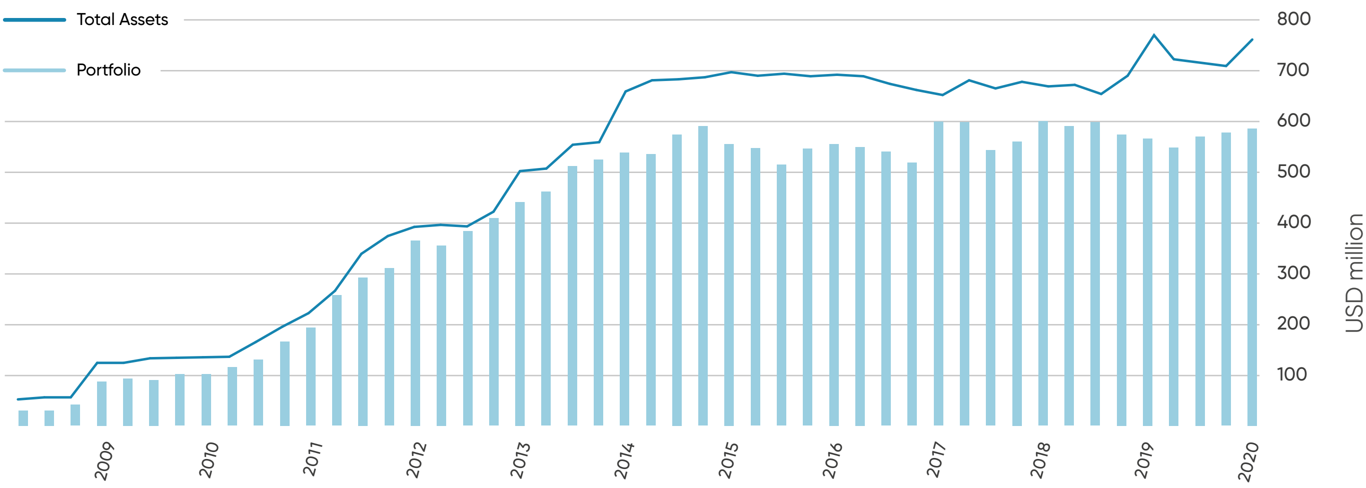
COVID-19 risks and impact on the Fund have been closely monitored and effects so far have been limited. The pandemic has not impeded the Fund's ability to operate on a going concern basis.

MEF closed 2020 with an outstanding net portfolio of USD 584 million diversified across 139 institutions in 45 countries. Despite the significant headwinds – though less adverse than initially dreaded – the portfolio grew by USD 13.2 million (2.3%) year-on-year.

A trend towards a more balanced regional diversification continued from the previous year – with a further decreasing concentration in LAC, while especially EECAU gained in share again after having levelled off at 3% in prior years. While India, Ecuador and Cambodia remain the Funds' top three country exposures, their aggregated share decreased to 34% of the global portfolio in 2020 (38% in 2019).

The Fund welcomed 34 new institutions to its portfolio and also added 6 new countries: Colombia, Bosnia and Herzegovina, Turkey, South Africa, Indonesia, and Sri Lanka (with Turkey, Indonesia and South Africa included in MEF's portfolio for the first time). Meanwhile 28 institutions exited. MEF Investment Advisors show heterogeneous performance in 2020 as revealed by the pool shares of MEF's portfolio and distribution of transactions across individual advisors.

Portfolio Evolution



Market Vendor

Salimata is in her early thirties. In the 1980s, her parents settled in Bamako, Mali, where she was born. Sali, as she prefers to be called, grew up around the family store managed by her parents. After learning the trade alongside her parents, Sali started her own business eleven years ago. Supported by her sister, during the first few years she sold snacks and refreshments. After some challenges with these products, she switched to selling food and condiments.

