MEF
Microfinance
Enhancement
Facility

Impact Report 2019

Contents

Introduction

As a global microfinance impact fund, MEF - the Microfinance Enhancement Facility – tracks its impact both as a Fund and especially also through the lens of the partner MFIs in its portfolio as our key conduit of impact. This builds on our vision of supporting microfinance markets in developing countries around the globe by offering a reliable and flexible source of debt to financial institutions which support microfinance and micro-enterprises (MFIs). Local currency debt financing and adherence to constantly evolving social performance standards are core components of MEF's approach to responsible finance. These elements have made the Fund a reliable partner in challenging or crisis situations.

MEF's impact is, by extension, the impact of our investments as realised by the performance of our partner MFIs. Selecting MFIs with care is thus the first and foremost step to achieve our aspired impact. And presenting the results they achieve, supported by MEF financing, is hence the key element of our own impact – developmental and especially social – and our impact reporting.

At MEF we believe that regular assessment and monitoring are important for transparency, accountability and performance improvement. MEF and its partner MFIs need to show to our investors and stakeholders that their resources are applied well – not only from the perspective of financial sustainability but also from the perspective of developmental and especially social impact. And we see impact reporting not only of benefit to our investors and external stakeholders, but also for our own benefit: By collecting, analysing and benchmarking data on impact we identify and understand the challenges we face and can transform findings and lessons into our thinking and aspirations on impact and calibrate our work by reflecting this in our investment strategy.

We are delighted to introduce with this year's Impact Report an independent external validation of social performance. We work with Cerise who uses an industry standard social audit tool. With adherence to evolving social performance standards as a core component of MEF's commitment to responsible finance, MEF had been benchmarking its portfolio of partner MFIs against the Universal Standards for Social Performance Management (USSPM) and reported on this basis including in last year's MEF Impact Report 2018. Stepping up this commitment, beginning in 2019, the Board of Directors resolved to engage Cerise to assess social performance of the portfolio of MEF's partner MFIs. Cerise, a global leader in impact measurement, applies the widely recognised social audit tool SPI4-ALINUS aligned with the USSPM.

Given our extensive global portfolio with 133 MFIs in 43 countries we believe we have valuable data and lessons to share. With this report we aim to contribute to the debate of better and more impact tracking in microfinance and welcome any comments.

This report is based in large parts on financial, developmental, outreach and social indicators reported by the partner MFIs in MEF's portfolio as of 31 December 2019. The aggregate responses on aspects such as outreach, products and services or the range of social performance indicators, however, provide a yearly "snap shot" of the profiles of the active partner MFIs of the MEF rather than a basis for comparison. While we reflect prior year data in this report, we wish to caveat this: Any year-on year variation can largely be due to the turnover of partner MFIs in the MEF portfolio as the mix of MFIs in the portfolio evolves – and is meant to evolve – given the demand-oriented model of MEF. So that by year-end 2019, MEF's portfolio of 133 MFIs had grown from 118 in 2018, with 29 MFIs exiting and 42 new MFIs joining during 2019.

Our year of reporting is 2019 which, by the time of this publication, is in the shadow of events in 2020 with the Covid-19 pandemic, the crises it causes and the effects so far and yet to come. These unexpected turns have overtaken whatever we may have anticipated for this year. Our full understanding of how the pandemic – and the global health and economic impacts – will ultimately unfold and affect the world, our partners and the Fund has yet to take shape. We believe the current circumstances to imply potential to deploy and grow the Fund in line with its mission – both to continue to serve those who may largely be unaffected and to provide much needed funding to those who are greatly affected – and thereby support economic recovery of micro-entrepreneurs and consequently low-income households. MEF is well positioned to respond in this situation and has taken measures to be a reliable partner with impact.

It is with great pleasure that we present to you the MEF Impact Report 2019. This report complements the MEF Annual Report 2019 providing information on the Fund's portfolio development and financial performance.

We would like to thank MEF's investors, stakeholders and partner MFIs for their commitment to the Fund and its mission.

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

Ihno Baumfalk

MEF Impact | At a Glance

475,000
Final borrowers reached by MEF funding

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

84%
Women

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

57%
Rural

the smart campaign
MEF endorses the Client Protection Principles*

MICROFINANCE
LUXFLAG
LuxFLAG Microfinance Label since 2011

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

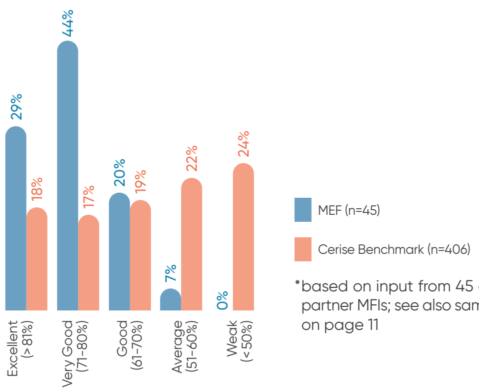
Social Performance Analysis ALINUS

MEF Portfolio* Average SPI4-ALINUS Score 70%

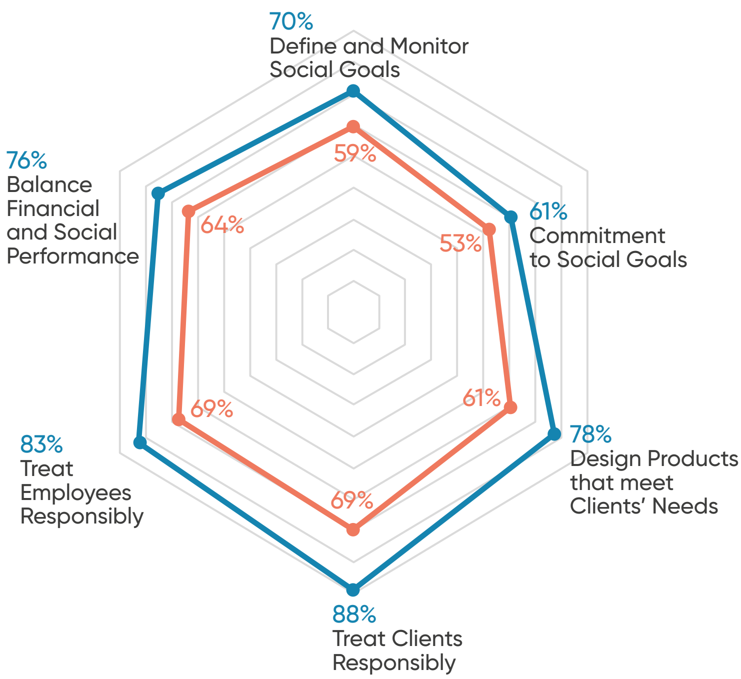
MEF introduced SPI4-ALINUS with its 2019 social performance reporting.

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

MEF portfolio MFIs outscore the Cerise benchmark in all 6 dimensions analysed.



*based on input from 45 of 133 MEF partner MFIs; see also sampling note on page 11



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 7 dimensions of which 6 are applied for this analysis. (https://cerise-spm.org/alinus/) (See also pages 11 and 20 for further details.)

