MEF
Microfinance Enhancement Facility

# Annual Report 2021

# TABLE OF CONTENTS

# LETTER OF THE CHAIR

Dear stakeholders,

2021 continued to be marked by the effects of the COVID-19 pandemic. Having soundly managed a year of both challenges and opportunities, we are pleased to present to you the MEF Annual Report 2021. To confirm that impact is at the core of MEF, this latest report combines what used to be separate annual and impact reports. With this new format we wish to share an account of last year's activities and achievements in fulfilment of our global impact finance mission: to improve the livelihood of microentrepreneurs and low-income households in developing countries around the globe. Potential risks and impacts to the fund have been closely monitored and remain limited compared to market challenges and turbulences. Developments and events in 2021 have not impeded the fund's ability to operate on a going concern basis.

In the wake of a turbulent 2020, growth resumed in the microfinance sector for most institutions in 2021. Yet, as the pandemic effects started to subside, demand for new financing from MFIs still remained low due to high levels of global liquidity in 2021 and the spillover effects of deferrals and handshake agreements made in 2020. In parallel, the fund closely monitored investment maturities in connection with the fund's A and B shares maturing in 2025 if not renewed. All this combined caused a portfolio decrease by 7% over the year to USD 545 million by year-end 2021, compared to USD 584 million in 2020.

On the asset side, the 2021 portfolio reflects a lively year with a total of 198 loans invested in 143 institutions across 42 countries. This includes two new countries – Malawi and Palestine – demonstrating the fund's ability to continue investing in countries with a perceived high investment risk. In addition, the fund increased the micro and small enterprise window opened in 2020 in response to shocks caused by the COVID-19 pandemic to USD 100 million.

Demand for local currency remained strong, however market volatility exerted upward pressure on hedging costs. This led to a decrease in the share of local currency lending to 53% in 2021 – including countries where USD and EUR are legal tender – compared to 63% in 2020. Against this headwind, the fund continued to strive to grow its local currency offer.

While the economic recovery in 2021 has generally been encouraging, the fund observed a deterioration of MFI portfolio quality in most regions, and particularly in Myanmar as a result of the military coup early 2021. In response to such events, MEF booked additional provisions over the course of the year, albeit at a level much lower than in 2020.

As concerns on client protection in some countries came to light recently, we wish to point out that the fund has articulated and is monitoring clear sustainable investment objectives that include responsible treatment of final borrowers and contractual requirements with our MFI partners relating to client protection. As a matter of policy, the fund does not invest in any MFI which is expected to harm the sustainable investment objectives of the fund and that does not meet the fund's responsible finance requirements such as the prevention of over-indebtedness of final borrowers.

As for liability, MEF continues to enjoy strong interest from its investors. However, high levels of global liquidity and a muted portfolio combined with fresh funds received in early 2021 from the German Ministry for Economic Cooperation and Development limited the need for additional funding. In this context, notes from Deutsche Bank maturing in November 2021 were repaid and the fund closed the financial year 2021 with USD 714 million in total assets, compared to USD 760 million in 2020. The fund's low total expense ratio of 1.6% in 2021 is in line with 1.55% in 2020 and reflects MEF´s consistent focus on cost control and operating efficiency. Despite the challenges in 2021, MEF was able to pay both target and complementary dividends to its shareholders.

2021 also marked a year of MEF's firm and continued commitment to impact and ESG strategies. As announced in last year's report, MEF introduced disclosure as a fund designated to sustainable investments as set out in the European Union Sustainable Finance Disclosure Regulation (SFDR, Article 9) and became signatory to the Operating Principles for Impact Management (Impact Principles) in January 2021. Pursuant to committing to the Impact Principles, in January 2022 the fund published its first annual Disclosure Statement. In pursuit of the Impact Principles the fund will also initiate an independent verification of its compliance by the end of 2022. With these two notable developments MEF continues to ensure that its investments meet its sustainability objectives and that they are systematically integrated in the decision-making process and analysis of sustainability risks.

On behalf of the Board, I extend our sincere gratitude to our investors for their ongoing commitment and support to MEF. We also greatly appreciate the dedication and work of the investment advisors, the service providers and the general secretary in supporting the development of MEF and the implementation of the fund's mission. Our deep appreciation goes to our MFI partners and we wish to especially acknowledge and recognise their continued resilience and adaptiveness. Recent more optimistic developments with respect to the pandemic have been overshadowed by increasing political and economic concerns linked to the conflict between Russia and Ukraine. Against this backdrop MEF remains a constructive and reliable partner through these challenging and uncertain times as the fund continues to advance its ambitious mission.

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

# MISSION

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

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

The Microfinance Enhancement Facility S.A., SICAV-SIF (MEF) was set up in February 2009 to provide short and medium-term financing to financial institutions which support microfinance and microenterprises (MFIs). The fund was originally conceived with a focus on securing financing to MFIs in the wake of the 2008/2009 global financial crisis. As the microfinance market has matured and deepened, MEF has been a stable and reliable source of funding to MFIs, not only in challenging 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 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 2.6 billion to more than 291 financial institutions active in the microfinance space in 59 developing countries. MEF financing thereby provides an important market signaling 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.

The fund's global mandate, investments sourced through four leading investment advisors, the support of committed DFI shareholders and their leveraging strategic private investors all combine to position MEF as a cornerstone of the microfinance industry.

# KEY PORTFOLIO FIGURES

| | 2021 | Δ 2020 to 2021 | 2020 | 2019 |
|---|---|---|---|---|
| Total assets | USD 715 M | -6% | USD 760 M | USD 770 M |
| Loan portfolio | USD 545 M | -7% | USD 584 M | USD 566 M |
| Portfolio in total assets | 76% | -1% | 77% | 73% |
| Partner MFIs financed | 143 | +4 | 139 | 113 |
| Countries | 42 | -3 | 45 | 43 |
| Share of local currency in portfolio* | 53% | -10% | 63% | 62% |
| Average outstanding maturity | 19 months | -1 month | 20 months | 21 months |
| Average exposure | USD 4.2 M | ↘ | USD 4.5 M | USD 4.3 M |
| Local currencies provided | 25 | - | 25 | 21 |

- 2021
- Δ 2020 to 2021
- 2020
- 2019

*including EUR and USD loans when legal tender

## SINCE INCEPTION

USD **2.6 BILLION**
INVESTED

**59**
COUNTRIES

**291**
INSTITUTIONS FINANCED

**800**
LOANS

# MEF IMPACT AT A GLANCE

as of 31 December 2021

**640,000**
Final borrowers
reached by MEF funding

USD **1,453** Average
USD **2,466** Median
Loan size to final borrowers

**84%**
Women

**56%**
Rural

MICROFINANCE
LUXFLAG

LuxFLAG Microfinance Label
since 2011

Operating Principles for
Impact Management

Signatory of the Impact Principles
since 2021

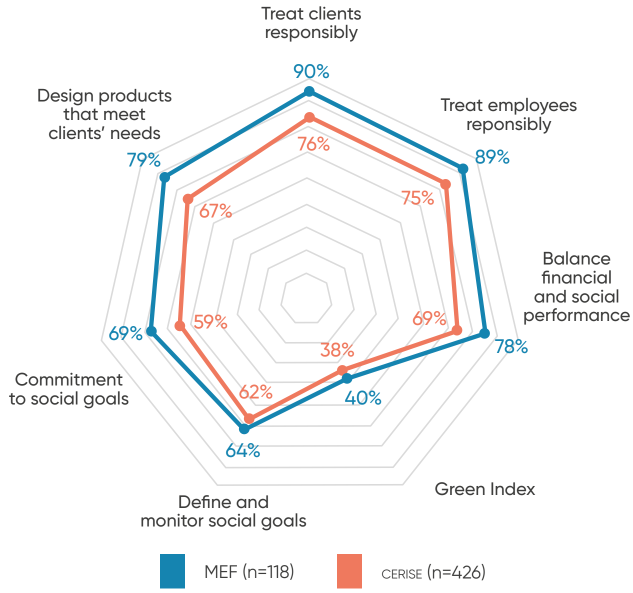
MEF contributes to the following SDGs

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

## Social performance analysis ALINUS

### MEF Portfolio
### Average SPI4-ALINUS* Score 73%

With an overall ALINUS score of 73%, MEF partner MFIs demonstrate stronger social performance than their peers (63%) and outscore the CERISE benchmark in all dimensions.




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' and covers 6 dimensions as well as the Green Index. (See also section 'MEF Impact')

# 1 ACTIVITY REPORT

## Investor interest

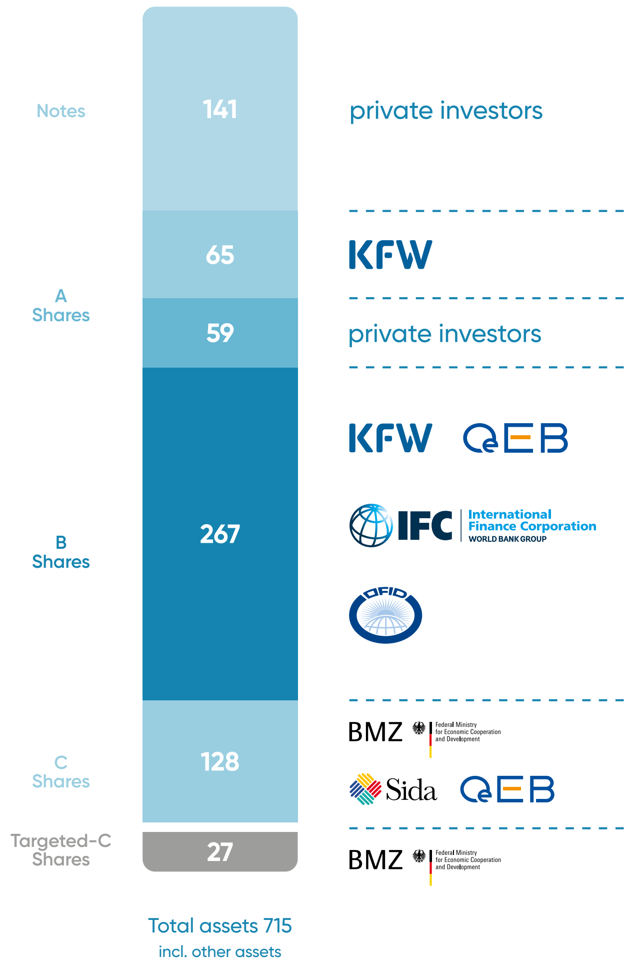
MEF continues to enjoy strong interest from its investors thanks to the sound financial performance of the fund due to the quality, granularity and regional diversification of its global microfinance and MSE portfolio. Discussions with potential investors during the year served to explore the possibility of further funding for MEF, especially from private institutions. However, high liquidity in the market and the concurrent decrease in MEF's portfolio over the year lead to a limited need for additional funding.

This is also due to the fact that, at the beginning of 2021, the German Ministry for Economic Cooperation and Development (BMZ), further increased support to its long-standing engagement with MEF with an additional USD 53 million allocated to C Shares.

In this context, notes from Deutsche Bank maturing in November 2021 were repaid, amounting to USD 30 million. Meanwhile, the fund's cash position remained at a high level at the end of 2021.

## Investor structure

Total assets as of 31 December 2021
in USD million




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

## Operating and financial performance

Total assets of the fund decreased by a total of USD 45 million, from USD 760 million to USD 715 million over the year until December 2021. This is mainly a result of the redemption of Notes (in the amount of USD 30 million) and of cash payments, including dividends. These outflows were partly offset by the positive results of the derivative instruments and other assets.

The fund's Total Expense Ratio (TER) increased marginally to 1.60% in 2021 from 1.55% in 2020 (2019: 1.53%, 2018: 1.66%). This is based on average total assets.

The distributable income decreased to USD 21 million in 2021 (USD 23 million in 2020). This resulted both from the decrease in portfolio as well as from the extremely low 6-month USD LIBOR.

Despite the challenges posed by the effects of the pandemic, MEF was able to pay both target and complementary dividends to its shareholders. The fund thus consistently made target dividend payments to shareholders since inception in 2009.

## Asset quality

While the economic recovery observed in 2021 has generally been encouraging, the pandemic and related restrictions have had a severe impact on the MFIs' loan clients. The fund observed a deterioration of MFI portfolio quality in most regions, particularly in South Asia, Africa and the Middle East as well as in Myanmar following the military coup in early 2021.

In turn, this led to additional provisions on the MEF portfolio, albeit at a level much below that of 2020.

Since the start of COVID-19, a total amount of USD 60 million in repayments has been deferred. At year-end 2021, the total outstanding balance of previously deferred payments decreased to USD 37 million, corresponding to 6.2% of total gross portfolio and pertained to 16 financial institutions, mainly in India and Mexico.

# 1 ACTIVITY REPORT

## Market environment

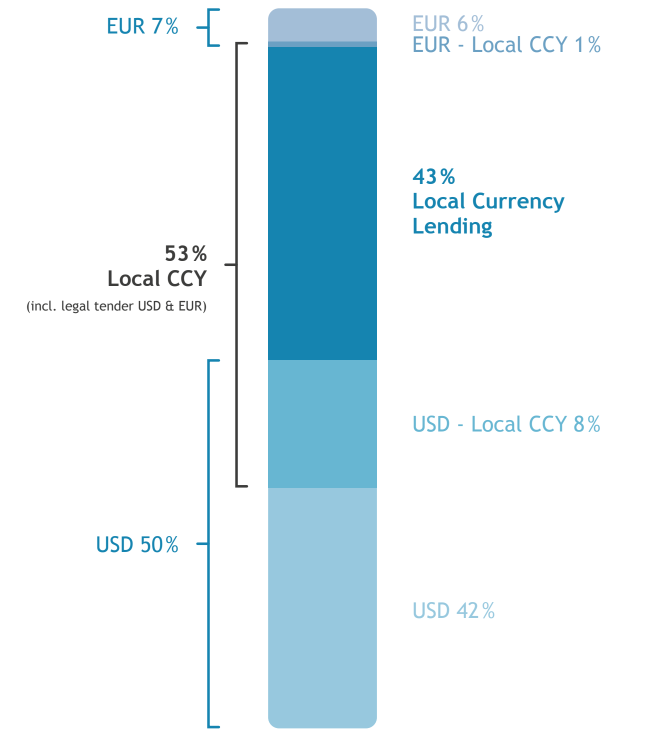
All markets in which MEF invests continued to be deeply affected by the COVID-19 pandemic in 2021, albeit with regional disparities. However, MFIs in MEF's portfolio generally showed resilience and positive performance over the year, despite the significant disruptions and uncertainty of 2020 still persistent to some extent in 2021 due to new waves of COVID-19. 2021 saw a resurgence of MFI growth and client demand for financing since operational interferences and restrictions due to the pandemic were less prevalent. International lender support of MFIs during the course of 2020 and 2021, such as MEF's financing, supported this growth.