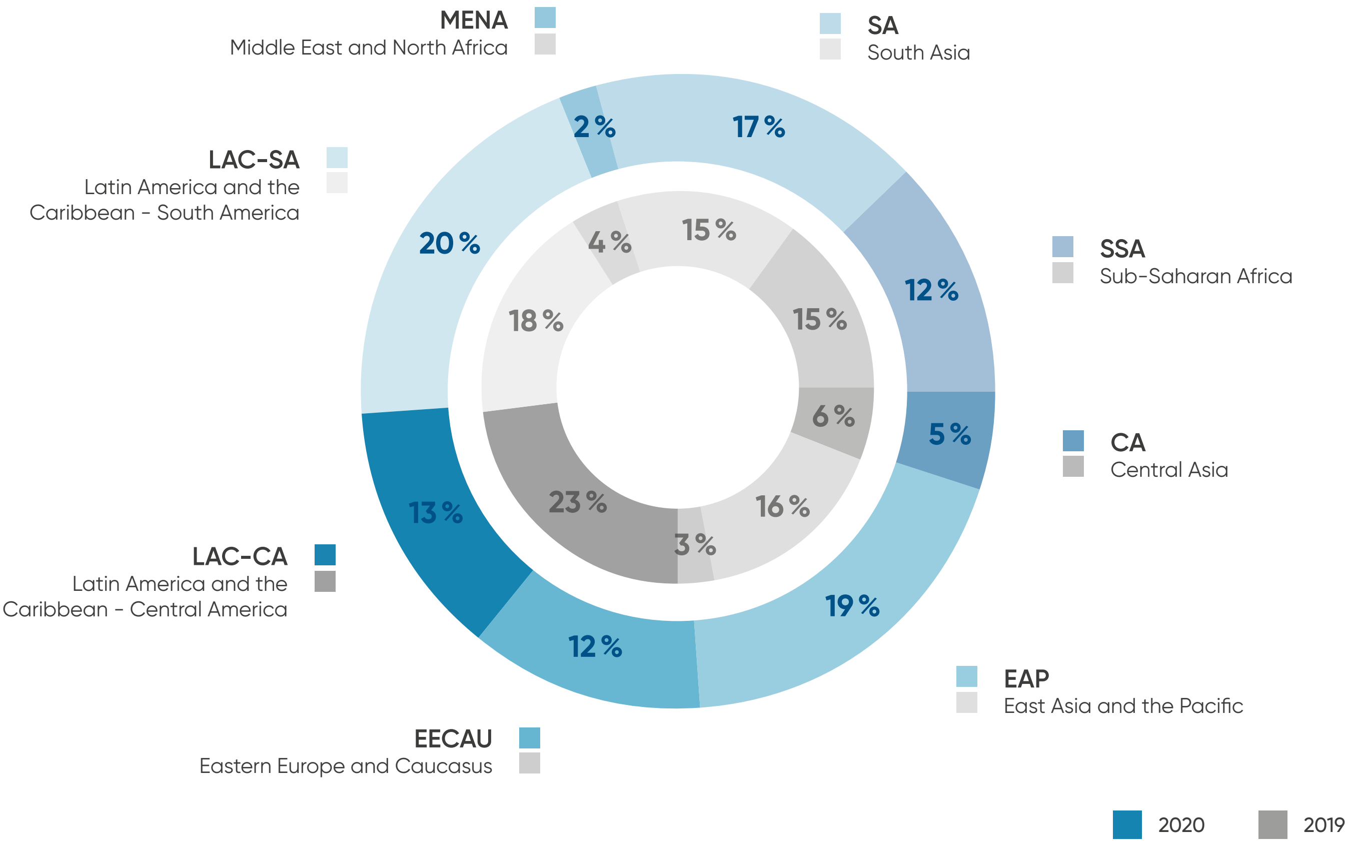
Still, her financial situation remained precarious. To grow her business and improve her situation, Sali took her first credit with Baobab Mali in 2014. Baobab Mali, a local MFI, started its activities in her neighbourhood around that time. Since then, Sali has taken five loans from Baobab and is paying them off regularly.