MEF Market & Portfolio | Overview

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

The generally slowing global economic growth – countered somewhat by increasing investor interest in microfinance – fed through to the portfolio: MEF closed 2019's financial year with an outstanding net portfolio of USD 566 million with 133 active partner MFIs in 43 countries. This amounts to a year-on-year (YoY) contraction of USD 34.3 million (5.7%). Fewer deals were disbursed YoY, with only 67 transactions compared to 79 in 2018.

In fact, 2019 disbursement was the lowest (USD 57 million vs. USD 67 million) since 2016. Average loan size increased slightly by USD 0.2 million.

Key Portfolio Figures

USDM 566
Loan Portfolio

USDM 770
Total Assets

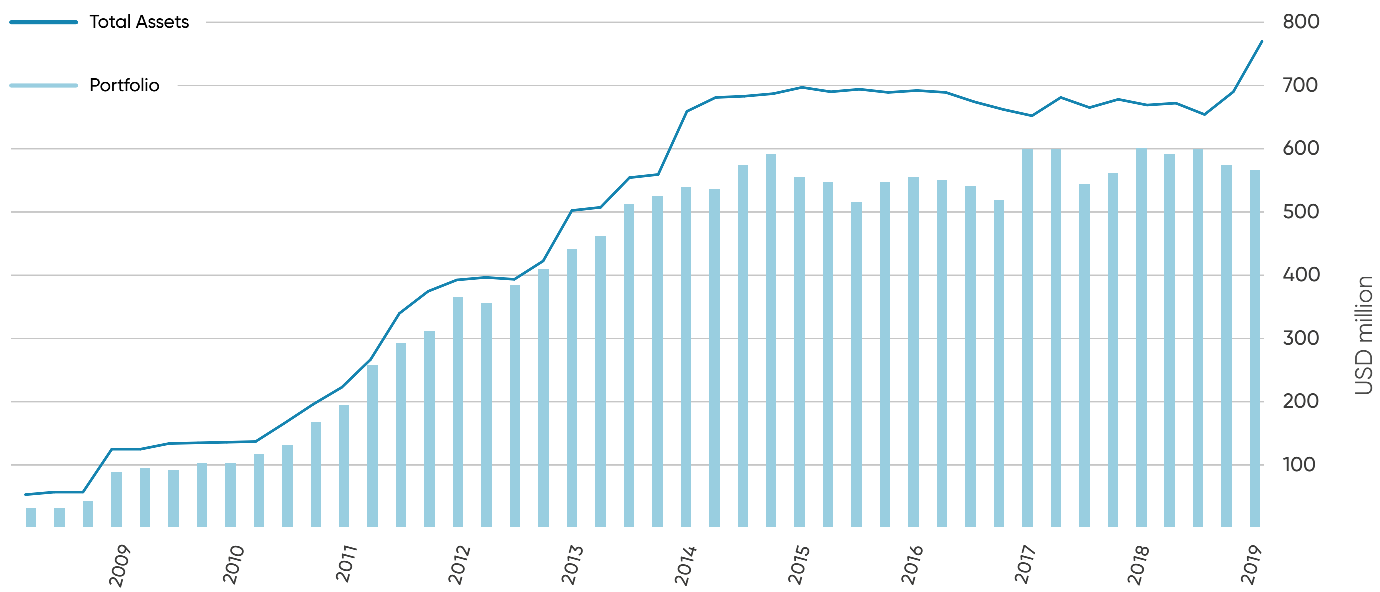
USDM 580
Total Net Asset Value

133
Institutions Financed

204
Loans

43
Countries

Portfolio Evolution



MEF ranks 6th of MIVs globally with 5% of total assets under management (AUM).[1] With 133 partner MFIs (118 in 2018) MEF has an above average outreach; the average number of investees of direct-debt-investment MIVs was 39 in 2018.[2]

[1] per year-end 2019; https://my.syminvest.com/microfinance-investment-vehicle/fund-universe

[2] 2019 MIV Survey: Market Data & Peer Group Analysis; 13th edition, September 2019 ('2019 MIV Survey'); (https://symbioticsgroup.com/wp-content/uploads/2020/02/symbiotics-symbiotics-2019-miv-survey.pdf)

The data is based on December 2018 financial and social performance indicators reported by the large majority of active microfinance investment vehicles (MIVs). Out of an identified 121 MIVs, 87 participated and were included in the final benchmark, making this sample very representative. MEF participates in this survey.

MEF Impact | Development

Global Portfolio

Having grown continuously YoY, MEF experienced a contraction of its portfolio in 2019 for the first time since inception. MEF as a demand-driven microfinance lender responds to changing regional or country-market demand and provides liquidity, for instance, where demand from microfinance institutions is high and other market sources are limited. MEF seeks to meet such needs all the while not crowding out private sector initiatives. The portfolio contraction thus reflects the demand-driven approach of MEF and how, in 2019, correspondingly the generally slowing global economic growth, albeit also combined with greater investor interest in microfinance, fed through to MEF's portfolio.

MEF has at the same time been available to more MFIs in 2019, with 133 partner MFIs in its portfolio in 2019 compared to 118 in 2018. This growth in the portfolio with 15 new partner MFIs (some 12% YoY) also diversified MEF's exposure.

Unpacking these numbers reveals the YoY addition of 42 new MFIs and 6 new countries: Mali, Myanmar, Pakistan, Tunisia, Uzbekistan, and Zambia. Over the same period, 29 MFIs exited. MEF's top three single country exposures in 2019 were India, Ecuador and Cambodia – similar to 2018 with India, Mexico and Cambodia; whereby Mexico ranked fourth in 2019 and Ecuador fifth in 2018.

USDM 770
+15%
USDM 669
USDM 652
Total Assets

USDM 566
-6%
USDM 600
USDM 599
Total Portfolio

73%
-18
90%
92%
Portfolio in Total Assets

133
+15
118
113
Partner MFIs

43
-1
44
45
Countries

62%
+6
56%
49%
Share of Local Currency in Portfolio*

21
+4
17
21
Local Currencies Provided

2019
Δ 2019 to 2018
2018
2017
Legend

*including EUR and USD loans when legal tender

The top 3 country exposures of MEF mirror the larger MIV market of Fixed Income Funds where, compared to the latest available data for 2018 (per the 2019 MIV Survey), the top exposures were India, Ecuador, and Cambodia.

MEF Impact | Development

Portfolio by Region

In 2019, MEF's portfolio became more balanced across regions, with decreasing concentration in Latin America and the Caribbean, especially in Central America. This was complemented by a steady increase in the Middle East and North Africa and in Sub-Saharan Africa.

The majority of MEF loans disbursed in 2019 originated from South Asia (SA 15%), Latin America and the Caribbean – Central America (LAC-CA 23%), and Sub-Saharan Africa (SSA 15%). Together these accounted for 53% of MEF's portfolio.

Regionally, MEF's portfolio in 2019 showed more balance:

- Exposure to LAC-CA and LAC-South America (LAC-SA) decreased markedly, by more than one fifth (21%). As of year end 2019, these two regions accounted for 41% of the portfolio (LAC-CA 23%; LAC-SA 18%), down from 52% for both combined in 2018.
- For Sub-Saharan Africa MEF increased its exposure by around 40% YoY, closing 2019 with 15% of MEF's global portfolio in that region.
- Meanwhile MEF's portfolio in the Middle East and North Africa (MENA), while still in single digits, doubled from 2% in 2018 to 4% of global portfolio in 2019.
- The Eastern Europe and Caucasus region (EECAU) remained stable YoY with a consistent 3% of MEF's global portfolio.