At the same time, subdued demand among MFIs for new financing was characteristic of 2021, in part because many MFIs had benefitted from deferrals and 'handshake agreements' with lenders in 2020, and global levels of liquidity remained high in 2021.

This affected demand for MEF financing and thus its portfolio: with repayments resuming in 2021 as well as lower demand for new financing, combined with low interest rate margins, the fund's gross portfolio decreased by 4.6% over the year to reach USD 597 million.

Notably, especially in this context, demand for local currency continued to be strong, however market volatility exerted upward pressure on hedging costs, thus leading to decrease in the share of local currency lending to 53% in 2021 (from 63% in 2020; including countries where USD and EUR are legal tender), while lending in local currencies without USD or EUR as legal tender decreased as well to nearly 43% (from 48% in 2020). Nevertheless, since only local currency funding 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, COP, EUR, GEL, GHS, HNL, IDR, INR, KES, KGS, KZT, MDL, MMK, MNT, MWK, MXN, NGN, PEN, PLN, THB, TJS, TZS, UZS, ZAR

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

## 2022 outlook

The year 2022 started with renewed waves of COVID-19 with the Omicron variant, in particular in Europe. Yet these new waves, while initially quick and intense, have led to milder cases and lower pressure on health systems. To date, the new waves proved to be shorter lived and prompting fewer preventive measures than ones witnessed in 2020 and 2021. In turn, this has led to optimistic messages in many countries regarding a potential exit from the pandemic with a gradual lifting of restrictions worldwide.

This optimistic development was, however, rapidly overshadowed by increasing political concerns linked to the invasion of Ukraine by Russia which broke-out in February 2022. With economic sanctions swiftly applied by many countries, especially the European Union and the United States, this crisis is expected to have a long-lasting impact on the global economy beyond Ukraine, Russia, Eastern Europe and neighbouring countries. As a result, the outlook for global economic recovery in 2022 is lower than previously forecasted.

Globally, record-low interest rates in recent years had led to tight pricing levels. Inflation, however, particularly the rising prices of commodities exacerbated by the Ukraine crisis, is expected to lead to higher rates in 2022. Volatility in local currencies in Russia and in surrounding countries in Eastern Europe, the Caucasus and Central Asia have already reached high levels since February / March 2022, with direct effects on hedging costs.

At the time of the drafting of this report, the MEF portfolio had not been affected by these recent events. Nevertheless, it is currently difficult to predict how the situation might evolve. MEF will continue to monitor very closely it's portfolio in the Caucasus and Central Asia, especially in Georgia, will be subject to close scrutiny.

In this difficult context, MEF continues to support its MFIs where they need it most. Essential to this is also to continue to actively monitor the fund's portfolio to address any difficulties that may arise. In light of the current macro-economic context and continued high liquidity, an evolution of the portfolio in 2022 with subdued growth, similar to 2021, is possible.

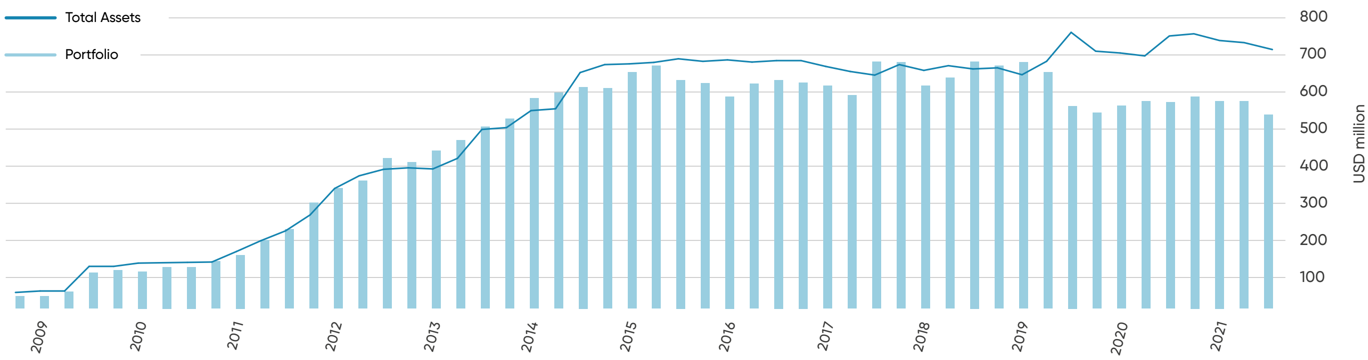
With MEF's deep engagement in impact management and environmental & social governance, the fund will continue working with the investment advisors to ensure that best practices are implemented and risks are adequately mitigated. This will further contribute to MEF's objectives in line with the United Nations' Sustainable Development Goals. MEF has proven to be a trusted partner in times of crisis, as has been the case since its inception following the global financial crisis and during the ongoing COVID-19 pandemic. Even though the global context may continue to be troubled in 2022, MEF will continue to support financial inclusion and responsible finance principles in developing and emerging markets.

# 2 PORTFOLIO DEVELOPMENT

## 2.1 PORTFOLIO EVOLUTION

MEF closed 2021 with an outstanding gross portfolio of USD 597 million. The year-on-year decrease by nearly 5% is a reflection mainly of high liquidity in most markets where MEF operates, as noted in section 'Market environment'. The fund's diversified portfolio continued to cover developing and emerging markets in all regions with 198 loans invested in 143 institutions across 42 countries. The fund played an important role in supporting the financing needs of many existing MFIs. The fund also added 30 MFIs to its portfolio, 23 of which received funding from MEF for the first time. Meanwhile 26 MFIs exited the portfolio. Over the course of the year, MEF extended financing to two new countries: Malawi and Palestine.

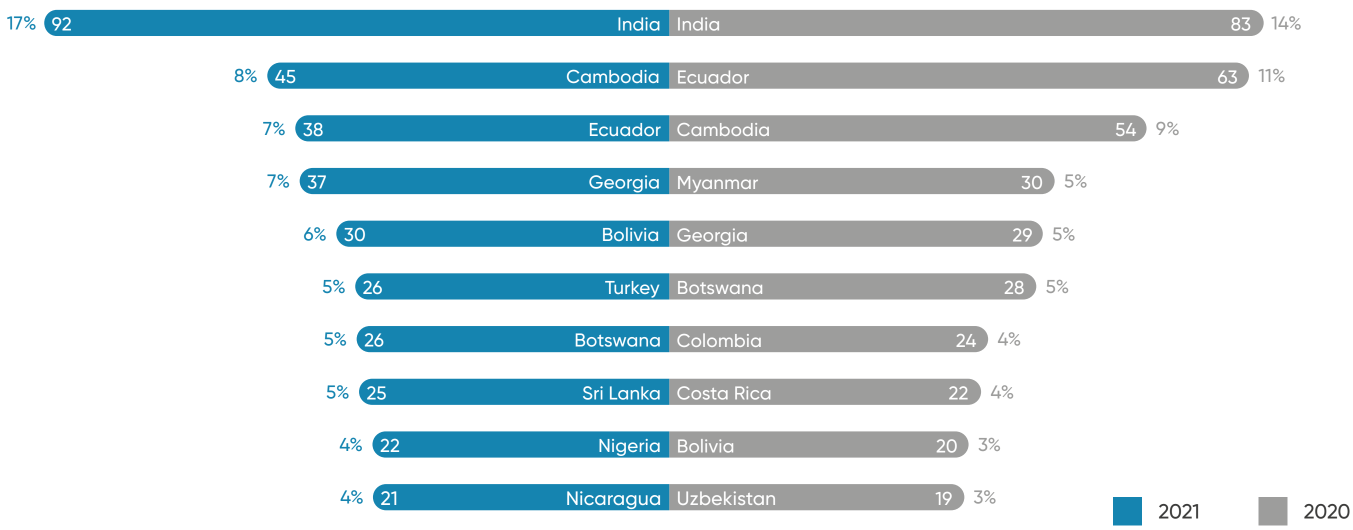
In 2020, the fund had opened a micro and small enterprise (MSE) window in response to shocks caused by the COVID-19 pandemic. This USD 50 million facility aimed to support MFIs that finance affected MSEs. MSE loan portfolios eligible for this facility have an average loan size at disbursement of less than USD 35,000 (or USD 50,000 subject to Board approval). In June 2021, MEF's Board approved that the MSE window should be maintained on a permanent basis, in light of continued demand for MSE financing as well as due to the necessary lead time to bring new loans into the facility. Given increased deal flow and expected demand, in September 2021, the Board approved an increase of the MSE window to USD 100 million.




## Top 10 country exposures

The fund's portfolio concentration in the top 10 countries at the end of 2021 reflects the diversification and regional picture, in sequence as follows: India 17%, Cambodia 8%, Ecuador and Georgia 7% each, Bolivia 6%, Turkey, Botswana and Sri Lanka 5% each and Nigeria and Nicaragua 4% each. The fund's top 3 country exposures remained the same as for 2020. Only in India have investments increased – to 17% of total portfolio at the end of 2021, up from 14% at year-end 2020. Cambodia and Georgia both decreased to 8% and 7%, respectively, at the end of at year-end 2021, down from 9% and 11%, respectively, at year-end 2020, respectively. With general provisions taken on the Myanmar portfolio, net exposure to the country no longer ranked in the top 10. Georgia moved up to the 4th largest net exposure at 7% of the portfolio, up from 5% in 2020. The aggregated share of the top 4 exposures, however, remained stable at 39% of total portfolio.

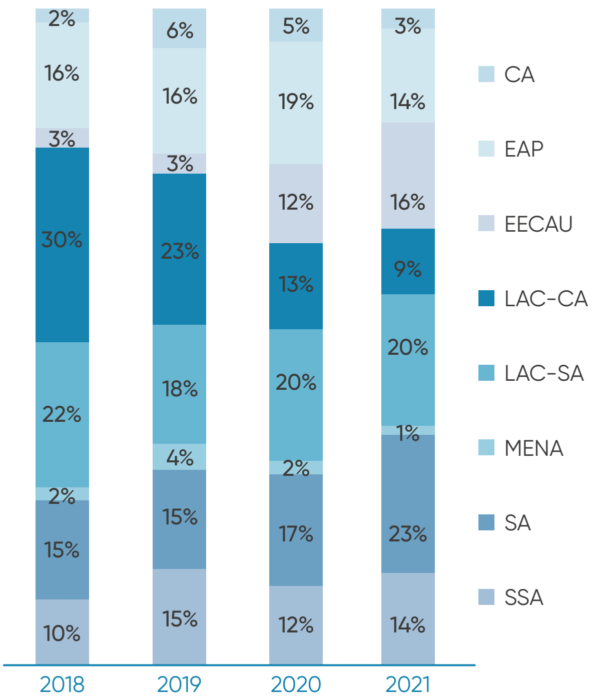
## Country distribution in USD million and in percentage of MEF total portfolio



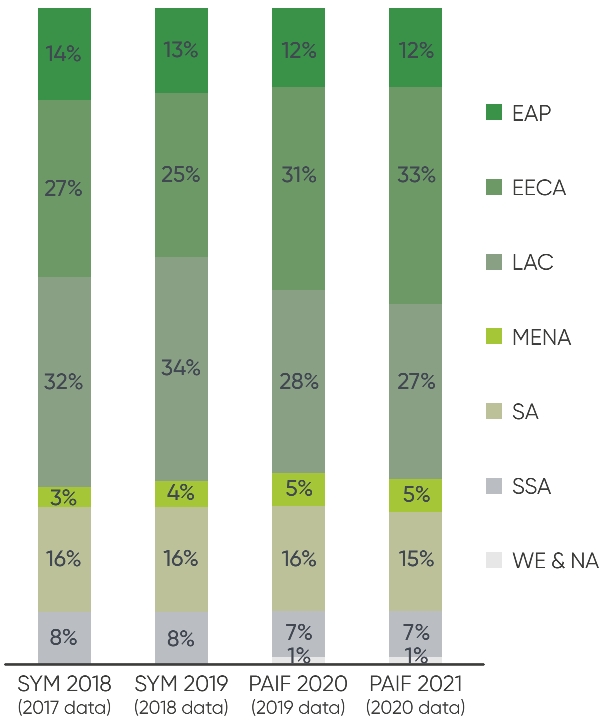
## 2.2 REGIONAL DIVERSIFICATION

From a regional perspective, the fund's portfolio remained well balanced, albeit slightly shifting between regions. In particular, 2021 closed with a continued decrease of the portfolio in Latin America, which has been hit most severely by the pandemic, and an increase in South Asia. By the end of 2021, Latin America (both Central and South America) accounted for 29% of the fund's net exposure, while South Asia and East Asia Pacific accounted for 23% and 14%, respectively. The remaining portfolio was split between Eastern Europe and the Caucacus (16%), Sub-Saharan Africa (14%), Central Asia (3%) and the Middle East & North Africa (1%).

**MEF Portfolio**




**MIV Benchmark Portfolio**




Overall, MEF is a global fund active in developing and emerging markets worldwide while other MIVs instead tend to include regional as well as some global funds. Benchmarking the regional distribution of MEF's portfolio against other MIVs shows that MEF's exposure to LAC (29% in 2021; 33% in 2010) is broadly in line with the trend and with direct outstanding portfolio shares for all MIVs (27% of invested portfolio in 2020, 28% in 2019 and 34% in 2018).

