MEF
Microfinance
Enhancement
Facility

Impact Report 2020

Contents

Introduction

As a global microfinance impact fund, MEF – the Microfinance Enhancement Facility – tracks its impact both as a Fund and, perhaps more importantly, through the lens of the partner microfinance institutions (MFIs) in its portfolio which are key actors in the delivery of impact. This builds on MEF's vision of supporting microfinance markets in developing countries around the globe by offering a reliable and flexible source of debt to carefully selected MFIs which support microenterprises and low-income households. 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, including in challenging or crisis situations.

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 MEF's 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 consider impact reporting to be a great benefit not only to our investors and external stakeholders, but also to MEF itself: By collecting, analysing and benchmarking data on impact we identify and understand the challenges we face and the findings and lessons, in turn, inform our thinking and aspirations on impact and help us calibrate our work by reflecting this in our investment strategy.

With last year's report we introduced an external analysis of social performance, which we are delighted to continue in this year's Impact Report. In MEF's 2018 Impact Report, we had benchmarked our portfolio of partner MFIs against the Universal Standards for Social Performance Management (USSPM) and had reported on this basis. Stepping up this commitment, beginning in 2019, the Board of Directors engaged CERISE to coordinate social performance assessments and analysis of MEF partner MFIs, in collaboration with the four Investment Advisors. CERISE, a global leader in impact measurement, manages the widely recognised social audit tool SPI4-ALINUS aligned with the USSPM.

Given our extensive global portfolio with 139 MFIs in 45 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 2020. The aggregate responses on aspects such as outreach, products and services or the range of social performance indicators, however, provide a yearly "snapshot" of the profiles of the active partner MFIs of 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 MEF's 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 2020, MEF's portfolio of 139 MFIs had grown from 133 in 2019 (118 in 2018), with 28 MFIs exiting and 34 new MFIs joining during 2020 (29 MFIs exiting and 42 new MFIs joining during 2019).

Introduction

This report tracks impact in the context of a turbulent year, palpably marked by the COVID-19 pandemic. Having managed constructively and well through this year that demanded a lot from all of us and especially from our partner MFIs and their clients, the impact recorded is an account of last year's efforts of MEF partner MFIs to valiantly navigate the crisis and ensure business continuity. Indeed, over the course of the year, the number of final borrowers reached by MEF funding increased by more than 35%, to reach 650,000, 85% of which were women, well above industry average, and 58% of which were located in rural areas. With an average loan size decreasing from USD 1,801 in 2019 to USD 1,439 in 2020, MEF financing increasingly focused on micro borrowers, in particular thanks to the fact that the majority of funding was disbursed in local currency, thus effectively de-risking MEF partner MFIs and their borrowers during a period of exchange rate volatility.

Nevertheless, this report is released in the context of a fluid situation and continued uncertainty about the full impact of COVID-19 on health, economics, people's well-being and opportunities, including on our partner MFIs and their clients. We believe the current circumstances have led to a great demand for the Fund to invest its capital in line with its mission – both to continue to serve those who may remain unaffected and to provide much needed funding to those who are greatly affected, and thereby support economic recovery of microentrepreneurs and consequently low-income households. MEF is well positioned to respond in this situation and to be a reliable partner with impact.

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

It is with great pleasure that we present to you the MEF Impact Report 2020. This report complements the MEF Annual Report 2020 which provides information on the Fund's portfolio development and financial performance.

To our investors we extend our sincere gratitude for their commitment and ongoing support, in particular in light of last year's challenges. We are also grateful to the Investment Advisors, the service providers and the General Secretary for their efforts and dedication in supporting the development of MEF and for their commitment to the Fund's mission. At this juncture perhaps more so than ever, our deep appreciation goes to our MFI partners for their resilience and adaptiveness in challenging times. It is they who provide much needed access to inclusive financial products and services to their and our ultimate clients, the entrepreneurs and people who are among the most vulnerable members of society in the 45 countries where we were actively engaged in 2020. MEF continues to pursue its mission tenaciously and remains a committed and constructive partner through these demanding times.