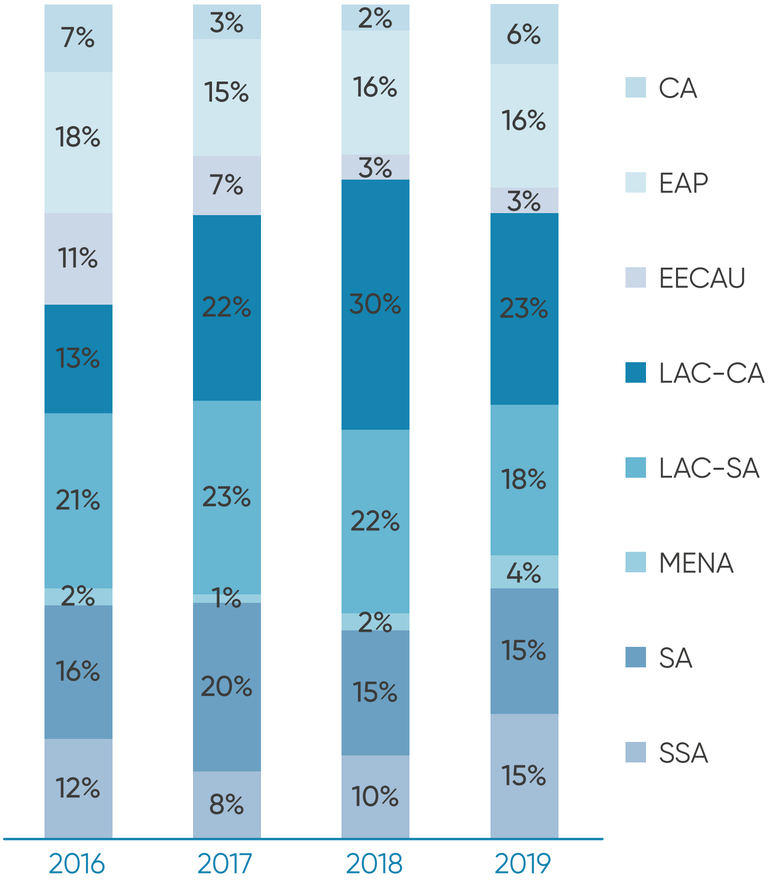
Regional Distribution 2019

Portfolio Diversification (in USD million)	2017	2018	2019	Δ 2019 to 2018
CA	19	15	37	150%
EAP	93	97	91	-6%
EECAU	44	16	17	7%
LAC-CA	133	178	128	-28%
LAC-SA	140	131	100	-23%
MENA	6	10	22	113%
SA	117	92	87	-6%
SSA	48	61	84	37%
Grand Total	**599**	**600**	**566**	**-6%**

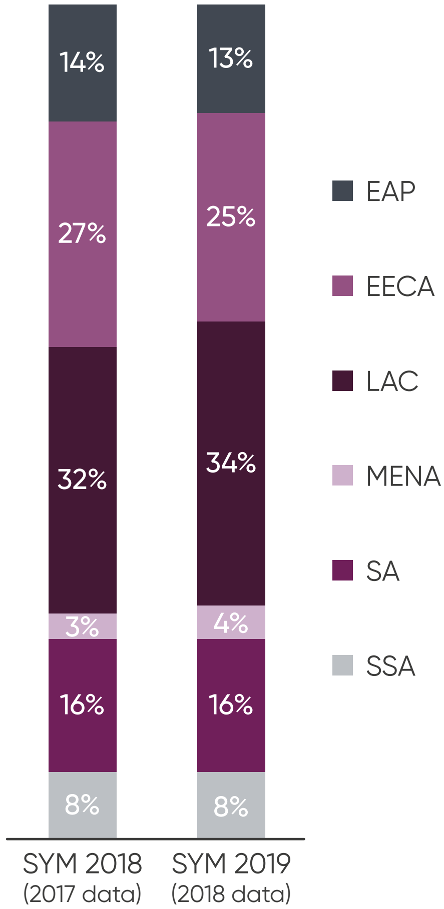
MEF Impact | Development

Portfolio Diversification

MEF Portfolio



MIV Benchmark Portfolio[4]



The analysis of the 2019 MIV Survey suggests a stabilisation of MIV direct microfinance portfolio shares for LAC, the region receiving the largest share (34% of MIVs' portfolios in 2018; slightly up from 32% in 2017). While MEF's exposure in LAC is overall higher and also increased (from 45% in 2017 to 52% in 2018), this in part reflects MEF's demand-oriented nature and to some extent also its greater capacity for exposure in LAC compared to other funds that reached their exposure limits.

For SA, the 2019 MIV Survey shows a stabilisation of the portfolio at 16%. MEF's SA portfolio decreased from 20% in 2017 to 15% in 2018.

Similarly, the 2019 MIV Survey recorded a continued decline for EECA's share in MIVs' portfolios (25% in 2018) - while MEF's portfolio in the corresponding region (EECAU plus CA) decreased to 5% in 2018.

For SSA the 2019 MIV Survey shows a stable 8% portfolio share (2018) while MEF's portfolio in SSA portfolio increased from 8% in 2017 to 10% in 2018.

MEF as a global fund is active worldwide. Its significant presence in Latin America is largely consistent with the MIV market in general which recorded LAC as capturing again the largest share of direct microfinance portfolio with 34%. MEF's LAC share of 52% in 2018 is also the largest region for MEF, largest also in 2019 albeit markedly decreased to 41%. Compared to the MIV universe, MEF invests notably less in EECA (MIV total of 25% compared to MEF's equivalent, i.e. ECCAU plus CA with 5% in 2018 and 9% in 2019). In SSA MEF invests above average (MIV total of 8% compared to MEF 10% in 2018, and increased to 15% in 2019).[4]

[4] Source: 2018 MIV Survey & 2019 MIV Survey

Legend of regions for SYM Survey:
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

MEF Impact | Development

A Balanced Portfolio

As a social investor, with mission to support microfinance in time of crisis, it is interesting to track the share of the portfolio going to countries that are among the most vulnerable.