While the reduced share of LAC in MEF's portfolio led to a rebalancing of regional exposures, MEF increased its exposure in South Asia (for MEF 23% in 2021 and 17% in 2020 compared to 15% for MIVs in 2020). In Sub-Saharan Africa, MEF continued to have a higher portfolio share than benchmark MIVs (for MEF 14% in 2021 and 12% in 2020 compared to 7% for MIVs in 2020); similarly in East Asia & Pacific (for MEF 14% in 2021 and 19% in 2020 compared to 12% for MIVs in 2020). MEF, however, remains somewhat under-represented in Middle East & North Africa (for MEF 1% in 2021 and 2% in 2020 compared to 5% for MIVs in 2020). The most notable difference remains in Eastern Europe, the Caucasus & Central Asia, where the 2020 MIV data reflects a 33% share in portfolios (31% in 2019, 25% for 2018), whereas MEF records a markedly smaller share in the equivalent regional group of Eastern Europe & Caucasus plus Central Asia of 19% in 2021 and 17% in 2020, but significantly up from 9% in 2019 (5% in 2018).

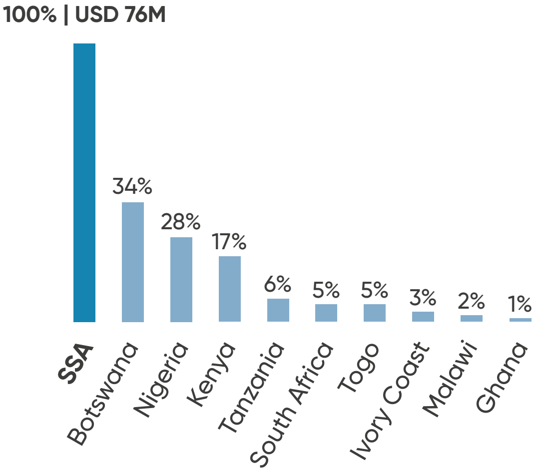
Based on Private Asset Impact Fund report (PAIF Report) for MIV data for 2020 and 2019 (https://tameo.solutions/research/) and based on Symbiotics MIV Survey for data for 2018 and 2017 (https://symbioticsgroup.com/publications/).

Legend of regions for SYM Survey and PAIF Report: EAP: East Asia & Pacific / EECA: Eastern Europe & Central Asia / LAC: Latin America & Caribbean / MENA: Middle East & North Africa / SA: South Asia / SSA: Sub-Saharan Africa WE & NA: Western Europe & North America (only in PAIF Reports)

# 2 PORTFOLIO DEVELOPMENT

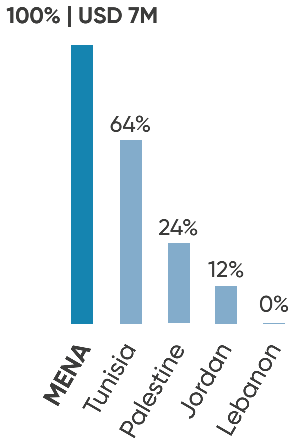
## Africa | Sub-Saharan Africa

Sub-Saharan Africa continued to recover from a COVID-19-induced recession. Economic growth was fueled by elevated commodity prices, increased global trade, and reduced COVID-19 restrictions despite low vaccination rates in the region. As economies re-opened, financing demand across key markets resumed, especially from small enterprises, a sector still largely under-served by banks. Additionally, access to local currency financing remained a challenge in certain markets and hedging costs dampened the demand for financing, particularly in West Africa despite the pegging of the West Africa Franc to the Euro (XOF-EUR peg).




MEF's overall exposure to Sub-Saharan Africa slightly increased to account for 14% of total portfolio at the end of 2021, up from 12% at year-end 2020. This was mostly due to new investments in Kenya and Nigeria as well as a first investment in Malawi, the latter with a specific focus on financing agricultural activities. Portfolio quality remained stable in the region over the course of the year.

Opportunities have been identified by investment advisors in various Sub-Saharan markets. Investments depend on finding ways and agreement with the financial institutions to address the challenges of adequate risk/return levels and volatility of hedging costs.




MEF's overall exposure to the Middle East and North Africa stood at USD 7 million at the end of 2021. In Palestine, MEF extended financing to a new MFI, a welcome development made possible as a result of the de-escalation of the conflict between Israel and Gaza. The situation in Lebanon remains unchanged with the informal capital controls limiting the liquidity and the economy has continued deteriorating. Consequently, Lebanon remains fully provisioned with no new investments in 2021. MEF's investments in Jordan and Tunisia gradually decreased and the portfolio in Jordan required 20% provisioning at the end of the year. Demand in the Middle East remained low given subdued growth and considerable domestic liquidity.

USD 1.5 million in local currency equivalent disbursed to FINCA Malawi from MEF in 2021

### Groceries & more

Edina began her journey with FINCA Malawi, a microfinance institution, in 2003. Prior to taking up her first loan, Edina ran a small grocery and a second-hand clothing business while living with her family and five children in rented accommodation. Edina used her loan to expand her grocery and second-hand clothes store. The loan helped her grow her business from one to two stores and she hired four people. She also took out loans to build four properties. Three of them she rents while one is she and her family use as their home.

Over the years, Edina built her knowledge – such as on strategic planning and budgeting – helping her in developing a viable business. Benefitting from FINCA's financial literacy training, Edina learned how to run her business soundly.

Currently, Edina also serves as a chairwoman of Tiyanjane Village Bank. She feels she has succeeded in life and feels empowered to achieve even more.

**Malawi**

# 2 PORTFOLIO DEVELOPMENT

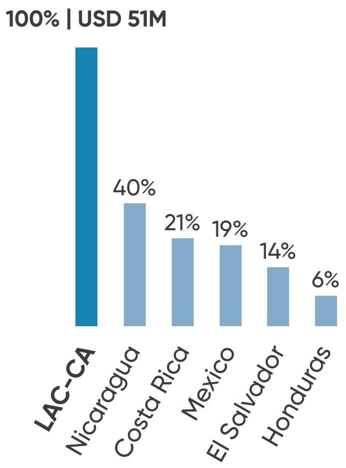
## Americas | Latin America & Caribbean

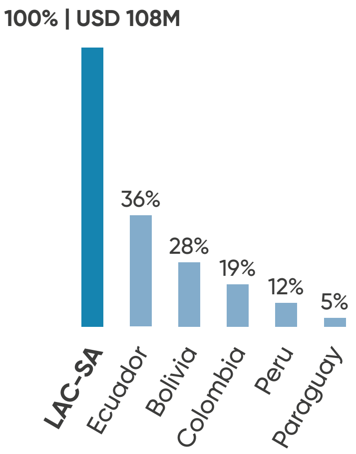
Latin America was severely affected by the pandemic in 2020 and early 2021 with intermittent COVID-19-related lockdowns. The region also witnessed considerable social protests as well as disputed elections. These events led rating agencies to downgrade several countries, including Colombia, El Salvador and Peru.

Nevertheless, some developments in the region allowed MEF to engage with new MFIs – developments such as increased control of fiscal deficits which contributed to tighter liquidity in financial markets, thus creating more demand from the private sector, as well as some countries proving more resilient than expected.

MEF's overall exposure to Latin America decreased from USD 196 million in 2020 to USD 158 million in 2021, accounting for 29% of the fund's total portfolio. Peru's resilience surpassed expectations and MEF extended financing to new MFIs. MEF's portfolio in Bolivia also increased by nearly 50% to reach USD 30 million by the end of 2021. However, such growth was offset by larger drops in MEF's portfolio in Costa Rica, Ecuador and El Salvador, with an overall decrease of almost USD 50 million. This contributed to the regional rebalancing trend in the fund's portfolio. While MEF's top 10 exposures included six Latin American countries in 2019 and four in 2020 (Ecuador, Colombia, Costa Rica, Bolivia), only three remained at the end of 2021: Ecuador, Bolivia and Nicaragua.

In addition, MEF's Latin America portfolio was affected by investments in Mexico which suffered heavily under COVID-19. Out of MEF's seven investments in the country, four have been impaired. Going forward, close monitoring of Mexico will continue while at the same time the fund anticipates new opportunities arising in Colombia, Ecuador, Nicaragua and Peru.





USD 21 million disbursed to Banco Avanz from MEF since 2009

### Artisanal sweets

Carolina and Leonardo live in Masaya. The city is located about 30 km southeast of Nicaragua's capital Managua and just east of the active Masaya Volcano. Also known as the 'City of Flowers', it is Nicaragua's fourth most populous city.

Carolina inherited a small business from her mother, a candy workshop producing traditional Nicaraguan sweets. The couple took up the challenge of continuing and expanding the business.

Banco Avanz supported their venture with five loans and a line of credit for different investment plans and working capital. The financing allowed Carolina and Leonardo to expand the premises and diversify the products to include other sweets and fried foods. They grew to become one of the largest producers of local artisan sweets.

The workshop is managed by the couple as a family business. Under normal circumstances, they employ 25 staff in permanent jobs. During the high season, spanning November and December, the number of staff grows to 40. Other families in their community benefit from these job opportunities. Carolina and Leonardo's future plans are to further expand the distribution channels to reach more markets.

**Nicaragua**

# 2 PORTFOLIO DEVELOPMENT

## Asia | South & East Asia

During 2021, the South & East Asia regions continued to face strict measures and travel restrictions related to COVID-19. These hampered the identification of suitable investment opportunities for investment advisors, especially in East Asia and the Pacific. Restrictive COVID-19 policies in the region had a negative impact on the economies and caused a significant decrease in demand overall. Ripple effects from slowed growth in the Chinese economy further affected growth in several countries; and Myanmar suffered a military coup.

MEF's overall exposure to Asia stood at USD 199 million at the end of 2021 (USD 208 million in 2020). In particular, MEF's exposure in Cambodia, the fund's second largest market, decreased by 17% over the year, partly due to excess liquidity in this market. However, MEF continued to support reputable microfinance institutions in the country through refinancing over the course of the year. MEF and its investment advisors paid special attention to concerns about client protection in Cambodia, such as raised by NGOs, and reaffirmed that MEF Partner MFIs followed appropriate policies and procedures. Relatedly, a further strengthening of MEF's ESG risk management framework has provided additional comfort, in particular the inclusion of stricter affirmative covenants relating to client protection and responsible finance principles across all MEF loan agreements globally.

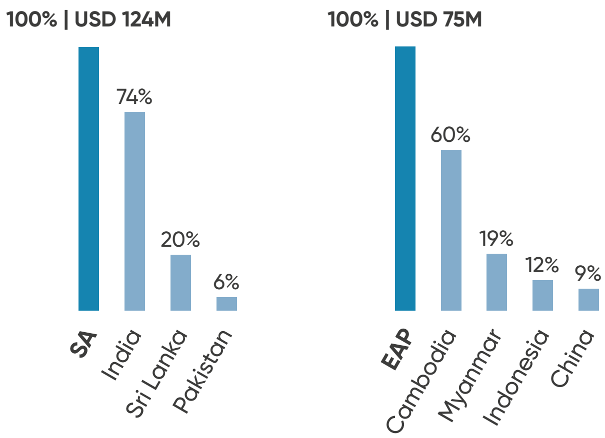
The military coup in Myanmar in early 2021 had the largest impact on MEF's portfolio. The coup reversed the recent opening-up of the economy and the military's crackdown led to a serious economic and humanitarian crisis. While financial institutions were able to resume operations, they faced considerable difficulties in repaying existing loans from international investors and in accessing new funding. The outlook for Myanmar remains uncertain. Consequently, MEF took general provisions on the whole Myanmar portfolio in June 2021 and gradually increased them in the second half of the year to reach 27% of the Myanmar exposure, equivalent to USD 5 million.

In South Asia, MEF's overall exposure stood at USD 124 million at the end of 2021 (USD 97 million in 2020). An increase in public investment and incentive schemes supported demand for new financing, with MEF providing additional support to local partners.

For India, the fund's largest exposure in the region, investment grew to USD 92 million at year-end 2021, up from USD 83 million in 2020. Further investment was hampered by limited availability of the 'Voluntary Retention Route' (VRR), a channel introduced by the Reserve Bank of India to enable foreign investors to invest in domestic debt markets. Moreover, MEF's overall India exposure neared the fund's country limit leaving room only for limited investments with existing clients.

Sri Lanka also contributed to the growth of MEF's portfolio in South Asia. While the economic fallout from the pandemic on the country's sovereign fiscal situation has been severe, local institutions proved to be resilient. MEF was able to extend an additional USD 20 million in funding, increasing from USD 5 million at year-end 2020 to USD 25 million at year-end 2021. Sri Lanka rose to become MEF's 8th largest country exposure. Given the identified macroeconomic weaknesses, however, the fund is monitoring this exposure closely.

For 2022, further opportunities may arise in South Asia outside of India, although demand for financing in India especially will continue to remain strong. Notably, with the growing establishment of fintech, partnerships, new types of financial services providers are emerging in South-East Asia, particularly in Indonesia and Vietnam, which may lead to additional investment opportunities.




USD 19 million in local currency equivalent disbursed to Fusion India from MEF since 2015

### Fusion India

Fusion was set up in 2010 and is registered as a non-banking finance company (NBFC) MFI. Operating a group-based lending model across India, women living in rural and semi-urban areas are the bulk of Fusion's microfinance borrowers. Fusion's mission is to create a self-sustainable financial institution which leverages the distribution network to channel other products and services. The average client loan size is USD 360. The women borrowers use the loans to finance mainly small rural businesses across agricultural (e.g. dairy) and retail sectors.

MEF supported Fusion through COVID-19, providing a loan just before the second wave in India. Fusion has used MEF funding to help its rural borrowers rebuild their livelihoods during the pandemic. With access to sound liquidity from MEF and other local and foreign lenders, Fusion was able to fulfil its obligations to all its stakeholders – borrowers, lenders and employees. Fusion has recently begun to serve also the missing middle segment of small enterprises by offering secured and unsecured business loans and machinery finance.