With the loans from Baobab, Sali has been able to grow her business. She has become a semi-wholesaler supplying her customers in food markets across various neighbourhoods. Sali's ambition for the near future is to open a store with a wider range of products.

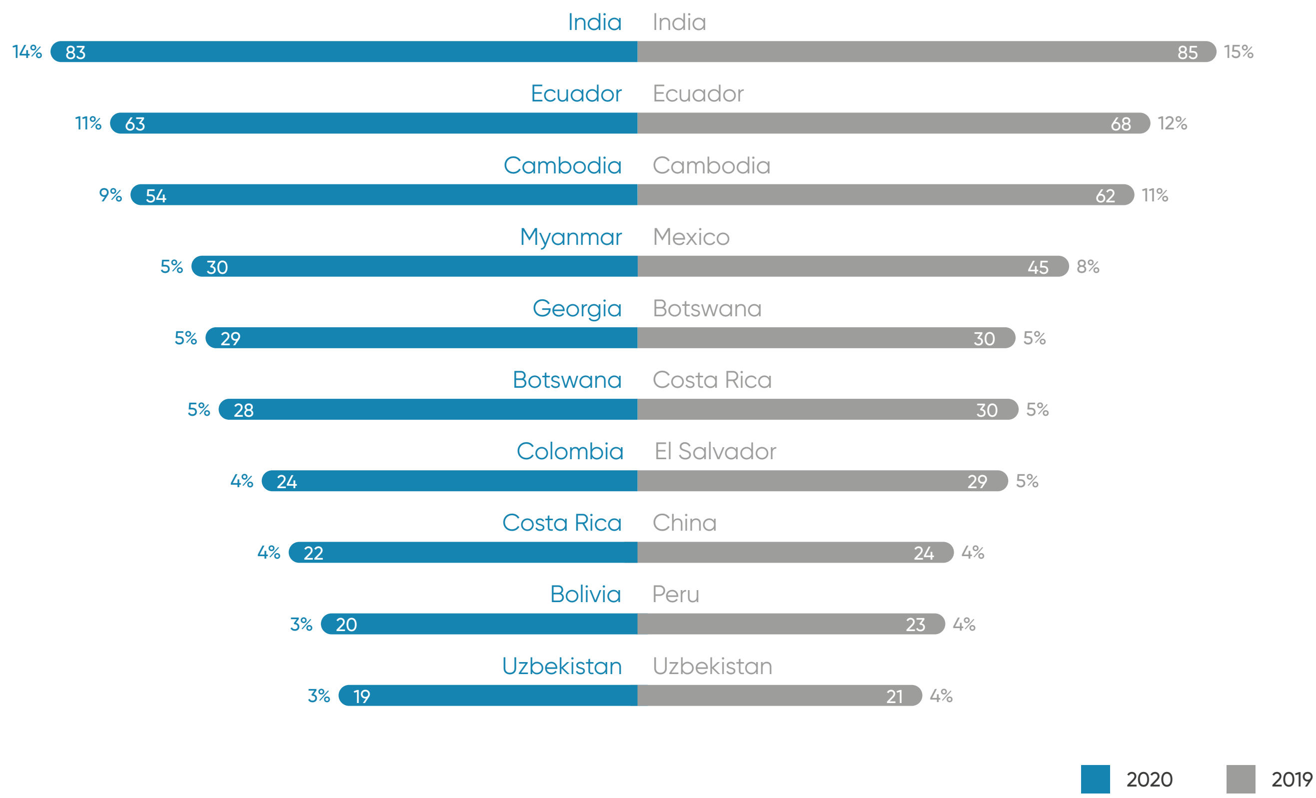
Mali

Portfolio Development

Portfolio Diversification



Country Distribution in USD million and in % of MEF total portfolio



Portfolio Development Highlights

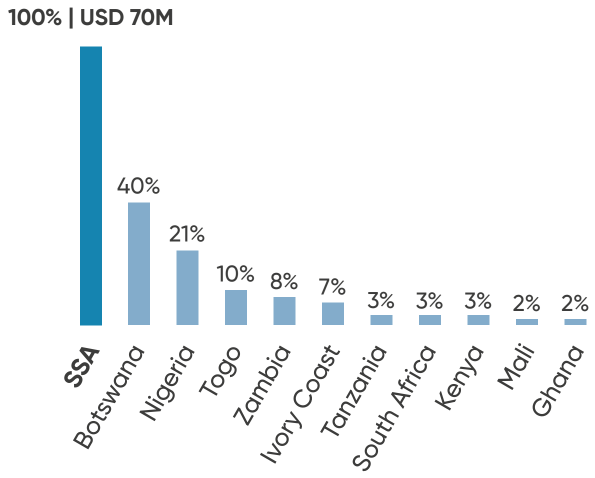
Sub-Saharan Africa

Sub-Saharan Africa has repeatedly been less affected by COVID-19 cases than the other regions and restrictions related to the pandemic were less prevalent and stringent, with the exception of South Africa and Uganda. Still, the continent was hit hard, albeit indirectly through the global economic recession leading to an overall decline in portfolio quality of the region post moratoria. A slow recovery and discovery of true and fuller effects remain worrisome.

While MEF partner MFIs in the region experienced deterioration of financial performance, only one investee in Tanzania has gone through restructuring. Demand by microfinance institutions for debt financing was muted into the fourth quarter of 2020 due to a tangible slowdown of loan disbursements to MFIs' clients. While portfolio levels of the microfinance institutions in the region improved over the second half of the year, they remained in negative growth territory (on a year-on-year basis).

Elections in Ivory Coast and Uganda and on-going security concerns in the Sahel region and Nigeria created additional instability and affected country risk assessments. Sharp currency depreciation due to commodity price plunge mainly affected DR Congo, Kenya, Ghana, Nigeria and South Africa, and increased hedging costs for local currency funding.