MEF's portfolio balances investments in countries marked by vulnerability with those on more solid footing, from a social development standpoint.

low HDI (below 0.550)
7%

fragile and conflict-affected states
6%

high or very high risk on the WorldRiskIndex*
51%

*managed by Ruhr University of Bochum in Germany. WRI assesses vulnerability to natural disasters (https://weltrisikobericht.de/english/)

Local Currency Financing

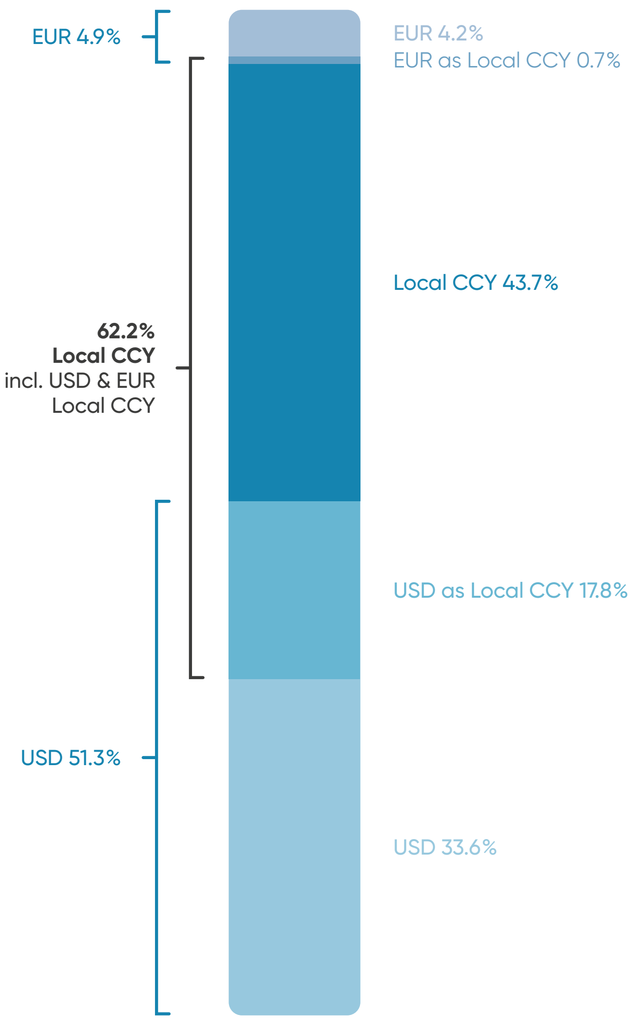
As a complement to existing sources of funding, MEF focuses on providing liquidity that the market does not offer. This includes a focus on local currency debt financing (LCY financing). Together with adherence to constantly evolving social performance standards, LCY financing is a core component of MEF's approach to responsible finance.

Demand for local currency continues to be strong. MEF responded to this global demand in 2019 by increasing its total share of local currency lending to 62%, up from 56% in 2018.

With this, MEF remained a strong local currency lender in 2019 and helped to progressively de-risk financing for its partner MFIs. Such de-risking is essential given that only local currency funding that finances local currency lending can remove conversion risks from MFIs and their clients in emerging markets. Thereby MEF helps to address the experience in recent years of local currency depreciation as a major threat to hard-currency-financed MFIs.

Of the 62% of local currency loans, 44% were disbursed in local currencies excluding EUR and USD as local currencies, 18% pertain to countries where USD is the legal tender (Ecuador, El Salvador and Panama), and 1% to countries where EUR is the legal tender (Montenegro and Kosovo).

All of MEF's currency exposures are fully hedged to USD. Hedged local currency positions represented more than half of the total portfolio for the second year in a row. While market volatility exerted upward pressure on hedging costs – exacerbating a price disadvantage for international lenders in many markets – MEF strives to continue growing its local currency offer despite these headwinds.



MEF's hedged LCY financing portfolio of 62% (56% in 2018) performs well above market average for local currency lending and also well above market practice with its hedging practice: The 2019 MIV Survey shows the portion of direct debt investments in MFIs in local currency at 44% in 2018, of which 29% was unhedged.

MEF Impact | Development

Average Investment Size

MEF's average investment size outstanding in 2019 stood at USD 4.2 million, compared to USD 5 million in 2018. However, an average blurs a more granular picture: While MEF's portfolio includes some large transactions, loan amounts align with partner size; partner MFIs with fewer active borrowers have a lower average investment (of USD 3 million), while those with large outreach access larger amounts.

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

Ø investment size
small outreach
USDM 3.1 (2019)
USDM 4.8 (2018)

Ø investment size
medium outreach
USDM 4.0 (2019)
USDM 4.4 (2018)

Ø investment size
large outreach
USDM 6.4 (2019)
USDM 6.9 (2018)

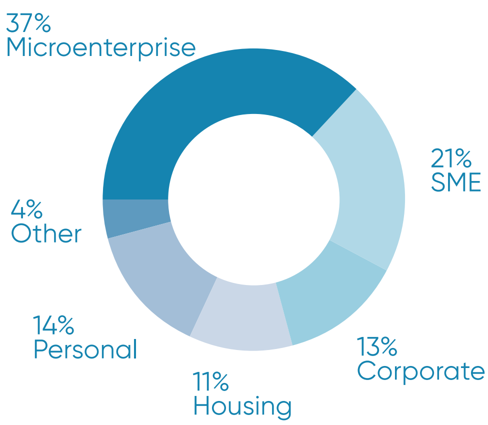
small outreach	number of borrowers <10,000
medium outreach	>10,000 and <100,000
large outreach	>100,000

With an average investment size outstanding of USD 4.2 million per MFI (in 2019), MEF's investments are larger than the MIV benchmark of USD 2.8 million (in 2018; per 2019 MIV Survey).

Focus on Micro & Small Productive Loans

MEF's portfolio is largely focused on partner MFIs with productive loans to micro and small enterprises (MSMEs). The partner MFIs largely target microfinance markets, with some focusing also on SME segments. Only small amounts in the partner MFIs' portfolios flow to medium-sized business or housing.

Distribution by Loan Purpose



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

MEF Impact | Outreach[5]

Overall, as in the year before, the low average loan amount per borrower underscores that the activities of MEF and its partner MFIs serve predominantly the microfinance segment. This with a very strong outreach to women, well above industry-average. MEF also shows a good record on lending to 'productive sectors'. This combines with MEF's increasing local currency funding progressively de-risking its financing of partner MFIs.

MEF's partner MFIs in 2019 provided loans to nearly 21 million borrowers. Of those, more were rural (57%) than urban borrowers and around 84% were women. Our partner MFIs on-lent the MEF financing to 475,000 of their borrowers. The figure of nearly half a million of beneficiaries attributable to MEF financing results from a more granular perspective than the global figure of 21 million total borrowers of MEF's partner MFIs.[6]

Along with the YoY portfolio contraction of USD 34.3 million (5.7%), there is a small delta of 13,000 to the 488,000 borrowers reached in 2018. Such variations can occur and are a reflection of the dynamic in the portfolio composition of MEF as a demand-oriented lender combined with regional variations of outreach as well as average loan sizes to borrowers of partner MFIs. These are due in part to differences in economic strength (see also below on average loan per borrower).

The 2019 MIV Survey, based on 2018 data, reports an average number of active borrowers financed by MIVs of almost 850,000 (up from nearly 655,000 in 2017). MEF, with 488,000 active borrowers reaches a significant population in developing markets around the globe.

The outreach of MEF's portfolio of MFIs is supported by a variety of factors: (i) their large branch networks which grew to 11,168 in 2019 (up from 9,605 in 2018); (ii) mobile banking services were offered by 50% partner MFIs (up from 30% in 2018); and (iii) their predominantly microfinance rather than SME banking orientation, as the following analysis of average loan amounts illustrates.

With USD 1,801 (2019) (USD 1,730 in 2018) as the global average outstanding loan amount per borrower as well as 85% of MFIs with an average loan size to their end-borrowers of below USD 15,000, MEF's partner MFIs clearly serve predominantly the microfinance segment. Regionally the average varies substantially: SA: USD 306; EECAU: USD 2,510; MENA: USD 2,961; EAP: USD 4,301; LAC-SA: USD 4,763; SSA: USD 4,995 and LAC-CA: USD 7,148. A direct comparison would neglect that this in part reflects differences in economic strength as average incomes and cost of living vary greatly by region and to some extent within regions as well. And fluctuations also reflect MEF's demand-oriented nature; so for instance, in 2018, the lowest to highest average by region was largely the same but had MENA ahead of EECAU.