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

Ihno Baumfalk

MEF Impact | At a Glance

650,000
Final borrowers reached by MEF funding

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

85%
Women

58%
Rural

MICROFINANCE
LUXFLAG
LuxFLAG Microfinance Label since 2011

the smart campaign
MEF endorses the Client Protection Principles

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

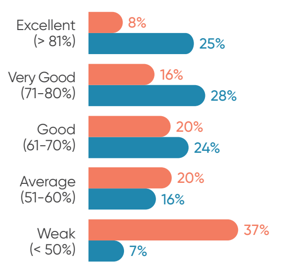
MEF contributes to the following SDGs

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

Social Performance Analysis ALINUS

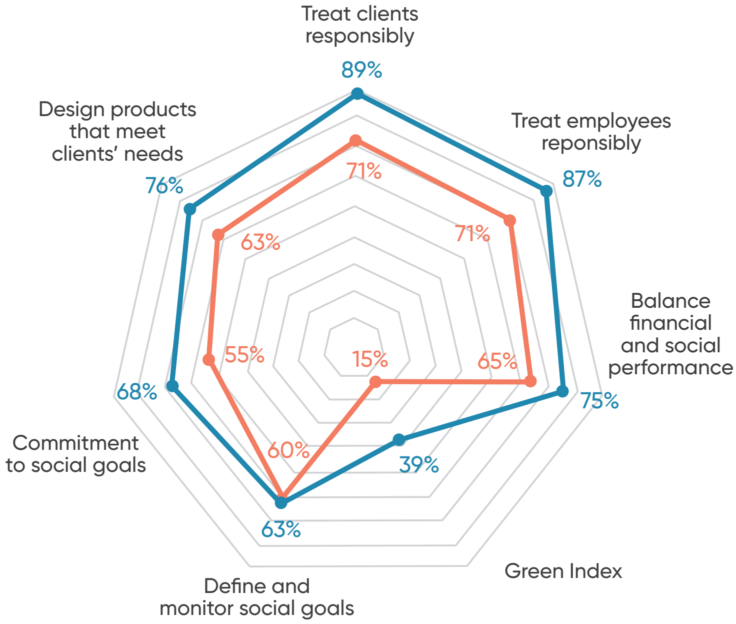
MEF Portfolio*
Average SPI4-ALINUS** Score 71%

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



*based on input from 108 of 139 MEF partner MFIs; see also sampling note on page 14

MEF (n=108)
CERISE Benchmark (n=459)



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 pages 14 and 25 for further details.)

MEF Market & Portfolio | Overview

Setting out on an optimistic note with macroeconomic data initially improving, 2020 was rapidly overtaken by the COVID-19 pandemic. Across most developing markets, governments and banking regulators took steps aiming to stabilise their financial systems and institutions and to provide temporary debt relief to borrowers. Many financial institutions, meanwhile, halted or largely curtailed operations for months. Resulting cashflow reductions were substantial and led many institutions to seek short-term debt rescheduling. Supportive and coordinated responses by international lenders, including MEF, focused on extending maturities to mirror the moratoria financial institutions were offering to their clients. As lockdown measures eased in many markets starting in the third quarter of 2020, repayments gradually resumed as did lending activity. Market participants anticipate a contraction of total assets in MIVs by 2.3% (2020 estimate; PAIF Report 2020), whereas investors' allocation to microfinance assets had grown by an estimated 6 to 10% globally in 2019 (6% per Global Impact Investing Network, 2020 Report; 10.7% per PAIF Report 2020).[1]

While uncertainty continues as the pandemic and its effects reverberate around the globe, liquidity concerns for MFIs have not materialised as some expected. Despite strong signals of resilience in 2020, the industry, however, remains fragile with profitability and solvency outlooks highly dependent on the level and outcome of the restructured portfolios and on further effects of the pandemic.

COVID-19 is unprecedented with a strong impact that evidently fed through to MEF's 2020 portfolio. MEF closed 2020 with an outstanding net portfolio of USD 584 million diversified across 139 institutions in 45 countries. Despite the significant headwinds – though less adverse than initially dreaded – the portfolio grew by USD 17.8 million (3.2%) year-on-year. More deals were disbursed year-on-year, with 70 transactions in 2020 compared to 67 in 2019. Average exposure to partner MFIs stood at USD 4.5 million.

Key Portfolio Figures

USD 584 M
Loan Portfolio

USD 760 M
Total Assets

USD 499 M
Total Net Asset Value

139
Institutions Financed

214
Loans

45
Countries

MEF ranks 6th of MIVs globally with some 4% of total assets per year-end 2020.[1] With 139 partner MFIs (133 in 2019) MEF has an above average outreach; the average number of investees of direct-debt-investment MIVs was 50 in 2019 (39 in 2018).[2]

[1] PAIF Report 2020: The acronym PAIF stands for private asset impact funds. This is the successor survey to the Symbiotics MIV Survey. (https://symbioticsgroup.com/wp-content/uploads/2020/11/Symbiotics_PAIF-Report-2020-1.pdf). The 2020 PAIF survey compiles data for 2019 on 157 funds affiliated to 78 managers that are located in 26 countries. The survey team identified and contacted 435 private asset impact funds (PAIFs) and 210 managers. The sample size of Microfinance funds adds up to USD 16.1 billion, representing 93% of the total estimated market size of USD 17.3 billion, making this sample very representative. MEF participates in this survey.