**India**

# 2 PORTFOLIO DEVELOPMENT

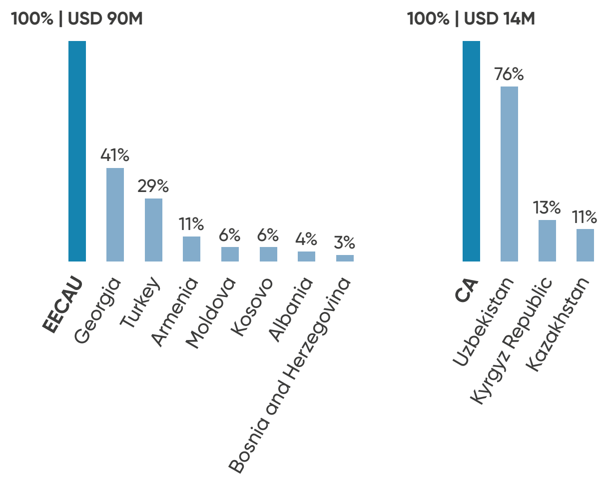
## Europe | Eastern Europe and Caucasus & Central Asia

Despite the impact of the pandemic, the Eastern Europe and Caucasus and the Central Asia region experienced a relatively good year and MEF's portfolio quality remained sound following the end of moratoria.

MEF's overall exposure in the region stood at USD 104 million at the end of 2021 (USD 101M in 2020). Demand for fresh funding grew throughout the year with MEF increasing its exposure in several countries. With an additional USD 7 million in financing, Georgia moved up to rank as 4th largest country exposure. In Turkey, the country portfolio increase was even more pronounced. Here the fund's exposure almost tripled, from USD 10 million at the end of 2020 to USD 26 million at the end of 2021. Two large investments account for this increase on the back of strong GDP growth in the country in 2021. At the end of 2021, Turkey was the fund's 6th largest country exposure at 5% of MEF's total portfolio. Given the country's rising inflation and local currency volatility since investing, however, the fund is closely monitoring its exposure, also in the context of upcoming elections in Turkey in 2022.

The war initiated by Russia against Ukraine since February 2022 has further exacerbated and destabilised the region and has incurred substantial global repercussions. The fund does not have any direct investment in either country directly involved in the conflict, nor in Belarus.

Meanwhile, widespread effects such as the increase in commodity prices are already apparent. For the wider region in particular, a visible effect is the volatility of local currencies in Georgia, Moldova, Kazakhstan and Tajikistan. MEF's portfolio in Georgia with its high exposure is being monitored closely as is the crisis overall, with further consequences anticipated. MEF remains committed to supporting its partners through these challenging times.




USD 15 million disbursed to Şekerbank from MEF since 2020

### Şekerbank

Founded 68 years ago to support economic development and the agricultural industry based on rural development in Anatolia, Şekerbank is one of the pioneering banks of Turkey in inclusive finance.

Şekerbank, a privately-owned deposit-taking bank with a broad customer base and 238 branches, has the highest share of MSME and agricultural loans in its portfolio in the Turkish banking sector. Given its strong rural roots and outreach, Şekerbank has supported farmers, artisans, small businesses and SME customers across Turkey for generations. Using mobile banking and on-site tablet banking, Şekerbank has provided continued service to farmers, traders and small business owners who were unable to access physical branches during the Covid-19 pandemic.

Pursuing its motto of 'Turkey's Sustainable Bank', over the decades, Şekerbank has demonstrated itself as a pioneer in a wide range of areas, such as fostering sustainable agriculture, promoting energy efficiency, encouraging financial inclusion and women's banking, and supporting production, exports and employment. Since introducing the microfinance lending model in Turkey in 2006, the bank extends microloans to women producers as well as artisans and farmers who have limited access to the banking system. Relying on face-to-face communication and aiming at fostering entrepreneurial capabilities and boosting production capacity, Şekerbank microfinancial services also contribute to the development of financial literacy in rural areas.

MEF and Şekerbank first began to cooperate in October 2020 in the middle of pandemic-related challenges. MEF funding of USD 10 million allowed the bank to further diversify its funding structure and gave an important positive message to the market. Cooperation was further strengthened in 2021 with an additional USD 5 million loan.

**Turkey**

# 3 SUSTAINABLE INVESTMENT OBJECTIVES

## 3.1 INVESTMENT STRATEGY

MEF aims to improve access to finance for microenterprises and households by contributing to the debt financing of MFIs with a view to supporting these institutions to provide microfinance services, including (without limitation) credit, savings, deposits, insurance, remittances, and housing loans, to the working poor in developing countries (hereinafter referred to as the "Sustainable Investment Objective" in accordance with Article 9 of the EU 2019/2088 SFDR regulation).

MEF expects that investments in microfinance institutions should represent a minimum of 70% of the total assets of the fund. Detailed investment criteria to support the fund's Sustainable Investment Objective are set forth in its investment guidelines to ensure that the fund:

- supports economic development and prosperity globally through the provision of additional development finance to microenterprises and low-income households via qualified financial institutions
- observes principles of sustainability and additionality, combining development and market orientations in pursuing its development goal

## Guiding principles

To achieve the Sustainable Investment Objective, MEF has established that in the process of choosing an investment the following aspects shall be considered:

- alignment with the fund's sustainability objectives;
- investments' viability and adequate risk profile;
- alignment with the fund's ESG requirements;
- developmental and social impact.

The investment advisors shall:

- ensure MFIs' ongoing compliance with all relevant laws and other standards and regulations;
- support and encourage the MFIs to work towards continuous improvements in their ESG process through trainings and continuous involvement of management and staff;
- monitor, record and report any serious incidents involving the MFIs.

MFIs are required to comply with:

- the fund's exclusion list in line with international standards set forth by development finance institutions;
- the fund's ESG & Impact covenants;
- the Principles of Client Protection*.

These requirements are reflected in the documentation of the fund and the agreements signed with the investment advisors and the MFIs.

## Manage potential negative impact

MEF will not knowingly invest in any MFI which is expected, or is determined, to do significant harm to the Sustainable Investment Objectives.

Principal Adverse Impact (PAI) indicators on sustainability factors are identified, assessed, and when appropriate mitigated for each proposed and existing investment. MEF currently considers the following PAI indicators: labour conditions, health and safety, client protection, financial exclusion, climate change / pollution prevention and control. For more details, please see www.mef-fund.com

* more details on: www.centerforfinancialinclusion.org/about/what-we-do/consumer-protection

# 3 SUSTAINABLE INVESTMENT OBJECTIVES

## 3.2 ESG INTEGRATION IN THE INVESTMENT PROCESS

The impact objectives as well as the potential negative impact are embedded in the investment process to ensure alignment between the fund's portfolio and development goals such that the entire portfolio is allocated to sustainable investments.

Impact assessment

ESG assessment

IC decision

Ongoing monitoring

Defining and quantifying the impact intent of an investment is a fundamental step to understand the contribution and likelihood of achieving impact throughout the investment period.

The investment advisors are required to first complete their respective due diligence on a prospective MFI, including identification and evaluation of social and governance aspects as well as risks and opportunities, using their respective internal methodology such as proprietary rating methodology.

Final proposals of all potential MFI investments are then submitted to the fund's investment committee for decision-making. The investment committee considers the analysis prepared by the investment advisors and gauges the impact potential of an investment based on the impact assessment of the MFI.

ESG and impact matters are considered over the life cycle of the investment. MEF strives to maintain an appropriate level of oversight as long as the fund remains a lender. Any material adverse impact or ESG matter identified shall be avoided, where possible, or will be mitigated through implementation of an effective mitigation and monitoring plan and completion of all necessary corrective actions.

The fund commits to integrating lessons within its documentation and processes that constantly evolve as the fund and markets develop.

## Dedicated to microfinance and impact investing

**LuxFLAG Microfinance Label**

MEF has been granted the LuxFLAG Microfinance Label since inception. Annually reviewed for renewal, in September 2021 the Board of LuxFLAG resolved to renew the use of the LuxFLAG Microfinance Label to Microfinance Enhancement Facility SA for a period starting on 1 October 2021 and ending on 30 September 2022.

For more information on the LUXFLAG Microfinance Label see: www.luxflag.org/labels/microfinance/

**The Impact Principles**

MEF joined the Impact Principles (originally the Operating Principles for Impact Management (OPIM)) in January 2021. Annual Disclosure Statements have to be submitted and published by each signatory. MEF published its first annual Disclosure Statement in which the fund describes how each Principle is incorporated into its investment process and how its impact management system and processes are aligned with each Principle. In addition to the annual self-assessed disclosures, the fund will pursue an independent verification of its compliance with the Impact Principles. The first verification is envisaged by the end of 2022.

The Disclosure Statement is available on: www.mef-fund.com/downloads/annual_reports/202201-MEF-OPIM-Disclosure-Statement.pdf

For more information on the Impact Principles see: www.impactprinciples.org

## MEF exclusion list

At all times, the investment advisors shall ensure that MEF does not provide loans, funding or other support to any MFI that provides loans, funding or other support to clients that engage in any of the following activities:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES).
- Production or trade in weapons and munitions
- Production or trade in alcoholic beverages (excluding beer and wine)[1]
- Production or trade in tobacco[1]
- Gambling, casinos and equivalent enterprises
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where MEF considers the radioactive source to be trivial and/or adequately shielded
- Production or trade in unbonded asbestos fibres; this does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%
- Drift net fishing in the marine environment using nets in excess of 2.5 km in length
- Production or activities involving harmful or exploitative forms of forced labor[2]/harmful child labor[3]
- Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products
- Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples
- Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
- Destruction[4] of High Conservation Value areas[5]
- Pornography and/or prostitution
- Racist and/or anti-democratic media

---

[1] This does not apply to MFIs who are not substantially involved in these activities. «Not substantially involved» means that the activity concerned is ancillary to the MFI's primary operations representing less than 10% of the MFI's loan portfolio.

[2] Forced labour means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.

[3] Harmful child labour means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.

[4] Destruction means the (1) elimination or severe diminution of the integrity of an area caused by a major, long-term change in land or water use or (2) modification of a habitat in such a way that the area's ability to maintain its role is lost.

[5] High Conservation Value areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork).

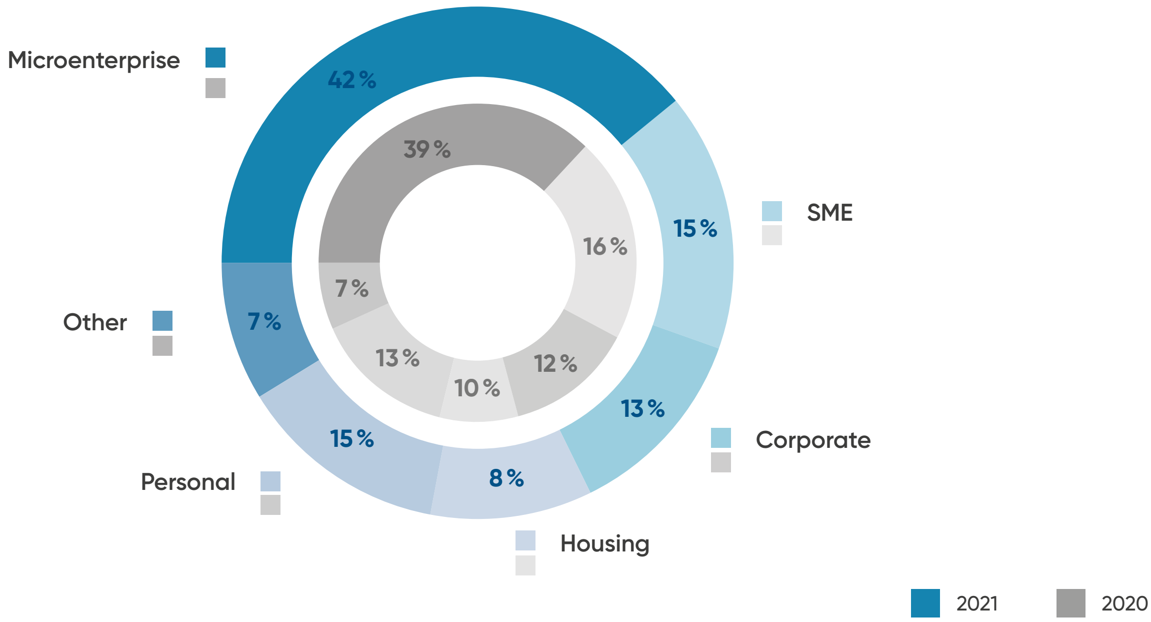
# 4 MEF IMPACT | OUTREACH

## 4.1 FOCUS ON MICRO & SMALL PRODUCTIVE LOANS

MEF's investments mainly support the provision of financing to microenterprises and private households engaged in entrepreneurial or income-generating activities. A smaller portion of MEF investments is directed at small enterprises. MEF Partner MFIs may further be engaged in other segments, but MEF funding is clearly earmarked for micro and small entrepreneurial lending.

Looking at the overall portfolio of MFIs, the share of their total portfolios going to microenterprises went up to 42% in 2021 (from 39% in 2020), while the portion of their total portfolios going to small & medium enterprises (SMEs) declined slightly to 15% in 2021 (16% in 2020). Only small shares of the MFIs' total portfolios were dedicated to larger businesses (referred to as "corporate" in the charts), housing or personal loans. Note, however, that independent of the loan purpose in MFIs' total portfolios, MEF loans to these MFIs are made available to strengthen their lending to micro and small enterprises, and low-income households as further detailed in the analysis on outreach in the next section.

### Distribution by loan purpose of MFIs per their total portfolios




Based on December 2021 gross loan portfolio data as reported by the MFIs in MEF's portfolio.
The chart reflects the distribution of the entire loan portfolios of the MFIs in MEF's portfolio, not the distribution for MEF's loans to the MFIs.