For SSA, the noticeably high average outstanding loan amount per borrower of USD 4,995 in 2019 (up from 4,948 in 2018) is an effect of data reported by one MEF partner MFI with focus on housing loans.

Overall, MEF's portfolio shows an above average micro-orientation. While the global average outstanding loan amount per borrower of MEF's partner MFIs slightly increased to USD 1,801 in 2019 (compared to USD 1,730 in 2018), this remains below the averages recorded across all MIVs of USD 2,148 for 2018 (2019 MIV Survey).

2019	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2019	Global 2018
Total Loan Portfolios ALL MFIs (USD M)	1,609	10,078	1,014	11,748	5,694	546	4,325	3,384	**38,399**	30,983
Number of Borrowers	713,330	2,343,316	404,065	1,643,483	1,195,585	184,393	14,156,357	677,413	**21,317,942**	17,906,627
Average Loan Amount per Borrower (USD)	2,256	4,301	2,510	7,148	4,763	2,961	306	4,995	**1,801**	1,730
Number of Branches	601	1,334	349	1,047	604	96	6,153	984	**11,168**	9,605

[5] Data in this section is based on MEF's portfolio of partner MFIs, with most data drawing on largely consistent 120 data points out of 133 partner MFIs in the portfolio.

[6] 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).

MEF Impact | Outreach

Microfinance activities are often associated with lending mainly in urban areas and to 'non-productive' sectors like services and trade or for consumption. A look at MEF's partner MFIs' 2019 data reveals the following on lending to women, outreach to rural areas and on borrowers in 'productive sectors' (Agriculture & Livestock and Production & Manufacturing).

2019	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2019	Global 2018
Share of Women Borrowers (in %)	47	69	42	56	49	36	98	50	**84**	80
Share of Rural Borrowers (in %)	56	60	58	53	27	43	60	41	**57**	68

Notably, on lending to women, globally MEF's portfolio shows a very high share of 84% of female borrowers of MEF partner MFIs. Female borrowers encompass women, women-headed households or women-led MSMEs. For SA MEF's portfolio records 98% female borrowers. This high rate is largely due to the fact that it comprises mostly Indian MFIs with a focus on lending to women.

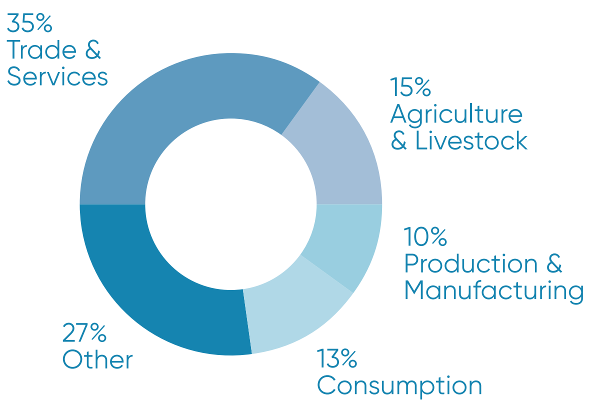
Assessing lending in rural areas, the global portfolio of MEF's partner MFIs and their clients shows a strong record as well with 57% rural borrowers.[7] In particular, the portfolios in CA, EAP, EECAU and SA show the strongest rural focus, each above 50%.

The 84% share of women borrowers in MEF's portfolio is clearly higher than the industry average of 67% female borrowers (in 2018, 2019 MIV Survey; MEF's portfolio recorded 80% in 2018).

MEF's rural outreach with 57% of portfolio (68% in 2018) is broadly in line with the industry average of clearly more than half in rural portfolios. The MIV Survey compares at 56% rural borrowers (for 2018).

For lending to the 'productive sectors' (Agriculture & Livestock or Manufacturing & Production), MEF partner MFIs' portfolios show a sizeable share of 25%. Regionally, as in the previous year, SA and CA stand out with the highest share of 56% and 37% of the portfolio in these sectors, respectively, and LAC-CA with the lowest at 14%.

Distribution by Activity



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

2019	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2019	Global 2018
Productive Sectors (in %)	37	27	33	14	17	26	56	19	**25**	29
Agriculture & Livestock (in %)	16	21	27	5	9	6	44	3	**15**	19
Production & Manufacturing (in %)	21	6	6	9	9	20	12	16	**10**	9

[7] These ratios are calculated based on the industry-standard CGAP definition: taking the average of rural borrowers of MFIs in the MEF portfolio (calculated as the total number of rural borrowers of each MFI in the MEF portfolio divided by the total number of borrowers of the MFIs).

MEF Impact | Social Performance

Introducing MEF Social Performance Analysis with ALINUS

Outreach – how many people can be reached where, with what financing and to finance what – is but 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 practice.

Adherence to evolving social performance standards is a core component of MEF's commitment to responsible finance. To contribute to a transparent debate within the impact investing industry, MEF had been benchmarking its portfolio of partner MFIs against the Universal Standards for Social Performance Management (USSPM or Universal Standards) and reported on this basis including in last year's MEF Impact Report 2018.

In line with and stepping up this commitment, beginning in 2019, the Board of Directors resolved to engage Cerise to assess social performance of MEF partner MFIs. Cerise, a global leader in impact measurement, manages the widely recognised social performance tool SPI4-ALINUS aligned with the Universal Standards.[8]

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 partner MFIs on Cerise SPI4-ALINUS to the full Cerise database. The analysis in this section is based on data for 45 of the 133 MEF partner MFIs (34%) in the Cerise database. Cerise assessed the sample and considered it sufficiently robust and representative to be meaningfully benchmarked to the global Cerise database of 406 MFIs. (See also Boxes 1 and 2 on the sample and benchmarking as well as the Universal Standards. Note also page 20 with further information on Cerise, SPI4-ALINUS and USSPM.)

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

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

Box 1 | Introducing SPI4-ALINUS at MEF - 2019 Sample & Benchmarking

This first year of collaboration with Cerise in the application of ALINUS coincided with the outbreak of Covid19. The typical challenges of any first attempt to apply a uniform and generally accepted standard of data collection across the MEF portfolio were compounded by the pandemic. Nevertheless, working within the constraints posed by a transition in times of crisis, the analysis shared here is based on input from 45 out of the 133 MEF partner MFIs for which Cerise obtained data. Cerise considered the sample sufficiently robust and representative to serve as an initial basis for analysis and benchmarking to their global database of 406 MFIs.

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

Box 2 | 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: 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. An optional 7th dimension covers 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
- 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.

(see page 20 for this graph in larger size)

[8] 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' With 68 indicators, ALINUS is a short version of the SPI4 social audit tool. Selected by a working group of social investors through a collaborative and iterative process, it is a sub-set of SPI4 indicators which measure social and environmental performance practices. (https://cerise-spm.org/alinus/). See also page 22 with further information on Cerise and SPI4-ALINUS.