The challenges encountered during the year translated into a slight decline in portfolio exposure to the region, down to 12% in 2020 (15% in 2019), with Botswana ranking among MEF's top 10 country exposures (rank 6 with 4.8% of MEF's global portfolio). Despite the headwinds caused by the pandemic, the Fund maintained asset quality in its portfolio in the region.



Fibre-optic Telecommunications Contractor

Having worked for Botswana Telecommunication Corporation for many years, Obakeng had gained the technical experience to start his own business. While not offering the safety net of a big company and a regular salary, he wanted more in life and for his career. He decided to start Doblem Services.

With only a big dream and no capital to speak of, Obakeng knew he needed the right financial partner to help him with his business idea. He found that partner in BancABC.

At BancABC, he met a team of SME finance experts willing to listen. They took the time to understand his vision – despite his inexperience in running a business and lack of capital. The Bank did not see him as who he was but as who he could become. Today, Doblem Services employs 29 expert technicians and is responsible for the implementation of significant fibre-optic projects all over Botswana.

Botswana

Portfolio Development Highlights

South & East Asia

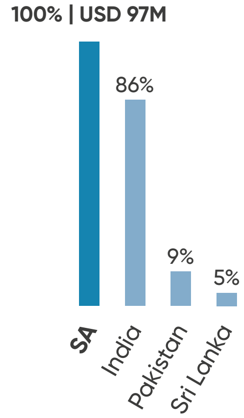
Asia was hit earlier by the pandemic than other regions and was also ahead of the recovery curve. Aggregate figures, however, mask immense divergence between countries, with low-income countries and those highly exposed to the tourism industry being more economically affected by the crisis.