As in previous years, 2021 marks a year with very strong and positive outreach through MEF Partner MFIs with their portfolios reflecting:

- a strong focus on the microfinance segment, as is evident by the average loan amount per borrower which remains low
- a high proportion of women borrowers, well above industry-average
- a good record on lending to 'productive sectors'.

This comes in conjunction with MEF's increasing local currency funding which helps de-risk MEF's financing of MFIs and their borrowers.

In 2021, MEF Partner MFIs provided loans to over 25 million borrowers (increasing slightly from over 24 million in 2020), with 56% of them rural borrowers (58% in 2020) and around 84% of them women (85% in 2020). Out of these, MEF financing was used for on-lending to approximately 640,000 borrowers, slightly decreasing from 650,000 in 2020 – a figure that results from a more granular perspective than the global figure of 25 million total borrowers of MEF Partner MFIs.* Such variation in outreach is in line with the year-on-year portfolio decrease of USD 30 million (5%) and reflects the dynamics of the portfolio composition of MEF as a demand-oriented lender.

* Data in this section is based on MEF's portfolio of MFIs, with most data drawing on largely consistent 118 data points out of 143 MFIs in the portfolio. The attribution is calculated per MFI then summed up (i.e. the sum of MFI borrowers the MEF loans reach given each MFI's average loan amount to their borrowers).

# 4 MEF IMPACT | OUTREACH

| 2021 | CA | EAP | EECAU | LAC-CA | LAC-SA | MENA | SA | SSA | Global 2021 | Global 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total loan portfolios all partner MFIs (USD M) | 1,579 | 9,259 | 2,954 | 3,838 | 8,238 | 450 | 8,234 | 2,537 | **37,090** | 35,109 |
| Number of borrowers | 559,000 | 4,985,000 | 1,348,000 | 454,000 | 1,820,000 | 104,000 | 14,400,000 | 1,860,000 | **25.5M** | 24.4M |
| Average loan amount per borrower (USD) | 2,827 | 1,858 | 2,192 | 8,447 | 4,527 | 4,308 | 572 | 1,363 | **1,453** | 1,439 |
| Number of branches | 276 | 2,413 | 832 | 353 | 917 | 64 | 16,919 | 1,179 | **22,953** | 20,442 |

The PAIF Report captures the median number of active borrowers financed as 150,000 per MIV in 2020 and reports that this figure has been stable for the last four years. MEF, with 640,000 active borrowers in 2021 (650,000 in 2020) therefore reaches a significant population in developing markets around the globe.

## 4.2 AVERAGE LOAN SIZE TO MFIs' FINAL BORROWERS

The outreach of MEF Partner MFIs is supported by their large networks which grew to 22,953 branches in 2021 (up from 20,442 in 2020) and their predominant orientation towards microfinance rather than SME banking, as the following analysis of average loan amounts illustrates.

The outstanding loan amount per borrower of all MEF Partner MFIs was on average USD 1,453 in 2021 (USD 1,439 in 2020). With 90% of MEF Partner MFIs recording an average loan size to their final borrowers of below USD 15,000 (91% in 2020), they predominantly offer microfinance. While the regional averages vary substantially, they also remain well within the microfinance segment – with loan averages ranging from USD 572 per borrower in South Asia (increasing from USD 355 in 2020) to USD 8,447 in LAC-CA (USD 7,462 in 2020). A direct comparison would, however, be misleading as this in part reflects differences in economic strength: average incomes and cost of living vary greatly by region and to some extent within regions as well. Fluctuations also reflect MEF's demand-oriented nature; for instance, while in 2021 and in 2020 the bandwidth of lowest to highest average by region was broadly similar, in 2021 the average in MENA decreased substantially (from USD 7,728 in 2020 to USD 4,308 in 2021).

Such variations in a year-on-year perspective can occur when, for instance, a new MFI focused on housing loans received financing, as average amounts for housing loans are typically higher and outstanding loan amounts are also higher in the first year of disbursement. Similarly, a large variation may show when MFIs with specific profiles enter and exit MEF's portfolio in regions with a limited number of investees.

Overall, benchmarked against MIVs, MEF's portfolio shows a focus on microfinance that is above average. The global average outstanding loan amount per borrower of MEF Partner MFIs increased marginally to USD 1,453 in 2021 (USD 1,439 in 2020; USD 1,801 in 2019). This compares to the average recorded across all MIVs of USD 2,402 in 2020 (PAIF report 2021; and USD 2,442 in 2019 (PAIF Report 2020).

### Outreach to borrowers: women, rural and all engaged in productive activities

While microfinance activities can sometimes be associated with lending mainly in urban areas and to 'non-productive' sectors like services and trade or for own consumption, a look at MEF Partner MFIs' 2021 data reveals a strong outreach to women, to rural borrowers, and to borrowers engaged in productive activities (such as agriculture & livestock and production & manufacturing).

| 2021 | CA | EAP | EECAU | LAC-CA | LAC-SA | MENA | SA | SSA | Global 2021 | Global 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Share of women borrowers (in %) | 45 | 89 | 53 | 58 | 49 | 44 | 96 | 72 | **84** | 85 |
| Share of rural borrowers (in %) | 59 | 70 | 55 | 49 | 35 | 54 | 60 | 27 | **56** | 58 |

Women borrowers encompass women-headed households or women-led micro or small enterprises. While MEF Partner MFIs' portfolios show a high share of 84% of women borrowers (85% in 2020), this is particularly true for South Asia which records a very high share of 96% female borrowers. This reflects many Indian MFIs with a dominant focus on lending to women. High shares of women borrowers are also characteristic of some of MEF's MFIs in EAP and SSA.

With 56% rural borrowers in 2021 (58% in 2020) the global portfolio of MEF Partner MFIs and their clients shows a strong record on rural lending as well. Almost all regional portfolios record at least 50% of rural borrowers with a markedly stronger outreach in EAP with 70% of the portfolio lent in rural areas.

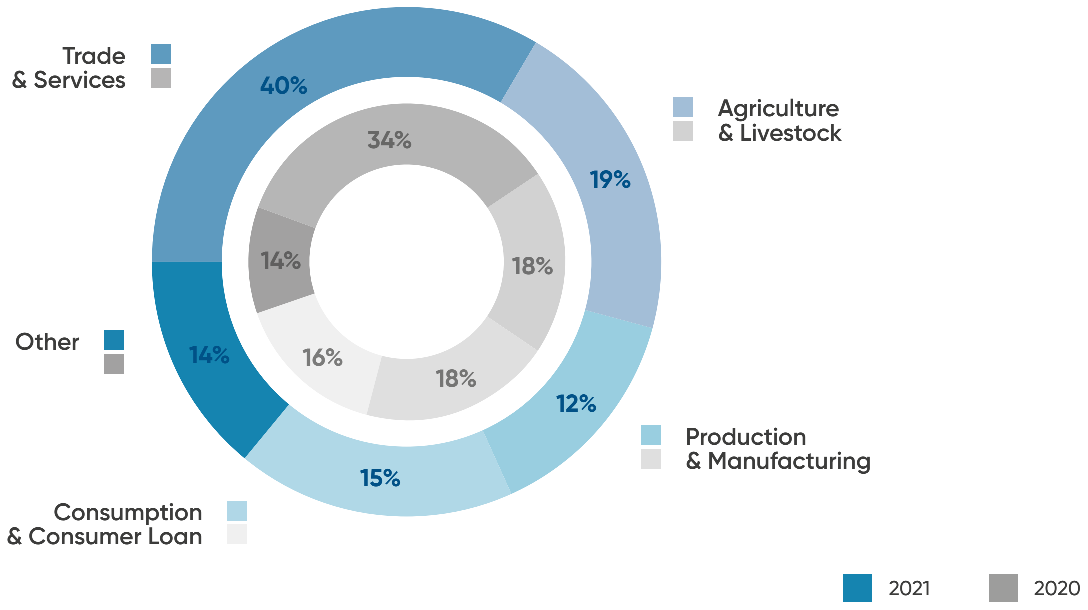
The 84% share of women borrowers in MEF Partner MFIs portfolios continues to be well above the industry average of 65% in 2020, per PAIF Report 2021 (69% in 2019, per PAIF Report 2020; 67% in 2018, per 2019 MIV Survey; MEF's portfolio recorded 85% in 2020, 84% in 2019, 80% in 2018).

With rural outreach at 56% of MEF Partner MFIs portfolios (58% in 2020; 57% in 2019; 68% in 2018), MEF is broadly in line with the industry average of 60% in 2020 as per the PAIF Report (59% in 2019 as per the PAIF Report; 56% in 2018 per MIV Survey 2019).

Regarding lending to the 'productive sectors' (agriculture or production & manufacturing), MEF Partner MFIs' portfolios show a sizeable share of 29% in 2021 (36% in 2020). The decrease is explained by a lower share in all the regions except for Central America and MENA which maintained their shares. As in the previous year, South Asia stands out with the highest share of 53% (68% in 2020) of the portfolio in these sectors. Central America and Sub-Saharan Africa continue to lag behind, showing the lowest shares with 19% and 12%, respectively (17% and 20% in 2020). The share of these sectors dropped markedly in EAP to 19% in 2021 (from 32% in 2020).

| 2021 | CA | EAP | EECAU | LAC-CA | LAC-SA | MENA | SA | SSA | Global 2021 | Global 2020 |
|---|---|---|---|---|---|---|---|---|---|---|
| Productive sectors (in %) | 35 | 19 | 31 | 19 | 27 | 29 | 53 | 12 | **29** | 36 |
| Agriculture & livestock (in %) | 9 | 17 | 23 | 10 | 13 | 6 | 36 | 3 | **18** | 18 |
| Production & manufacturing (in %) | 27 | 2 | 8 | 9 | 13 | 23 | 17 | 8 | **11** | 18 |

## Distribution by activity of MEF Partner MFIs per their total portfolios




Based on December 2021 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.

## 4.3 AVERAGE INVESTMENT SIZE

With USD 4.2 million in 2021, MEF's outstanding average investment size per MFI slightly decreased compared to 2020. The average can be misleading, but a closer look shows: while MEF's portfolio includes some large transactions, its size and "deep pocket", allows MEF loan amounts to align with partner size. MFIs with fewer active borrowers have a lower average investment (of USD 2.9 million), while those with large outreach have access to larger amounts. Notably, the average investment size in each of these outreach clusters decreased compared to the previous year.

MEF favours a balance in its portfolio and welcomes, for instance, MFIs that are keen to strengthen their performance, impact and social standards; and welcomes in particular also smaller MFIs with a footprint in areas or client groups that are harder to reach, such as rural areas or women.

| | |
|---|---|
| Small outreach | number of borrowers <10,000 |
| Medium outreach | >10,000 and <100,000 |
| Large outreach | >100,000 |

Ø investment size
**Small outreach**
USD 2.9 M (2021)
USD 3.5 M (2020)

Ø investment size
**Medium outreach**
USD 3.1 M (2021)
USD 3.4 M (2020)

Ø investment size
**Large outreach**
USD 5.5 M (2021)
USD 6.2 M (2020)

With an average investment outstanding of USD 4.2 million per MFI (in 2021; USD 4.5 million in 2020), MEF is above the MIV benchmark of USD 3.1 million (in 2020; per 2021 PAIF Report). This reflects in part the size and 'deeper pockets' of MEF compared to the average MIV with MEF managing a portfolio size well above the average MIV (2020 average MIV portfolio size of USD 139 million compared to MEF with 545 million in 2021 and 584 million in 2020).

## 4.4 PORTFOLIO IN VULNERABLE COUNTRIES

As a social investor with a mission to support microfinance and be a reliable partner in challenging times or crises, MEF tracks the share of the portfolio that goes to the most vulnerable countries.

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

For 2021, data continues to demonstrate a significant percentage of investments in more vulnerable countries:

- 6% in 'low HDI' (5% in 2020)
- 10% in 'fragile and conflict-affected states' (8% in 2020)
- 36% in 'high or very high-risk countries on the WorldRiskIndex' (43% in 2020)

Low HDI (below 0.550)
**6%**
5% in 2020

Fragile and conflict-affected states
**10%**
8% in 2020

High or very high risk on the WorldRiskIndex
**36%**
43% in 2020

Definitions

**HDI UN Human Development Index**
Ranks countries in four tiers (very high, high, medium, low) of human development by combining measurements of life expectancy, education, and per-capita income into the Human Development Index (HDI) in its annual Human Development Report.

**Fragile and conflict-affected states**
Countries with high levels of institutional and social fragility, identified based on publicly available indicators that measure the quality of policy and institutions and manifestations of fragility.
Countries affected by violent conflict, identified based on a threshold number of conflict-related deaths relative to the population. This category includes two sub-categories based on the intensity of violence: countries in high-intensity conflict and countries in medium-intensity conflict.
https://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations

**WorldRiskIndex**
WRI considers a country's exposure to extreme natural events and its capacity to respond to such events. WRI is not just an assessment of environmental risk; it takes into consideration social aspects (public infrastructure, poverty, inequality, access to public health systems, etc.) to assess a country's ability to mitigate or reduce the effects of a natural disaster. The index was developed by the German foundation 'Bündnis Entwicklung Hilft' and is managed by Ruhr University of Bochum, Germany.

# 5 MEF IMPACT | SOCIAL PERFORMANCE

## 5.1 ALINUS SOCIAL PERFORMANCE ANALYSIS

### Introducing MEF social performance analysis with ALINUS

Capturing outreach – as in how many people can be reached where, with what financing and to finance what – is one measure by which MEF considers its impact. The sustainability, intentionality and quality of the financial products and services matter equally. These are essential ingredients for responsible finance and financial institutions acting responsibly by balancing financial imperatives with social and sustainability intentions and practices.