MEF Impact | Social Performance

Overall Score | ALINUS Social Performance Analysis on MEF Partner MFIs

MEF Portfolio
Average SPI4-ALINUS Score*

70% | 56% Cerise global benchmark |

- MEF introduced SPI4-ALINUS with its 2019 social performance reporting.
- With an overall ALINUS score of 70%, MEF portfolio MFIs demonstrate stronger social performance than their peers (56%).
- MEF portfolio MFIs outscore the Cerise benchmark in all 6 dimensions analysed.

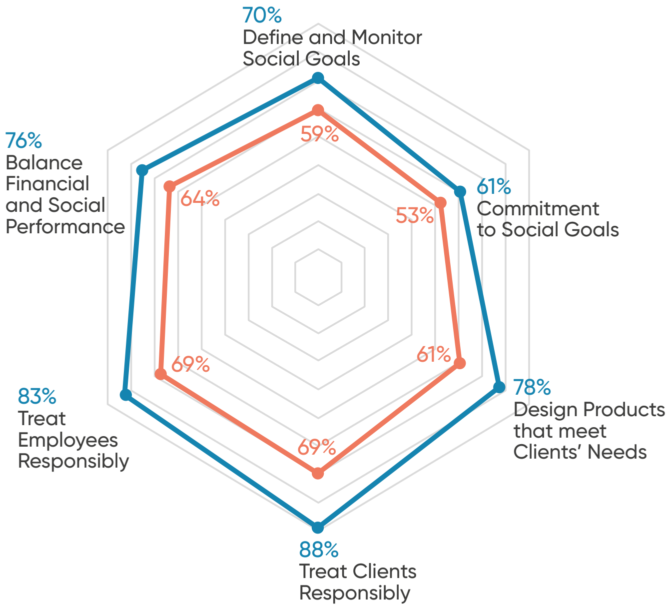
With an overall score of 70% compared to 56% of the peer group, MEF's partner MFIs outscored the peer group captured in the Cerise global dataset, and outscored them in all of the 6 dimensions analysed. MEF partner MFIs demonstrate stronger social performance than their peers, as Cerise highlights in their findings.[9]

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

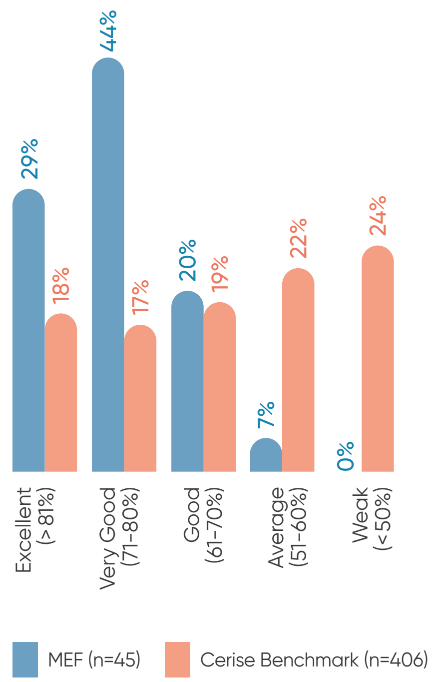
The following pages provide more details on the Universal Standards, how MEF's partner MFIs score against these standards and how the scores benchmark to those of their peers.

MEF partner MFIs are largely high performers, notes Cerise considering the frequency of overall scores: the majority of MEF partner MFIs, almost three quarters (73%), reach a score above 71%, considered 'Very Good' or 'Excellent', compared to the Cerise sample. And MEF partner MFIs show a more even distribution.

MEF Partner MFIs | Overall Scores Benchmarked to their Peers



MEF Partner MFIs | Frequency of Scores Benchmarked to their Peers



Cerise
SPI4 Alinus

*based on 6 of the 7 dimensions and based on input from 45 of 133 MEF partner MFIs; see also sampling note on page 11

[9] Note that the findings pertain to the sample of 45 MFIs of MEF's partner MFIs Cerise analysed for this scoring and benchmarking, as described also in Box 1.

MEF Impact | Social Performance

Dimension 1 | Define and Monitor Social Goals

Average D1 Score

70% | 59%*

*MEF score compared to global benchmark

MEF partner MFIs show significantly stronger practices in defining and monitoring social goals (70% for D1) than the benchmark (59%), as Cerise highlighted.

A closer look finds:

- MEF partner MFIs are much more likely to have a formalised social strategy to achieve social goals (81% | compared to 65%)
- they are also more likely to collect and disclose client-level data (60% | 53%)

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. (Source: Cerise)

Dimension 2 | Commitment to Social Goals

Average D2 Score

61% | 53%*

*MEF score compared to global benchmark

MEF portfolio companies overall show stronger commitment to social goals (61% for D2) than their peers (53%).

A closer look shows:

- MEF partner MFIs are much more likely to have a Board member with Social Performance Management (SPM) experience than the benchmark (71% | compared to 57%) – which research links positively to social impact as well as overall performance and sustainability[10]
- MEF partner MFIs are also more likely to have a designated SPM champion or committee that reports to the Board (24% | 21%)
- D2 scoring is driven up in particular by compliance with the client protection indicator regarding caseload targets (64% | 52%)[11]
- while social performance incentives are not widespread among MEF partner MFIs (31% | 46%)

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. (Source: Cerise)

[10] Cerise noted in their findings: 'This is positive for MEF, not just from a social impact standpoint, but from an overall sustainability perspective. Indeed, a recent study* found that the presence of a board member with SPM experience is statistically linked to better portfolio quality, better efficiency, better staff productivity than peers without SPM expertise on the Board.' (*Husain, M., Pistelli M. (2016): Where Good Intentions meet Good Business Practice (drawing on data from 780 Financial Service Providers across 96 countries; data covers 2014-2015))

[11] This pertains to the following indicator: 'The provider has a policy and documented process in place to determine sales and caseload targets and monetary incentives for credit staff (if used), including flags for caseload levels that signal high risk.'

Dimension 3 | Design Products that Meet Client Needs

Average D3 Score

78% | 61%*

*MEF score compared to global benchmark

MEF partner MFIs significantly outscore their peers with products designed to meet client needs (78% for D3 | compared to 61% for the benchmark).

A closer look reveals:

- MEF partner MFIs outscore their peers especially when it comes to doing market research and monitoring client feedback (82% | compared to 55%)
- where MEF excels the most compared to their peers are regular client satisfaction surveys (69% | 43%)
- MEF partner MFIs fare somewhat better than their peers on benefits to clients through product and services diversity (overall 73% | compared to 66%) – including mobile lending (50% | no comparison data), voluntary savings (44% | 47%), insurance (19% | 11%), and payment services (48% | 42%), but are less likely to offer non-financial services (6% | 16%)

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). (Source: Cerise)

Dimension 4 | Treat Clients Responsibly

Average D4 Score

88% | 69%*

*MEF score compared to global benchmark

Particularly strong are client protection practices of MEF's partner MFIs (average score of 88% for D4 | compared to their peers with 69%).