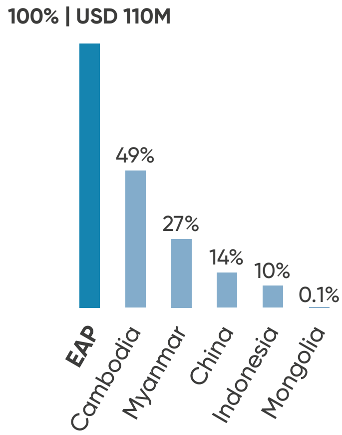
India, a key market for MEF, felt the pandemic particularly acutely with stringent lockdown compensated in parts by important state interventions, such as repayment moratoria and government relief packages, making liquidity available to Indian MFIs. Overall, debt collection post moratoria remained high in the country with most institutions enforcing prudent lending practices. The outlook for India, however, has since been overshadowed by a second wave of rapid COVID-19 infections and deaths starting around the second quarter of 2021, overwhelming in a first instance the health system. Fewer restrictions were imposed in the second than in the first wave with an anticipated lesser effect on the economy and economic recovery. MEF partner MFIs entered the second wave with strong balance sheets, reasonable liquidity, and having navigated well a turbulent 2020. The situation remains very fluid with downside risks.

In other key markets, such as Cambodia and China, the impact was less pronounced. Economic activity resumed swiftly, enabling a steady rebound in microfinance activity.

For Myanmar, another key market for MEF, the coup in February 2021 against the elected National League for Democracy (NLD) government and escalating repression of anti-coup protests with a troubling death toll has prompted international targeted sanctions. The situation led MEF's Board to the decision to hold off on any new business in Myanmar until further notice. MEF will, however, continue fulfilling its contractual obligations to existing clients and monitor developments closely.

MEF's portfolio of 41% in the region remained relatively stable in 2020. Among MEF's top 10 country exposures, three were in this region: India (rank 1 with 14.2% of MEF's global portfolio), Cambodia (rank 3 with 9.2%) and Myanmar (rank 4 with 5.1%). Despite the headwinds caused by the pandemic, the Fund maintained asset quality in its portfolio in the region overall.





NeoGrowth
Small & Micro Business Lender

Set up in 2013, NeoGrowth is a pioneer in point of sales (POS) terminal-based lending in India. With its unique automated daily repayment model and the digital data-based underwriting, the company is a forerunner in micro and small business and supply chain finance with an average loan size of around USD 16,000.

NeoGrowth uses MEF's loan for on-lending to micro and small retail and supply chain clients. They are primarily consumer-facing retail stores and establishments, both offline and online.

MEF has been a lender to NeoGrowth since 2016 when the company was still in its start-up phase and not yet turning a profit. The funding provided by MEF, along with other international lenders, helped the company grow into the largest lender in POS-based MSME loans while overcoming multiple challenges (such as the General Sales Tax roll out).

NeoGrowth's mission is "to fund small businesses by leveraging the digital ecosystem. Their financing not only helps our clients grow but also creates a positive impact." In line with the Financial Inclusion policy of the Government of India, NeoGrowth fulfils the Government's key objectives of (i) providing access to credit to customers who are un- or underserved by the formal banking system, and (ii) increasing digitisation of the financial transaction and the economy. The company publishes an annual Social Impact Report, a product of an intensive analytical process by an independent third party to understand the direct as well as indirect social impact created by NeoGrowth's lending.