Adherence to evolving social performance standards is a core component of MEF's commitment to responsible finance. For transparent and benchmarked reporting as well as to contribute to a transparent debate within the impact investing industry, MEF has partnered with CERISE to coordinate the social performance analysis of MEF Partner MFIs since 2019. CERISE, a global leader in impact measurement, manages the widely recognised social performance tool SPI4-ALINUS6 aligned with the Universal Standards. To answer the question 'to what extent MEF invests in MFIs that do good - or at least have the intention to do good - by adopting a structured approach to social performance management' (SPM), CERISE has benchmarked the scores of MEF's portfolio of MFIs on CERISE SPI4-ALINUS to the full CERISE database. The analysis in this section is based on CERISE's assessment of data captured in the CERISE database from 83% of MEF Partner MFIs (118 of 143 for 2021) and benchmarking these results to CERISE's global database of 426 financial institutions. (See also the boxed text on the sample and benchmarking. Further information on CERISE, SPI4-ALINUS and USSPM is available in section 'CERISE | MEF's partner on social performance data').

Prior to this collaboration, MEF had been benchmarking its portfolio of MFIs against the Universal Standards for Social Performance Management (USSPM or Universal Standards) and had reported on this basis in MEF's Impact Report 2018. Stepping up this commitment for reporting in 2019, the Board of Directors engaged has partnered with CERISE to coordinate the social performance analysis of MEF Partner MFIs. The collaboration to apply ALINUS for impact reporting coincided with the outbreak of COVID-19 in early 2020. The process is now well established after the typical challenges of any first attempt to apply a uniform and generally accepted standard of data collection across MEF's portfolio via four investment advisors and compounded by the effects of the pandemic.

The following pages provide more details on the standards and how MEF Partner MFIs and the portfolio scores. They also report on how these scores benchmark in a peer comparison.

**SPI4-ALINUS at MEF - 2021 sample & benchmarking**

For 2021, out of 143 MFIs in MEF's portfolio, 118 reported quantitative and qualitative data and 4 reported quantitative data only (for a total of 122). With a count oaf 426 financial institutions in CERISE's global database for benchmarking, MEF Partner MFIs account for more than one quarter of the global peer group (close to one quarter in prior years).

Notably, CERISE signaled that the increase of respondents in the global dataset from 406 in 2019 to 459 in 2020 was largely due to engaging with MFIs in MEF's portfolio (37 of the 43 MFIs reporting for the first-time). This is a welcome development and very much in line with MEF's intention to boost mainstreaming of social performance reporting among financial institutions through this collaboration.

The 2021 reporting sample is largely consistent with that of 2020, where out of 139 partner MFIs in MEF's portfolio 126 provided quantitative indicators, including 108 which further provided also data on the qualitative indicators. CERISE's global database for benchmarking was composed of 459 financial institutions in 2020.

# 5 MEF IMPACT | SOCIAL PERFORMANCE

## 5.2 OVERALL SCORES

### MEF Portfolio

### Average SPI4-ALINUS score

**73%** | 63% CERISE global benchmark

71% in 2020 | 57% in 2020

- MEF introduced SPI4-ALINUS with its 2019 social performance reporting
- With an overall ALINUS score of 73%, MEF portfolio MFIs demonstrate stronger social performance than their peers (63%)*
- MEF Partner MFIs outscore the CERISE benchmark in all dimensions

With an overall score of 73% – compared to 63% for the peer group – MEF Partner MFIs outscored the peer group captured in the CERISE global dataset in all of the dimensions analysed, thus demonstrating stronger social performance than their peers. This score also compares favourably to last year's score of 71%.

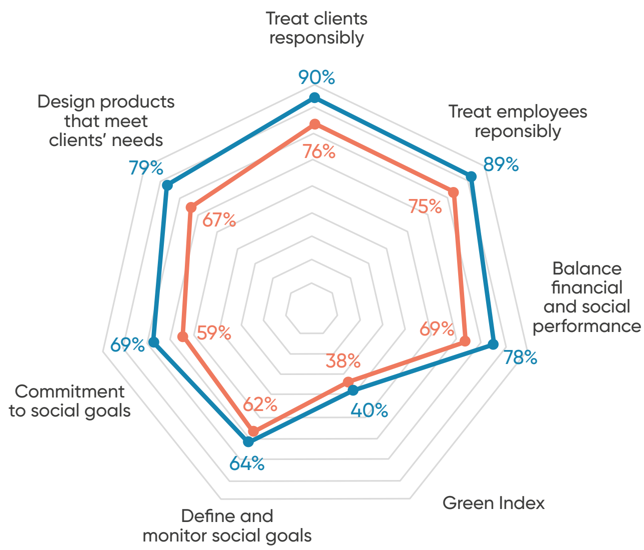
MEF Partner MFIs are largely high performers considering the frequency of overall scores: 62% of MEF Partner MFIs reach a score above 71% (which is considered 'Very Good' or 'Excellent'), compared to 41% in the CERISE peer group. Last year's frequency was 53% for MEF Partner MFIs and 24% for the peer group.

Overall, the 2021 data confirms several observations since the introduction of SPI4-ALINUS reporting in 2019: MEF Partner MFIs show solid SPM practices when compared to the benchmarks and, notably, cover the basics of client protection. High scores in key dimensions indicate a successful screening of institutions with client orientation and client protection filters – in particular, the high scores on designing products that meet clients' needs in Dimension 3, on responsible client treatment in Dimension 4, and on responsible pricing, a key factor in Dimension 6 on balancing financial and social performance.

MEF has been successful in building a portfolio of MFIs with strong social performance as the findings confirm. This reflects the fund's policies supported by the robust processes of its four investments advisors and its investment committee.

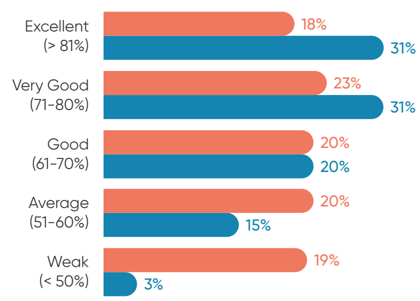
### MEF Partner MFIs | overall scores

benchmarked to their peers




### MEF Partner MFIs | frequency of scores

benchmarked to their peers

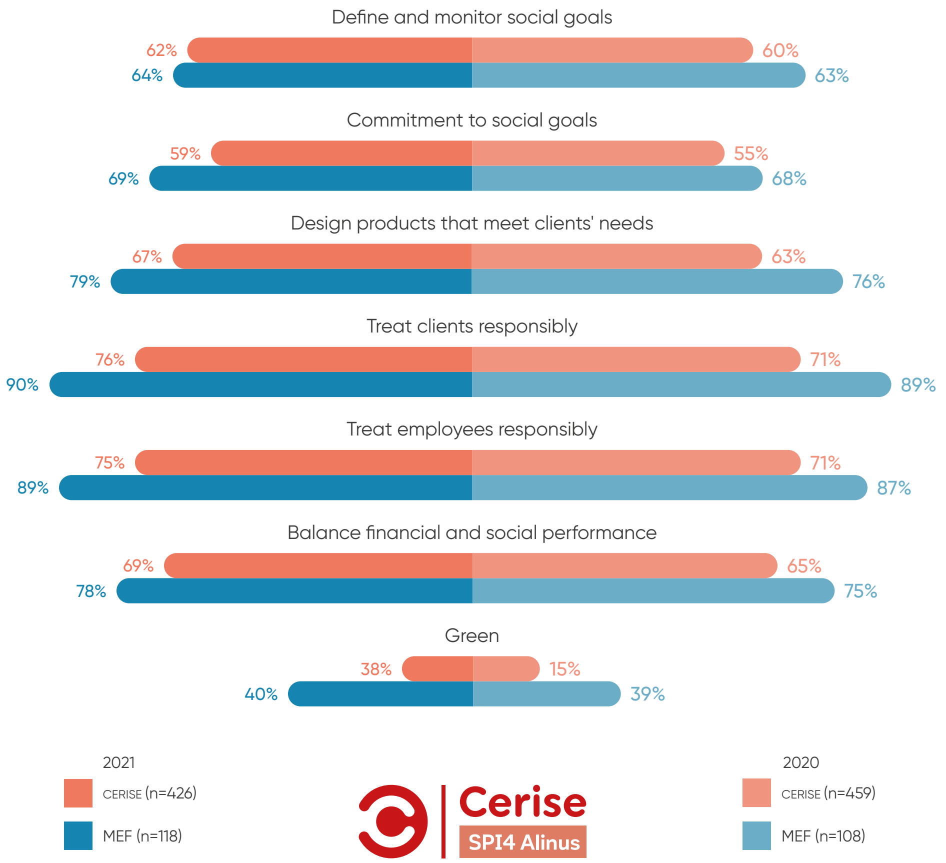



* On the basis of a sample of 118 MEF Partner MFIs analysed by CERISE for this scoring and benchmarking, as is also indicated in Box ' SPI4-ALINUS at MEF - 2021 Sample & Benchmarking'. This compares to a sample size of 108 MEF Partner MFIs in 2020. The benchmarking is against a global peer group dataset by CERISE with 426 respondents for 2021 data (459 for 2020).

## 5.3 SCORES PER DIMENSION

Similar to previous years, it is satisfying to see such high performance. Nevertheless, ups and downs in the scores over the years are likely within a reasonable margin. Such variations may occur as MEF also finances MFIs that do not have a full reporting framework and best social performance practices in place. In line with MEF's key objective to support the development of an inclusive financial sector with responsible finance, the fund will leverage its relationships and continue to ensure that its MFIs have minimum standards in place and, as or even more importantly, are positioned to improve their practices over time.

### Scores 2021 and 2020



# 5 MEF IMPACT | SOCIAL PERFORMANCE

## Dimension 1 | Define and monitor social goals

**Average D1 Score**

**64% | 62%***

63% | 60% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs show strong practices in defining and monitoring social goals, slightly higher than the benchmark (64% for D1 | compared to 62% for their peers), as CERISE highlighted. This score is consistent with the findings of 2020 (63% for D1 | compared to 60% for the benchmark).

A closer look reveals:

- Among MEF Partner MFIs, a higher proportion have a formalised social strategy to achieve social goals than in the benchmark sample (75% | compared to 69%).
- However they score slightly below the benchmark on collecting and disclosing client-level data (52% | compared to 54%), driven largely by lower scores on the use of a poverty measurement tool.

**Dimension 1 | Define and monitor social goals**

Having clear intentions is the sine qua non condition for achieving impact. These intentions must be supported by purposeful management guided by a formal strategy. The strategy should include an explanation of the mission, a definition of target clients, social goals, targets and indicators to measure the achievement of those goals, and a description of how products and services will help achieve those goals. This strategy must be brought to life with information systems that collect and disclose client-level data specific to the social goals.

## Dimension 2 | Commitment to social goals

**Average D2 Score**

**69% | 59%***

68% | 55% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs overall show stronger practice in commitment to social goals (69% for D2) than their peers (59%). This is well above average, as CERISE highlighted, and largely consistent with the previous year's score (68% for D2 compared to 55% for the benchmark).

A closer look reveals:

- This is driven by strong practices around training employees on both social and financial responsibilities (77% compared to 69%).
- MEF Partner MFIs are more likely to have a designated SPM champion among its board members or a committee that reports to the board (39% compared to 35%) albeit with fewer board members with Social Performance Management (SPM) expertise than the benchmark (60% compared to 62%), and lower than in the preceding year (77% compared to 55% in 2020).
- MEF Partner MFIs score close but slightly below the benchmarks regarding women in management (32% | compared to 35%) and below the benchmark regarding board representation (21% | compared to 29% women as board members).
- On social performance incentives MEF Partner MFIs score consistently above the benchmark and in some instances markedly so; for instance, policies and processes regarding incentives for credit staff as well as risk flags for high caseload levels are in place for the majority of MEF Partner MFIs, scoring well above the benchmark (70% | compared to 58%); similarly, annual assessments of CEO and of senior managers on social performance targets (37% and 36%, respectively | compared to 26% and 28%, respectively).

**Dimension 2 | Commitment to social goals**

A company's social strategy is only strong if the Board and all employees understand and uphold it. The Board must hold the company accountable to the mission and social goals by reviewing social data, assessing the CEO against social performance targets, for example. Senior management should ensure implementation by making sure social goals and targets are integrated into the business plan, analyzed regularly. Staff at all levels should be recruited, evaluated and incentivized on financial and social targets.

# 5 MEF IMPACT | SOCIAL PERFORMANCE

## Dimension 3 | Design products that meet client needs

**Average D3 Score**

**79%** | 67%*

76% | 63% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs well outscore their peers on products designed to meet clients' needs (79% for D3 | compared to 67% for their peers). This is slightly above the findings of 2020 (76% for D3 | compared to 63% for the benchmark).

A closer look reveals:

- MEF Partner MFIs outscore their peers in Dimension 3, especially when it comes to market research and monitoring client feedback (85% | compared to 66%), where MEF Partner MFIs excel most, and more so than the already high score in 2020 (80% | compared to 58%).
- On regular client satisfaction surveys MEF Partner MFIs also scored well above the benchmark (75% | compared to 52%), and more so than in 2020 (70% | compared to 45%).
- MEF Partner MFIs also fare better than their peers on benefits to clients through diversity of product and services (73% | compared to 68%) – including offering voluntary insurance (52% | compared to 26%) and payment services (52% | compared to 38%), while they are slightly less likely to offer voluntary savings (43% | compared to 46%) and non-financial services (66% | compared to 68%).

**Dimension 3 | Design products that meet client needs**

Understanding client needs is key to ensuring that products and services actually create value for clients. In practice, this means conducting market research, satisfaction surveys or gathering client feedback. It also means designing products that help overcome barriers to accessing finance (with collateral requirements adapted to the constraints of target clients), increase resiliency (with emergency loans, savings, insurance or financial education), and enable economic opportunities (with productive loans, business development services).

## Dimension 4 | Treat clients responsibly

**Average D4 Score**

**90%** | 76%*

89% | 71% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs are particularly strong in client protection practices (90% for D4 | compared to 76% for their peers). This is consistent with previous years' findings , which is evident by the similar scores in 2020 (89% for D4 | compared to 71% for the benchmark).