Cerise flagged this in their findings and noted on closer look high scores on adherence to Client Protection Principles (CPPs):[12]

- client protection (CP) is a strong focus for MEF's Investment Advisors in selecting and encouraging microfinance investees
- the careful analysis and commitment to CP issues is observable in the high scores and good practices reported by MEF's partner MFIs, such as: MFIs with a CPP-compliant code of conduct (93% | compared to 65%); MFIs that inform their clients how their data is used and shared (73% | 45%); MFIs that have CPP-compliant complaints management systems (78% | 45%); and MFIs that provide clients with CPP-compliant key facts document (91% | 62%)

Dimension 4 | Treat Clients Responsibly

Positive social impact starts, at the very minimum, with a do no harm approach. Treating clients responsibly involves preventing over-indebtedness, communicating transparently, treating clients fairly and respectfully, respecting privacy of client data, 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). (Source: Cerise)

[12] For further information on the smart campaign Client Protection Principles (CPPs) see smartcampaign.org; note that the Center for Financial Inclusion as the host of the campaign announced on 28 July 2020 a transition of the campaign with its certification and tools to SPTF and Cerise; existing certifications will be unaffected by this transition and remain valid (see: www.centerforfinancialinclusion.org/cfi-celebrates-smart-campaigns-advancement-of-consumer-protection-announcesplans-to-transition-resources-to-industry-partners).

MEF Impact | Social Performance

Dimension 5 | Treat Employees Responsibly

Average D5 Score

83% | 69%*

*MEF score compared to global benchmark

MEF partner MFIs show significantly stronger practices in treating employees responsibly (83% for D5) than their peers (69%).

Looking behind the summary score for this dimension, Cerise notes:

- MEF partner MFIs outperform the benchmark markedly in monitoring of employee satisfaction and turnover (79% | compared to 56%)
- at the same time, some standard HR practices are not widespread yet in the industry, such as assessing health and safety risks of employees and analysing results by gender, albeit more common among MEF partner MFIs (40% | 33%)

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 in place. Special attention is given to monitoring employee satisfaction and turnover. (Source: Cerise)

Dimension 6 | Balance Financial and Social Performance

Average D6 Score

76% | 64%*

*MEF score compared to global benchmark

With especially strong practices around setting and monitoring growth rates that promote both institutional sustainability and social goals MEF portfolio companies considerably outscore their peers (76% for D6 | compared to 64%).

Cerise flagged this and noted also:

- MEF partner MFIs score high on growth rates (92% | compared to 72%)
- they are also predominantly compliant with the client protection indicators on responsible pricing (93% | compared to 80%) including on calculating interest on declining balance (96% | 67%)

MEF has historically also looked at Operational Self-Sufficiency and Operating Expense Ratio as two quantifiable indicators that speak to this Dimension. The analysis shows that (see details on page 21):

- close to two thirds of the MFIs (62%) are clearly within the range of operational sustainability and were thus adequately balancing their social and financial performance
- a clear majority of reporting partner MFIs (111 of 115) have operating expense ratios below 50% and can be considered as performing from a social performance point of view

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. (Source: Cerise)

ALINUS | MEF Partner MFIs | Scores by Dimension

	MEF	Cerise
NUMBER OF AUDITS	**45**	**409**
D1 Define and Monitor Social Goals	**70%**	**59%**
Social Strategy	81%	65%
Reporting of Client-level Data	60%	53%
D2 Commitment to Social Goals	**61%**	**53%**
Board Accountability	55%	43%
Senior Management Accountability	61%	50%
Staff Accountability	73%	65%
D3 Design Products that Meet Clients' Needs	**78%**	**61%**
Client Needs and Preferences	82%	55%
Benefits to Clients	73%	66%
D4 Treat Clients Responsibly	**88%**	**69%**
Prevention of Over-indebtedness	90%	75%
Transparency	91%	71%
Fair and Respectful Treatment of Clients	90%	74%
Privacy of Client Data	89%	68%
Mechanisms for Complaint Resolution	81%	60%
D5 Treat Employees Responsibly	**83%**	**69%**
HR Policy	77%	69%
Communication of Terms of Employment	93%	82%
Employee Satisfaction	79%	56%
D6 Balance Financial and Social Performance	**76%**	**64%**
Growth Rates	92%	72%
Alignment of Objectives	78%	70%
Responsible Pricing	93%	80%
Compensation	40%	35%
D7 Green Index*	**31%**	**14%**
Managing Internal Environmental Risks	42%	18%
Managing External Environmental Risks	27%	10%
The Provider Fosters Green Opportunities	23%	12%
TOTAL SCORE	**70%**	**56%**

*Note that the number of audits for D7 is smaller than for the other dimensions; it is n=32 for MEF and n=131 for Cerise

ALINUS | MEF's Partner MFIs | Scores by Region

	Central Asia		East Asia and the Pacific		Eastern Europe and Caucasus		Latin America and the Caribbean - Central America	
	MEF	Cerise	MEF	Cerise	MEF	Cerise	MEF	Cerise
NUMBER OF AUDITS	6	13	9	50	4	15	6	50
D1 Define and Monitor Social Goals	**83%**	**77%**	**71%**	**66%**	**49%**	**57%**	**62%**	**56%**
Social Strategy	89%	81%	84%	73%	54%	64%	72%	65%
Reporting of Client-level Data	76%	71%	58%	59%	44%	49%	51%	47%
D2 Commitment to Social Goals	**63%**	**71%**	**59%**	**55%**	**52%**	**61%**	**55%**	**47%**
Board Accountability	59%	63%	48%	46%	42%	48%	52%	35%
Senior Management Accountability	57%	70%	66%	54%	46%	61%	52%	41%
Staff Accountability	78%	76%	67%	66%	79%	76%	75%	65%
D3 Design Products that Meet Clients' Needs	**83%**	**78%**	**84%**	**65%**	**78%**	**75%**	**69%**	**61%**
Client Needs and Preferences	89%	77%	92%	61%	87%	78%	69%	53%
Benefits to Clients	78%	79%	75%	69%	69%	71%	69%	68%
D4 Treat Clients Responsibly	**94%**	**92%**	**90%**	**67%**	**93%**	**89%**	**81%**	**70%**
Prevention of Over-indebtedness	92%	93%	86%	72%	90%	93%	88%	80%
Transparency	97%	88%	95%	73%	92%	83%	83%	67%
Fair and Respectful Treatment of Clients	92%	89%	92%	73%	91%	86%	85%	70%
Privacy of Client Data	97%	97%	91%	61%	100%	96%	78%	70%
Mechanisms for Complaint Resolution	92%	94%	88%	58%	94%	87%	69%	60%
D5 Treat Employees Responsibly	**84%**	**81%**	**87%**	**71%**	**87%**	**80%**	**78%**	**70%**
HR Policy	80%	79%	83%	72%	68%	72%	72%	67%
Communication of Terms of Employment	96%	85%	94%	81%	100%	93%	86%	82%
Employee Satisfaction	78%	79%	85%	59%	92%	76%	76%	60%
D6 Balance Financial and Social Performance	**74%**	**70%**	**75%**	**69%**	**81%**	**73%**	**69%**	**63%**
Growth Rates	93%	87%	91%	70%	97%	87%	86%	69%
Alignment of Objectives	83%	75%	69%	72%	88%	75%	83%	74%
Responsible Pricing	91%	84%	94%	85%	100%	93%	91%	81%
Compensation	29%	31%	47%	48%	38%	35%	17%	29%
D7 Green Index*	**36%**	**47%**	**41%**	**14%**	**19%**	**29%**	**35%**	**12%**
Managing Internal Environmental Risks	42%	62%	44%	16%	13%	37%	58%	16%
Managing External Environmental Risks	42%	37%	44%	11%	31%	30%	21%	8%
The Provider Fosters Green Opportunities	25%	44%	33%	12%	13%	22%	25%	13%
TOTAL SCORE	**74%**	**74%**	**73%**	**58%**	**66%**	**66%**	**64%**	**54%**