India

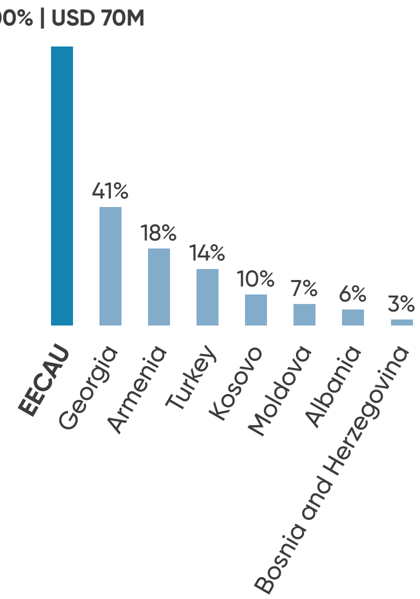
Portfolio Development Highlights

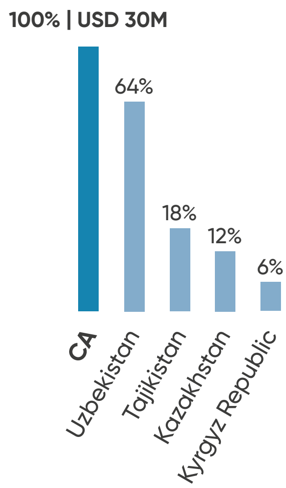
Eastern Europe and Caucasus & Central Asia

The impact of COVID-19 translated into shrinking economies in most countries in Eastern Europe and Caucasus as well as in Central Asia which also suffered severe political instability (Armenia and Azerbaijan, Belarus, Georgia, and Kyrgyz Republic). Currency volatility and depreciation against the US dollar, fueled by lower oil prices, affected much of the region. Higher vulnerability was evident in markets with historical reliance on remittances, like Kyrgyz Republic and Tajikistan, or on tourism, such as Montenegro. Larger and mature institutions, those more accustomed to dealing with instability, were able to engage early with lenders and secure their liquidity needs.

As observed in the other regions, funding needs from microfinance institutions were muted in the first semester, picking up thereafter. Georgian and Armenian institutions demonstrated financial soundness leading to strong investment opportunities. Most restructuring occurred in countries with higher vulnerabilities such as Kyrgyz Republic and Tajikistan.

MEF's portfolio share in EECAU of 12% was up from the previous year (3% in 2019). Georgia was among MEF's top 10 country exposures (rank 5 with 4.9% of MEF's global portfolio) and Uzbekistan (rank 10 with 3.3%). The Fund built up a sound asset quality in its portfolio in the region.





Pizzeria

Naim is in his mid-thirties and originally from the town of Prizren, located 85 kilometers south of the capital of Kosovo, Pristina. He has three boys: a 16-year-old in high school, a 12-year-old in primary school and a 2-year-old toddler. His father is a farmer, his mother a housewife. Naim finished primary school and chose to work as a baker in the city of Peja, some 60 kilometers away. In 2004, when he finished a course in hotel management, he decided to come back to his hometown to open an all-in-one bakery and pizzeria called "Naim Rramanaj B.I.". At the beginning, the business struggled due to its location. Five years ago, however, he found a good location and moved. From then on, his business has been very profitable and running smoothly.

Naim is on his third loan cycle with AFK (Agjencioni për financim në Kosovë (Agency for the Finance of Kosovo)), having started with a 10-month loan of USD 3,600, then a second 10-month loan of USD 12,000 and presently a 48-month loan of USD 27,000. His second and third loans have helped him to hire more people, build the business, and to buy a new house as well as some land in a nearby village. Since taking the latest loan, he was able to hire three additional people. He now has eleven employees in total, including his wife and three brothers. Currently Naim is looking to buy his own property for the business and move it into a bigger building to no longer pay rent.