A closer look at the indicators shows a strong performance on adherence to Client Protection Principles (CPPs)*:

- Client protection is a strong focus for MEF's investment advisors in selecting and encouraging microfinance investees, as CERISE notes as well.
- The careful analysis and commitment to client protection issues is observable in the high scores and good practices reported by MEF Partner MFIs, such as: MFIs with a CPP-compliant Code of Conduct (86% | compared to 71%); MFIs with a CPP-compliant anti-discriminatory policy (59% | compared to 52%); MFIs that inform their clients how their data is used and shared (85% | compared to 68%); MFIs that have CPP-compliant complaints management systems (80% | compared to 51%); and MFIs that provide clients with a CPP compliant key facts document (88% | compared to 66%).

**Dimension 4 | Treat clients responsibly**

At the very minimum, positive social impact starts with a do no harm approach. Treating clients responsibly involves preventing overindebtedness, communicating transparently, treating clients fairly and respectfully, respecting client data privacy, and having a responsive complaints mechanism. Dimension 4 is entirely comprised of client protection standards (a few other CP standards can be found in D2, D3, and D6).

* More details on: www.centerforfinancialinclusion.org/about/what-we-do/consumer-protection

# 5 MEF IMPACT | SOCIAL PERFORMANCE

## Dimension 5 | Treat employees responsibly

**Average D5 Score**

**89%** | 75%*

87% | 71% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs clearly show stronger practices in treating employees responsibly (89% for D5) than their peers (75%). This score is slightly above the findings of 2020 (87% for D5, | compared to 71% for the benchmark).

A closer look reveals:

- MEF Partner MFIs outperform the benchmark most in communication of terms of employment (96% | compared to 87%).
- On monitoring of employee satisfaction and turnover, MEF Partner MFIs outperform the benchmark (84% | compared to 63%), and improved significantly year-on-year (65% | compared to 34% in 2020).
- On assessing health and safety risks of employees and analysing results by gender MEF Partner MFIs have strongly improved, and have improved more than their peers (57% | compared to 40% in 2021; and 55% | compared to 33% in 2020).

**Dimension 5 | Treat employees responsibly**

Responsible treatment of employees contributes to a successful, sustainable company. Offering employment is an important benefit that a company brings to its community. Also, well-treated employees are more likely to treat clients responsibly. This dimension looks at compliance with decent work standards promoted by the ILO and health and safety risk policies and ensures that standard HR policies—like an HR manual and job descriptions and a transparent salary scale are place. Special attention is given to monitoring employee satisfaction and turnover.

## Dimension 6 | Balance financial and social performance

**Average D6 Score**

**78%** | 69%*

75% | 65% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs outperform their peers on balancing financial and social performance (78% for D6 | compared to 69% for their peers). This reflects a slightly higher score than the findings of 2020 (75% for D6 |compared to 65% for the benchmark).

A closer look at the numbers reveals:

- MEF Partner MFIs score especially high on responsible pricing (93% | compared to 84%), thus predominantly compliant with the client protection indicator on responsible pricing. While CERISE noted a few outliers that calculate the interest using flat pricing rather than on declining balance, these were fewer than in the previous year.
- MEF Partner MFIs reach similarly high scores on growth rates (90% | compared to 78%).

**Dimension 6 | Balance financial and social performance**

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

## Green Index

**Average Green Score**

**40%** | 38%*

39% | 15% in 2020

*MEF score compared to global benchmark

MEF Partner MFIs outperform the benchmark on CERISE's Green Index (40% for Green Index | compared to 38% for their peers).* This is a slightly better score than the 2020 findings (39% for this index | compared to 15% for the benchmark).

A closer look at the numbers shows that:

- MEF Partner MFIs are more likely to use specific tools to assess environmental risk of client activities than their peers are (29% | compared to 19%), largely consistent for MEF Partner MFIs with previous findings (28% | compared to 6% in 2020)
- More than one third of MEF Partner MFIs implement actions to reduce their internal ecological footprint, like their peers (35% | compared to 35%) and slightly less so than in the prior year (39% | compared to 14% in 2020)
- About one third of MEF Partner MFIs offer loan products to finance renewable energy/energy efficient technologies, more than their peers (34% | compared to 31%) and more than in the previous year (26% | compared to 14% in 2020)

Note that CERISE only introduced the Green Index with its data collection for 2019, the initial uptake and reporting was limited. MEF introduced reporting on this starting in its 2020 report reflecting 2019 data. This dimension is now mainstreamed in the benchmarking. The sample of respondents reflects that this is a process: in 2021, 96 of MEF Partner MFIs reported on the Green Index compared to 81 in 2020 and 32 in 2019; whereas for the global benchmark, in 2021, 208 reported on it compared to 154 in 2020 and 131 in 2019.

**Green Index**

The Green Index allows companies to evaluate their level of implementation of practices related to strong environmental performance: managing the companies' internal ecological footprint, managing external environmental risks related to clients' activities, and offering green loans.

*Note that as per CERISE's methodology the sample for the Green Index is 118 MEF Partner MFIs whereas for the global benchmark the sample is 208 datapoints (versus 426 for the other dimensions). This is explained by the fact that when ALINUS questionnaires are not completed for the Green Index they are counted at zero and MEF sample is only composed of ALINUS questionnaires whereas the benchmark has both ALINUS and SPI4 questionnaires. For more information on the two types of questionnaires please refer to section CERISE | MEF's partner on social performance data.

## 5.4 ALINUS | SCORES BY DIMENSION

| | MEF | CERISE |
|---|---|---|
| **NUMBER OF RESPONDING FINANCIAL INSTITUTIONS** | **118** | **426** |
| **D1 Define and monitor social goals** | **64%** | **62%** |
| Social strategy | 75% | 69% |
| Reporting of client-level data | 52% | 54% |
| **D2 Commitment to social goals** | **69%** | **59%** |
| Board accountability | 62% | 50% |
| Senior management accountability | 67% | 56% |
| Staff accountability | 77% | 69% |
| **D3 Design products that meet clients' needs** | **79%** | **67%** |
| Client needs and preferences | 85% | 66% |
| Benefits to clients | 73% | 68% |
| **D4 Treat clients responsibly** | **90%** | **76%** |
| Prevention of over-indebtedness | 92% | 82% |
| Transparency | 92% | 79% |
| Fair and respectful treatment of clients | 89% | 78% |
| Privacy of client data | 93% | 77% |
| Mechanisms for complaint resolution | 87% | 66% |
| **D5 Treat employees responsibly** | **89%** | **75%** |
| HR policy | 86% | 74% |
| Communication of terms of employment | 96% | 87% |
| Employee satisfaction | 81% | 63% |
| **D6 Balance financial and social performance** | **78%** | **69%** |
| Growth rates | 90% | 78% |
| Alignment of objectives | 76% | 72% |
| Responsible pricing | 93% | 84% |
| Compensation | 51% | 39% |
| **Green Index** | **40%** | **38%** |
| Managing internal environmental risks | 51% | 50% |
| Managing external environmental risks | 40% | 32% |
| The provider fosters green opportunities | 30% | 31% |
| **TOTAL SCORE** | **73%** | **63%** |

# 5 MEF IMPACT | SOCIAL PERFORMANCE

## 5.5 ALINUS | SCORES BY REGION

| | Europe and Central Asia | | Latin America and the Caribbean | |
|---|---|---|---|---|
| | **MEF** | CERISE | **MEF** | CERISE |
| **NUMBER OF RESPONDING FINANCIAL INSTITUTIONS** | **24** | **42** | **38** | **143** |
| **D1 Define and monitor social goals** | **52%** | **60%** | **60%** | **60%** |
| Social strategy | 60% | 66% | 71% | 66% |
| Reporting of client-level data | 44% | 54% | 48% | 54% |
| **D2 Commitment to social goals** | **64%** | **66%** | **67%** | **59%** |
| Board accountability | 55% | 58% | 61% | 50% |
| Senior management accountability | 57% | 63% | 65% | 54% |
| Staff accountability | 78% | 77% | 76% | 72% |
| **D3 Design products that meet clients' needs** | **78%** | **76%** | **80%** | **70%** |
| Client needs and preferences | 83% | 79% | 82% | 67% |
| Benefits to clients | 73% | 72% | 79% | 74% |
| **D4 Treat clients responsibly** | **90%** | **89%** | **90%** | **80%** |
| Prevention of over-indebtedness | 87% | 90% | 92% | 89% |
| Transparency | 92% | 90% | 92% | 82% |
| Fair and respectful treatment of clients | 88% | 85% | 87% | 78% |
| Privacy of client data | 95% | 94% | 96% | 82% |
| Mechanisms for complaint resolution | 86% | 85% | 83% | 67% |
| **D5 Treat employees responsibly** | **88%** | **83%** | **89%** | **78%** |
| HR policy | 84% | 79% | 87% | 78% |
| Communication of terms of employment | 98% | 93% | 95% | 89% |
| Employee satisfaction | 82% | 77% | 85% | 67% |
| **D6 Balance financial and social performance** | **74%** | **74%** | **76%** | **72%** |
| Growth rates | 89% | 89% | 89% | 81% |
| Alignment of objectives | 72% | 74% | 80% | 78% |
| Responsible pricing | 97% | 94% | 88% | 87% |
| Compensation | 39% | 39% | 49% | 40% |
| **Green Index** | **49%** | **47%** | **44%** | **50%** |
| Managing internal environmental risks | 58% | 60% | 61% | 66% |
| Managing external environmental risks | 48% | 42% | 39% | 45% |
| The provider fosters green opportunities | 42% | 38% | 31% | 41% |
| **TOTAL SCORE** | **71%** | **71%** | **72%** | **67%** |

# 5 MEF IMPACT | SOCIAL PERFORMANCE

| | Middle East and North Africa | | South and South East Asia | | Sub-Saharan Africa | |
|---|---|---|---|---|---|---|
| | MEF | CERISE | MEF | CERISE | MEF | CERISE |
| NUMBER OF RESPONDING FINANCIAL INSTITUTIONS | 3 | 8 | 38 | 97 | 15 | 136 |
| D1 Define and monitor social goals | 57% | 50% | 76% | 74% | 63% | 56% |
| Social strategy | 67% | 50% | 86% | 80% | 82% | 65% |
| Reporting of client-level data | 48% | 50% | 66% | 68% | 43% | 46% |
| D2 Commitment to social goals | 67% | 49% | 74% | 68% | 71% | 50% |
| Board accountability | 59% | 40% | 68% | 59% | 65% | 41% |
| Senior management accountability | 71% | 42% | 74% | 67% | 73% | 50% |
| Staff accountability | 72% | 65% | 80% | 79% | 73% | 58% |
| D3 Design products that meet clients' needs | 76% | 60% | 79% | 71% | 79% | 57% |
| Client needs and preferences | 83% | 53% | 89% | 77% | 85% | 54% |
| Benefits to clients | 69% | 67% | 68% | 66% | 73% | 61% |
| D4 Treat Clients Responsibly | 85% | 75% | 93% | 82% | 88% | 64% |
| Prevention of over-indebtedness | 97% | 89% | 93% | 87% | 92% | 67% |
| Transparency | 83% | 85% | 94% | 83% | 89% | 68% |
| Fair and respectful treatment of clients | 75% | 73% | 92% | 84% | 91% | 72% |
| Privacy of client data | 89% | 65% | 91% | 82% | 89% | 62% |
| Mechanisms for complaint resolution | 79% | 64% | 94% | 77% | 78% | 51% |
| D5 Treat employees responsibly | 91% | 71% | 90% | 82% | 86% | 64% |
| HR policy | 92% | 67% | 86% | 80% | 85% | 65% |
| Communication of terms of employment | 99% | 77% | 97% | 91% | 94% | 80% |
| Employee satisfaction | 81% | 70% | 85% | 75% | 80% | 46% |
| D6 Balance financial and social performance | 72% | 56% | 84% | 77% | 72% | 58% |
| Growth rates | 94% | 88% | 92% | 82% | 89% | 70% |
| Alignment of objectives | 75% | 44% | 78% | 77% | 68% | 63% |
| Responsible pricing | 93% | 86% | 99% | 91% | 88% | 73% |
| Compensation | 25% | 6% | 66% | 54% | 42% | 28% |
| Green Index | 50% | 20% | 37% | 36% | 26% | 26% |
| Managing internal environmental risks | 50% | 10% | 43% | 54% | 37% | 35% |
| Managing external environmental risks | 42% | 15% | 43% | 32% | 23% | 19% |
| The provider fosters green opportunities | 58% | 35% | 24% | 24% | 17% | 26% |
| **TOTAL SCORE** | **71%** | **54%** | **76%** | **70%** | **69%** | **54%** |