*Note that the number of audits for D7 is smaller than for the other dimensions; for all regions combined it is n=32 for MEF and n=131 for Cerise

ALINUS | MEF's Partner MFIs | Scores by Region

	Latin America and the Caribbean - South America		South Asia		Sub-Saharan Africa	
	MEF	Cerise	MEF	Cerise	MEF	Cerise
NUMBER OF AUDITS	**8**	**78**	**8**	**35**	**4**	**149**
D1 Define and Monitor Social Goals	**76%**	**64%**	**78%**	**75%**	**58%**	**50%**
Social Strategy	86%	67%	83%	78%	84%	58%
Reporting of Client-level Data	66%	62%	72%	72%	31%	42%
D2 Commitment to Social Goals	**68%**	**60%**	**66%**	**65%**	**59%**	**45%**
Board Accountability	65%	51%	57%	54%	55%	35%
Senior Management Accountability	67%	57%	65%	62%	59%	43%
Staff Accountability	71%	71%	75%	79%	67%	56%
D3 Design Products that Meet Clients' Needs	**81%**	**68%**	**73%**	**64%**	**75%**	**52%**
Client Needs and Preferences	82%	61%	75%	65%	82%	44%
Benefits to Clients	79%	73%	70%	63%	68%	60%
D4 Treat Clients Responsibly	**86%**	**77%**	**93%**	**85%**	**80%**	**58%**
Prevention of Over-indebtedness	89%	86%	96%	87%	91%	61%
Transparency	92%	80%	92%	84%	85%	60%
Fair and Respectful Treatment of Clients	84%	78%	95%	89%	91%	67%
Privacy of Client Data	92%	77%	92%	83%	71%	56%
Mechanisms for Complaint Resolution	74%	63%	89%	81%	59%	47%
D5 Treat Employees Responsibly	**83%**	**75%**	**81%**	**78%**	**79%**	**60%**
HR Policy	82%	78%	78%	74%	67%	61%
Communication of Terms of Employment	91%	87%	92%	89%	93%	76%
Employee Satisfaction	76%	60%	74%	70%	77%	42%
D6 Balance Financial and Social Performance	**78%**	**72%**	**83%**	**74%**	**67%**	**56%**
Growth Rates	90%	76%	97%	87%	87%	64%
Alignment of Objectives	81%	79%	81%	75%	63%	62%
Responsible Pricing	90%	84%	99%	89%	89%	74%
Compensation	50%	49%	53%	45%	31%	26%
D7 Green Index*	**30%**	**10%**	**30%**	**14%**	**10%**	**11%**
Managing Internal Environmental Risks	44%	14%	56%	19%	13%	15%
Managing External Environmental Risks	16%	8%	22%	13%	6%	7%
The Provider Fosters Green Opportunities	31%	9%	13%	9%	13%	11%
TOTAL SCORE	**72%**	**61%**	**72%**	**65%**	**61%**	**47%**

*Note that the number of audits for D7 is smaller than for the other dimensions; for all regions combined it is n=32 for MEF and n=131 for Cerise

MEF Partner MFIs | Financial & Social Sustainability

MEF has historically also looked at Operational Self-Sufficiency and Operating Expense Ratio as two quantifiable indicators that speak to Dimension 6 - Balance Financial and Social Performance. The analysis shows that:

- close to two thirds of the MFIs (62%) are clearly within the range of operational sustainability and were thus adequately balancing their social and financial performance
- a clear majority of reporting partner MFIs (111 of 115) have operating expense ratios below 50% and can be considered as performing from a social performance point of view

In order to perform financially, Operational Self-Sufficiency as a metric of financial sustainability must be at or above 100%. A ratio of excessively above 100% may possibly raise flags concerning the social performance of the institution as then, for instance, profits might be maximised when perhaps instead interest rates charged to clients could be lowered. At the same time, MFIs with operational sustainability ratios >130% should not automatically be considered as 'non-performing' from a social perspective. It would depend on how the profits were derived as well as how they are used – e.g. whether they ultimately finance investments such as into widening the network or are needed to build (required) capital reserves.

The following table assesses against a benchmark of between 100% and 130% that is considered as adequately balancing financial and social performance. The analysis shows that close to two thirds of the MFIs (62%; 58 of 94) are clearly within the range of operational sustainability and were thus adequately balancing their social and financial performance.

Operational Self-Sufficiency	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2019		Global 2018
Below Financial Performance Limit (< 100%)	0	0	0	9	3	0	1	2	**15**	**16%**	27%
Within Financial and Social Performance Range (100% < X < 130%)	3	4	4	11	17	4	10	5	**58**	**62%**	55%
Beyond Social Performance Limit (> 130%)	2	6	4	1	2	0	1	5	**21**	**22%**	18%

The operating expense ratio is another readily measurable indicator for social performance and defined as operating expenses divided by total assets. From a social performance perspective, this simple efficiency ratio should be as low as reasonably possible as otherwise clients are ultimately burdened with the cost of inefficiency of the institution, e.g. via higher interest rates or fees. Yet a reasonable operating expense ratio is also subject to various factors, such as the size of the institution and the focus sector – with small micro lenders usually having higher costs (and hence higher operating expense ratios) than larger MSME-oriented financiers. Literature on this aspect broadly defines operating expense ratios of between 15% and 50% as usually adequate.

The following table shows that a clear majority of reporting partner MFIs (111 of 115) have operating expense ratios below 50%. They can hence reasonably be considered as performing from a social performance point of view (provided that their specific business model would not clearly merit lower operating expense ratios, which only a case-by-case assessment could reveal).

Operating Expense Ratio	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2019		Global 2018
Below (better than) Acceptable Range (< 15%)	6	12	9	21	20	2	16	7	**93**	**81%**	44%
Likely in Acceptable Range (15% < X < 50%)	3	0	1	5	3	3	0	3	**18**	**16%**	34%
Above (worse than) Acceptable Range (> 50%)	0	0	0	1	0	0	1	2	**4**	**3%**	22%

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 Principles. 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 25 social investors in responsible finance.

MEF Exclusion List

At all times, the Investment Advisors and the MEF shall ensure that they do 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 CITES.

· Production or trade in weapons and munitions.[1]

· Production or trade in alcoholic beverages (excluding beer and wine).[1]

· Production or trade in tobacco.[1]

· Gambling, casinos and equivalent enterprises.[1]

· Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.

· Production or trade in unbonded asbestos fibers. 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.[1]

· 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 project sponsors who are not substantially involved in these activities. 'Not substantially involved' means that the activity concerned is ancillary to a project sponsor's primary operations. In concrete terms 'substantial' means more than 10% of an MFIs underlying portfolio volume.
[2] Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.
[3] Harmful child labor 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 (HCV) areas are defined as natural habitats where these values are considered to be of outstanding significance or critical importance (See http://www.hcvnetwork.org).

Microfinance Enhancement Facility S.A., SICAV-SIF

Fund Registered Office

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