Kosovo

Portfolio Development Highlights

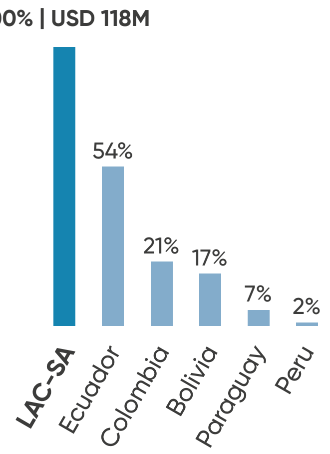
Latin America

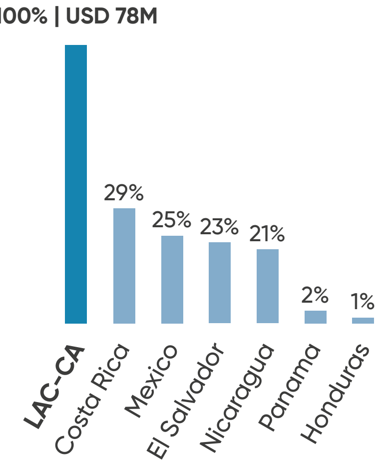
Of all emerging regions, Latin America was hardest hit by the pandemic reflected also in a concentration of handshake, rescheduling and restructuring cases. Especially Mexico, where the pandemic struck amidst prior economic woes, saw a high number of restructuring cases as well as tight liquidity.

In other markets in the region, liquidity scarcity provided opportunity for MEF to engage with institutions new to MEF's portfolio, such as in Bolivia. Overall, despite the fact that the region was strongly affected, microfinance institutions and banks proved overall resilient. While Ecuador went through a massive restructuring of its sovereign debt in 2020, the microfinance sector, dominated by non-regulated cooperatives, made it through the crisis better than expected. In Peru, exceptional regulatory measures eased the liquidity situation of MFIs and reduced their supervisory burden in addition to supporting MFI clients with debt relief measures.

Still, the effects of the crisis started to seep into portfolios, stagnating or contracting and showing quality issues post moratoria. The pandemic, with high infection rates, will continue to create headwinds across LAC with economic recovery lagging other regions. A new variant of the virus originally identified in Brazil may imperil recovery if it spreads in the region.

MEF's portfolio diversification continued with reduced exposure in the region reaching 34% of the global total in 2020 (41% in 2019). Exposure shrank especially in Central America (to 13% from 23% in 2019) and notably in Mexico (from 8% to 3% of global total). Among MEF's top 10 country exposures four (compared to six in 2019) were in this region: Ecuador (rank 2 with 10.9% of MEF's global portfolio), Colombia (rank 7 with 4.2%), Costa Rica (rank 8 with 3.8%), and Bolivia (rank 9 with 3.4%). Despite the headwinds caused by the pandemic and provisioning for Mexico, the Fund maintained asset quality in its portfolio in the remaining countries of the region.





Dressmaker

Ana is a micro-entrepreneur living in the city of Loja in Ecuador. Ana has been FACES' client since 2015 when she applied for a loan to expand her sewing atelier. A strong woman, thanks to her work she has been able to maintain her home after her husband abandoned the family and stopped supporting them financially. Ana has two daughters who are still studying, one reason for her to continue working to offer them a good education.

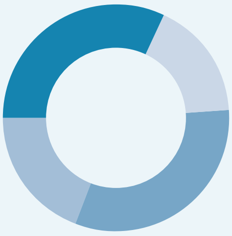
Ana works based at home and her clients recognise the quality of her work and service. Before starting her own business, she had migrated to the capital Quito in search of a job and worked there as a domestic worker and in various warehouses. She saved for her main goal: to have her own business in her hometown. With all the money she could save, she returned to Loja and bought a sewing machine to get started in a rented downtown premise. Her business grew. After the birth of her first daughter, she was no longer able to pay the rent. Rather than give up, she decided to adjust her house to accommodate the workshop. With her tenacity, the quality of her work, and her charm, she now has many clients and the income to maintain her home. Ana appreciates the loans she receives from FACES, as with each loan she has been able to buy machinery to expand her business.

Ecuador

On Four Continents with Four Investment Advisors

Investment Advisors – Portfolio Distribution

as of 31 December 2020



BlueOrchard	USD 157 M	27 %
	* USD 180 M	32 %
responsAbility	USD 66 M	11%
	* USD 107 M	19%
Incofin	USD 147 M	25 %
	* USD 99 M	17 %
Symbiotics	USD 213 M	37 %
	* USD 181 M	32 %

* as of 31 December 2019

BlueOrchard

The BlueOrchard pool stood at USD 157 million outstanding portfolio (27% of MEF global total) as of 31 December 2020. Year-on-year the pool contracted by USD 23 million. The pool is diversified across 38 investees in 20 countries. Loans disbursed in 2020 amounted to USD 61 million.