# 6 FUND ORGANISATION

## 6.1 FUND FACTS

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

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

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

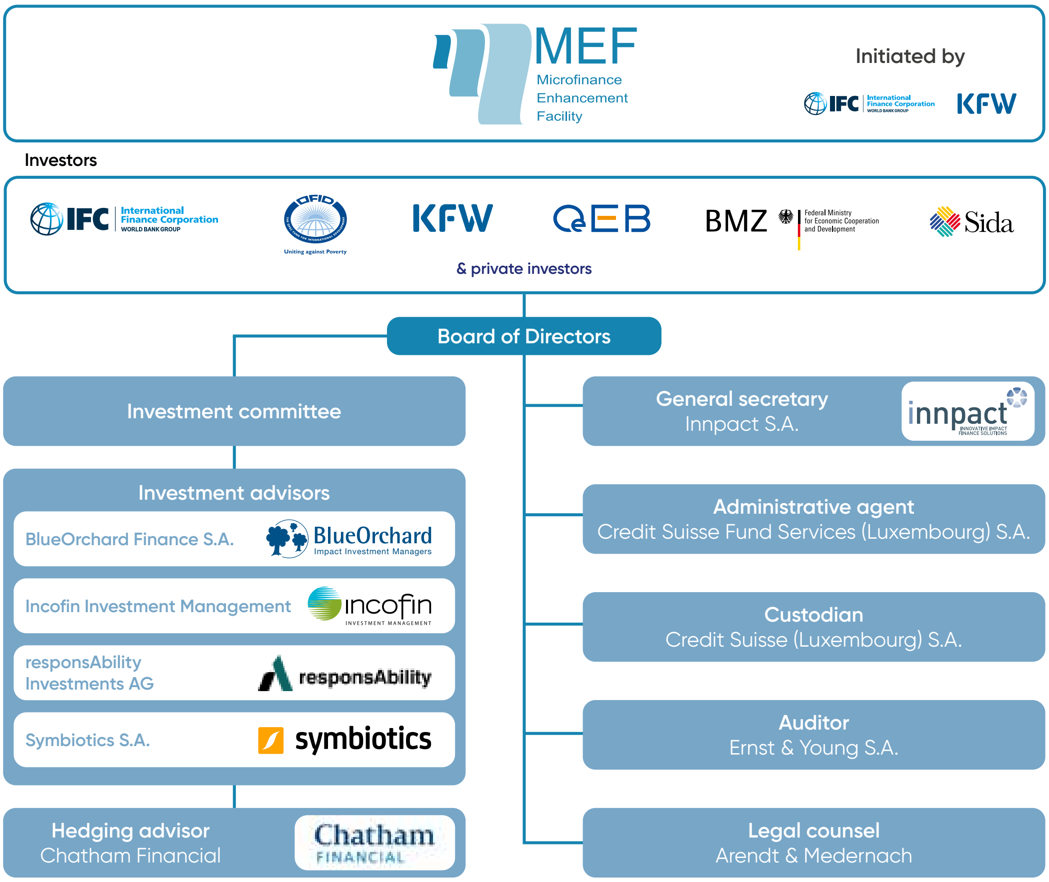
INCEPTION DATE
February 2009

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

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

INVESTMENT CURRENCIES
local currencies, EUR, USD

## 6.2 ORGANISATIONAL CHART



## 6.3 FUND GOVERNANCE

### BOARD OF DIRECTORS


Ihno
Baumfalk
Chair


Momina
Aijazuddin


Swapnil
Neeraj


Ruurd
Brouwer


Alan
Ridgway


Jan Martin
Witte

Change to the Board of Directors
Departing | Markus Schladt (Q3 2021)

### INVESTMENT COMMITTEE


Michael
Neumayr
Chair


Suzannah
Carr


Madhu
Dutta-Sen


Christine
Lier-Tomowski

Change to the Investment Committee
Departing | Rainer Hartel (Q2 2021)

### BOARD OF DIRECTORS

### INVESTMENT COMMITTEE

Pictures taken on the occasion of the joint meeting held in Frankfurt am Main, Germany, June 2022
Note - not physically present: Momina Aijazuddin and Jan Martin Witte

# 6 FUND ORGANISATION

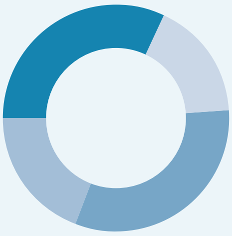
## 6.4 ON FOUR CONTINENTS WITH FOUR INVESTMENT ADVISORS

### Investment advisors – portfolio distribution

as of 31 December 2021

BlueOrchard
USD 115 M 21%
* USD 157 M 27%

responsAbility
USD 75 M 14%
* USD 66 M 11%



Incofin
USD 184 M 34%
* USD 147 M 25%

Symbiotics
USD 172 M 31%
* USD 213 M 37%

* as of 31 December 2020

BlueOrchard Impact Investment Managers | Members of the Schroders Group

The BlueOrchard pool with USD 115 million outstanding at year-end 2021 accounted for 21% of MEF total portfolio. Year-on-year the pool contracted by USD 42 million (a 27% decrease). The pool is diversified across 39 MFIs in 21 countries. In 2021, BlueOrchard disbursed loans totalling USD 62 million, representing a 24% increase compared to 2020. New transactions over the year comprised 19 new loans across 10 countries. Overall, BlueOrchard was most active in South Asia with 65% of the disbursements as MEF continues to support existing Indian MFIs, followed by Central America and the Caribbean with 11%. Repayments in 2021 totalled USD 72 million, representing an important year-on-year increase (29%). Portfolio quality remained overall sound, although recording a slight deterioration over the course of the year.

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 9 billion in over 90 emerging and frontier markets, enabling tangible social and environmental impact.

incofin INVESTMENT MANAGEMENT

The Incofin pool with USD 184 million outstanding at year-end 2021 accounted for 34% of MEF total portfolio. Year-on-year the pool increased by USD 37 million (a 25% increase). The pool is diversified across 30 MFIs in 22 countries. In 2021, Incofin disbursed loans totalling USD 99 million, representing a 0.5% increase compared to 2020. New transactions over the year comprised 26 new loans across 13 countries. Overall, Incofin was most active in Asia with 30% of the disbursements, followed by Eastern Europe and Caucasus with 28%. Repayments in 2021 totalled USD 69 million, representing a significant year-on-year increase (74%), in part due to the fact that Incofin was in a portfolio building stage in the preceding years. Portfolio quality remained positive and recorded a slight improvement over the course of the year.

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 80 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 3.5 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 with USD 75 million outstanding at year-end 2021 accounted for 14% of MEF total portfolio. Year-on-year the pool increased by USD 9 million (a 13% increase). The pool is diversified across 23 investees in 17 countries. In 2021, responsAbility disbursed loans totalling USD 39 million, representing a 62% increase compared to 2020. New transactions over the year comprised 12 new loans across 9 countries. Overall, responsAbility was most active in Asia, with 66% of the disbursements, followed by Sub-Saharan Africa with 16%. Repayments in 2021 totalled USD 31 million, representing a significant year-on-year decrease (-76%). Portfolio quality recorded a deterioration over the course of the year.

A leading sustainable asset manager with an 18-year track record, responsAbility manages USD 3.7 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 11 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 with USD 172 million outstanding at year-end 2021 accounted for 31% of MEF total portfolio. Year-on-year the pool contracted by USD 42 million (a 16% decrease), mainly reflective of the growth in other Symbiotics-managed investment funds post the initial height of the COVID-19 pandemic. The pool is diversified across 53 investees in 27 countries. Symbiotics disbursed loans totalling USD 53 million, representing a 37% decrease compared to 2020. New transactions over the year consisted of 19 new loans across 10 countries. Overall, Symbiotics was most active in South America and Sub-Saharan Africa, with 25% of the disbursements in each region respectively, followed by South Asia with 22%. Repayments in 2021 totalled USD 91 million, representing a significant year-on-year increase (79%). Portfolio quality recorded a deterioration over the course of the year.

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. 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.

## 6.5 CERISE | MEF's PARTNER ON SOCIAL PERFORMANCE DATA

Created in 1998, CERISE is a French non-profit organization, pioneer in matters of social performance management. CERISE is dedicated to responsible and ethical finance, willing to find solutions for mission-driven organizations to make their social goals a reality. CERISE manages the SPI4 and ALINUS tools and benchmarking database.

**SPI4** is a social performance audit tool for financial service providers developed by CERISE. Since 2003, more than 600 Financial Service Providers have used SPI4 – updated regularly to include sector developments and user feedback – to help assess and improve their practices. Today in its fourth version, the SPI4 is aligned with the Universal Standards for Social Performance Management (USSPM) promoted by the Social Performance Task Force, which include the client protection standards. SPI4 brings together industry standards under one tool, offering a common language for reporting to investors, funders and regulators.

**SPI4-ALINUS** is a shorter version of the SPI4 that gets investors speaking the same language. Many investors use their own tools to collect social performance data points that are largely similar but different enough to weigh as a reporting burden on Financial Service Providers and investors alike. Reducing this burden while improving comparability of social data is what drove the development of ALINUS. The 68 Universal Standards indicators were selected by a working group of social investors through a collaborative and iterative process. ALINUS indicators are now used by over 30 social investors and 12 international networks in responsible finance.


**Benchmarking Social Performance Management Practices of MEF Partner MFIs**

CERISE's analysis starts with the question: 'To what extent does MEF invest in MFIs that not only do no harm (i.e. assess social risk to limit negative externalities), but also do good (or at least have the intention to do good, by adopting a structured approach to social performance management)?' To answer this question and provide a benchmarking, CERISE compares the scores of MEF's portfolio of partner MFIs on the SPI4-ALINUS, the social assessment tool aligned with the Universal Standards for Social Performance Management (USSPM), to those of the global CERISE database.

The USSPM define social performance along six headline dimensions (see graph on the left).

As such, the USSPM look at social performance both from a perspective of the MFI's borrower or client (in particular dimensions 3 and 4), from an internal perspective (especially dimension 5), but also from a governance perspective (as per dimensions 1 and 2). The 6th dimension – Balance Financial and Social Performance – can be considered a summary criterion for assessing the 'double bottom line' to be achieved in responsible finance and impact investing. A recently added Green Index scores green performance.

By adopting this standard format for data collection and streamlining its social data collection process, MEF aims to:

- share a common language and promote the USSPM with the partner MFIs and with investors
- reduce the reporting burden on these partner MFIs (many of whom already use ALINUS or SPI4)
- facilitate the collection of high quality standardised datapoints
- enable benchmarking with the global ALINUS database

MEF also seeks to promote a best practice industry standard as well as its uptake by the industry by using ALINUS and partnering with CERISE on its implementation. By leveraging its relationship with partner MFIs and working with and through CERISE, MEF aims to contribute to advancing social performance and the Universal Standards as part of responsible finance.

# 7 FINANCIALS

## BALANCE SHEET

| ASSETS | as of December 2021 | as of December 2020 |
|---|---|---|
| Loans to MFIs* | 545,177,348 | 578,262,065 |
| Current assets | 169,957,795 | 181,526,632 |
| of which: cash & cash equivalent | 148,597,087 | 158,343,080 |
| Other assets | 258,419 | 636,217 |
| Total Assets | 715,393,562 | 760,424,914 |
| **LIABILITIES** | | |
| Notes | 141,174,000 | 175,059,750 |
| Current liabilities | 28,932,831 | 85,976,453 |
| of which: dividend payable | 15,082,709 | 18,159,888 |
| Total Liabilities | 170,106,831 | 261,036,203 |
| NET ASSETS | 545,286,731 | 499,388,711 |

## INCOME STATEMENT

| | as of December 2021 | as of December 2020 |
|---|---|---|
| Net assets at the beginning of the year | | 579,608,819 |
| **INCOME** | | |
| Interest on loans | 47,824,747 | 51,928,773 |
| Upfront fees | 1,677,046 | 1,851,055 |
| Other income | 400,366 | 453,627 |
| TTotal income from investments | 49,902,159 | 54,233,455 |
| **EXPENSES** | | |
| Management fees (including incentive bonus) | (6,550,163) | (6,040,629) |
| Legal, advisory and audit fees | (207,600) | (329,836) |
| Administration, custodian and domiciliation fees | (752,093) | (735,932) |
| Interest expenses on notes | (3,243,749) | (4,149,248) |
| Other direct operating expenses | (4,654,635) | (4,444,001) |
| Total expenses | (15,408,240) | (15,699,646) |
| Net income from operations | 34,493,919 | 38,533,809 |
| Net realized and unrealised gains/(losses) on foreign exchange, forward, swaps | (13,496,377) | (16,329,504) |
| Value adjustments for unrecoverable amounts on loans and advances to MFIs | (12,601,672) | (22,505,107) |
| Net increase/decrease in net assets as result of operations for the year/period | 8,395,870 | (300,802) |
| **MOVEMENT IN CAPITAL** | | |
| Subscription of shares | 52,584,860 | 10,022,760 |
| Redemption of shares | – | (71,782,178) |
| Advance of dividend | (15,082,709) | (18,159,888) |
| NET ASSETS AT THE END OF THE YEAR/PERIOD | 545,286,731 | 499,388,711 |

In accordance with annual financial statements prepared under Luxembourg GAAP

* MEF's loan outstanding net portfolio of USD 545 million reported throughout the report is based on financial statements prepared under IFRS on a quarterly basis and used for the fund's publications

# ABBREVIATIONS

| | |
|---|---|
| DFI | Development finance institution |
| ESG | Environmental, Social and Governance |
| IC | Investment Committee |
| LuxFLAG | Luxembourg Finance Labelling Agency |
| MEF | Microfinance Enhancement Facility SA, SICAV-SIF |
| MFI | Microfinance institution |
| MSME | Micro, small and medium enterprise |
| OPIM | Operating Principles for Impact Management |
| PAI indicator | Principal Adverse Impact (PAI) indicator |
| SME | Small and medium enterprise |
| SDG | Sustainable Development Goals |
| SFDR | Sustainable Finance Disclosure Regulation |
| USD | US Dollars |

## LEGEND FOR THE REGIONS

| | |
|---|---|
| CA | Central Asia |
| EAP | East Asia and the Pacific |
| EECAU | Eastern Europe and Caucasus |
| LAC-CA | Latin America and the Caribbean - Central America |
| LAC-SA | Latin America and the Caribbean - South America |
| MENA | Middle East and North Africa |
| SA | South Asia |
| SSA | Sub-Saharan Africa |

# MICROFINANCE ENHANCEMENT FACILITY

## Fund registered office

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

Advised by four leading private investment advisors coordinated by MEF's general secretary

BlueOrchard Finance AG
231 Seefeldstrasse
8008 Zurich - Switzerland
info@blueorchard.com

Incofin Investment Management
Sneeuwbeslaan 20 PB2
2610 Antwerp - Belgium
info@incofin.com

## General secretary

Innpact S.A.
5, rue Jean Bertels
1230 Luxembourg
Grand-Duchy of Luxembourg
info@mef-fund.com

responsAbility Investments AG
Josefstrasse 59
8005 Zurich - Switzerland
info@responsAbility.com

Symbiotics S.A.
Rue de la Synagogue 31
1204 Geneva - Switzerland
info@symbioticsgroup.com

## 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 pictures in this report originate from a public library to which the Fund has subscribed.
Pictures are included in this report for illustrative purposes only and do not reflect the companies and individuals mentioned in this report.