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

The Incofin pool stood at USD 147 million outstanding portfolio (25 % of MEF global total) as of 31 December 2020. Year-on-year the pool grew by USD 48 million. The pool is diversified across 26 investees in 20 countries. Loans disbursed in 2020 amounted to USD 96 million.

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. Incofin has a team of more than 68 professionals based in its headquarters in Belgium and in local investment teams in Colombia, India, Kenya and Cambodia. As a leading impact investment firm, Incofin has invested (via equity and debt financing) over EUR 2.5 billion in more than 350 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 stood at USD 66 million outstanding portfolio (11% of MEF global total) as of 31 December 2020. Year-on-year the pool contracted by USD 41 million. The pool is diversified across 18 institutions in 13 countries. Loans disbursed in 2020 amounted to USD 22 million.

A leading sustainable asset manager with an 18-year track record, responsAbility manages USD 3.5 billion of assets invested in over 300 ESG-managed high-impact companies across 76 emerging economies. Since inception in 2003, responsAbility-managed funds have invested over USD 10 billion in private debt and private equity in the sustainable food, financial inclusion and climate finance sectors in companies whose business models directly support the United Nation's Sustainable Development Goals (SDGs).

symbiotics

The Symbiotics pool stood at USD 213 million outstanding portfolio (37 % of MEF global total) as of 31 December 2020. Year-on-year the pool grew by USD 32 million. The pool is diversified across 57 institutions in 27 countries. Loans disbursed in 2020 amounted to USD 85 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 490 companies in almost 90 emerging and frontier markets representing more than USD 6.5 billion of financing. 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 2020	as of December 2019
Loans to MFIs*	578,262,065	565,054,772
Current assets	181,526,632	205,337,482
of which: cash & cash equivalent	158,343,080	187,512,360
Other assets	636,217	953,475
Total assets	760,424,914	771,345,729
LIABILITIES		
Notes	175,059,750	140,512,500
Current liabilities	85,976,453	51,224,410
of which: dividend payable	18,159,888	29,833,370
Total liabilities	261,036,203	191,736,910
NET ASSETS	499,388,711	579,608,819

INCOME STATEMENT

	as of December 2020	as of December 2019
Net assets at the beginning of the year	579,608,819	573,424,145
INCOME		
Interest on loans	51,928,773	53,840,354
Upfront fees	1,851,055	1,550,258
Other income	453,627	1,808,768
Total income	54,233,455	57,199,380
EXPENSES		
Management fees	(6,040,629)	(6,504,330)
Legal, advisory and audit fees	(329,836)	(318,271)
Administration, custodian and domiciliation fees	(735,932)	(747,226)
Interest expenses on notes	(4,149,248)	(2,365,315)
Other expenses	(4,444,001)	(3,461,577)
Total expenses	(15,699,646)	(13,396,719)
Net income from operations	38,533,809	43,802,661
Net realised and unrealised gains/losses on foreign exchange	(8,865,480)	415,404
Net realised and unrealised gains/losses on swaps and forwards	(6,810,374)	(15,503,255)
Value adjustments relating to loans	(23,158,757)	(653,456)
Net increase/decrease in net assets as result of operations for the year/period	(300,802)	28,061,354
MOVEMENT IN CAPITAL		
Subscription of shares	10,022,760	7,956,690
Redemption of shares	(71,782,178)	-
Advance of dividend	(18,159,888)	(29,833,370)
NET ASSETS AT THE END OF THE YEAR/PERIOD	499,388,711	579,608,819

In accordance with Luxembourg GAAP

* MEF's loan outstanding net portfolio of USD 584 million reported throughout the report is based on financial statements prepared under IFRS on a quarterly basis and used for the fund's publications

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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 specialized 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.