MEF Impact | Development

Global Portfolio

COVID-19 launched the world into a sequence of unpredictable and indeed unprecedented events and this is still ongoing well into 2021 and likely beyond. The pandemic had a strong impact in 2020 that clearly fed through to MEF's 2020 portfolio. Reflective of the pandemic, the focus shifted initially to supporting existing partner MFIs during the second and third quarters of 2020, then to selectively onboarding new partner MFIs in the last quarter of the year. MEF played a key role to ensure smooth, fair, transparent and coordinated loan renewals to avoid critical liquidity shortages in the industry. This gave an important signal to all stakeholders demonstrating once again that, in stressful times, MEF remains at the forefront of best lending practices. COVID-19 risks and impact on the Fund have been closely monitored and effects in 2020 – as well as so far in 2021 – have been limited.

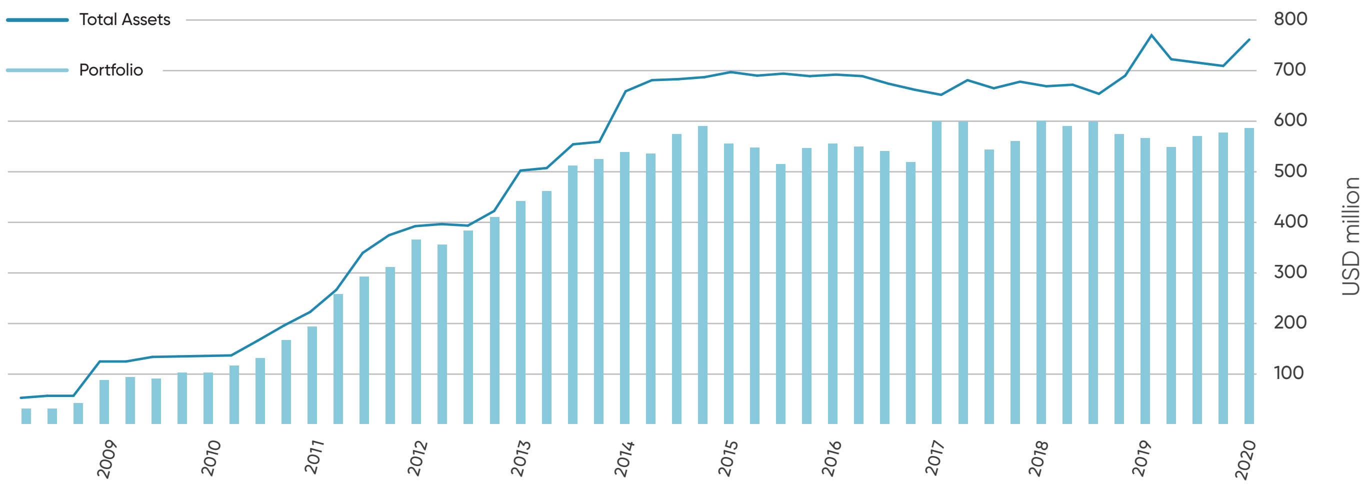
MEF closed 2020 with an outstanding net portfolio of USD 584 million. Despite the significant headwinds – albeit less adverse than initially feared – the portfolio grew by USD 17.8 million (3.2 %) year-on-year.

MEF also further diversified its portfolio across 139 institutions (133 in 2019) in 45 countries (43 in 2019). Unpacking these numbers shows that the Fund welcomed 34 new institutions to its portfolio and also added 6 new countries: Bosnia and Herzegovina, Colombia, Indonesia, South Africa, Sri Lanka, and Turkey (with Indonesia, South Africa, and Turkey included in MEF's portfolio for the first time). Meanwhile 28 institutions exited.

MEF's top three single country exposures in 2020 were – as in 2019 – India, Ecuador and Cambodia , although their aggregate share decreased to 34% of MEF's global portfolio, from 38% in 2019. While the exposure in Mexico gradually decreased from ranking second in 2018 to fourth in 2019, and outside of the top ten in 2020, investments in Ecuador increased and the country moved to second rank in 2019 and 2020, up from fifth rank in 2018.

Notably, demand for local currency debt continued to be strong and MEF managed to continue increasing its total share of local currency lending to 63 % of total portfolio (from 62 % in 2019; including countries where USD and EUR are legal tender). Lending in local currencies without USD or EUR as legal tender grew more pronounced to nearly 48 % of total portfolio (up from close to 44 % in 2019). Market volatility, however, again exerted upward pressure on hedging costs leading to a price disadvantage for international lenders in many markets. Nevertheless, as providing funding in local currency in developing markets is a key means to remove conversion risks from MFIs and their clients, the Fund strives to further grow its local currency offer.

Portfolio Evolution



MEF Impact | Development

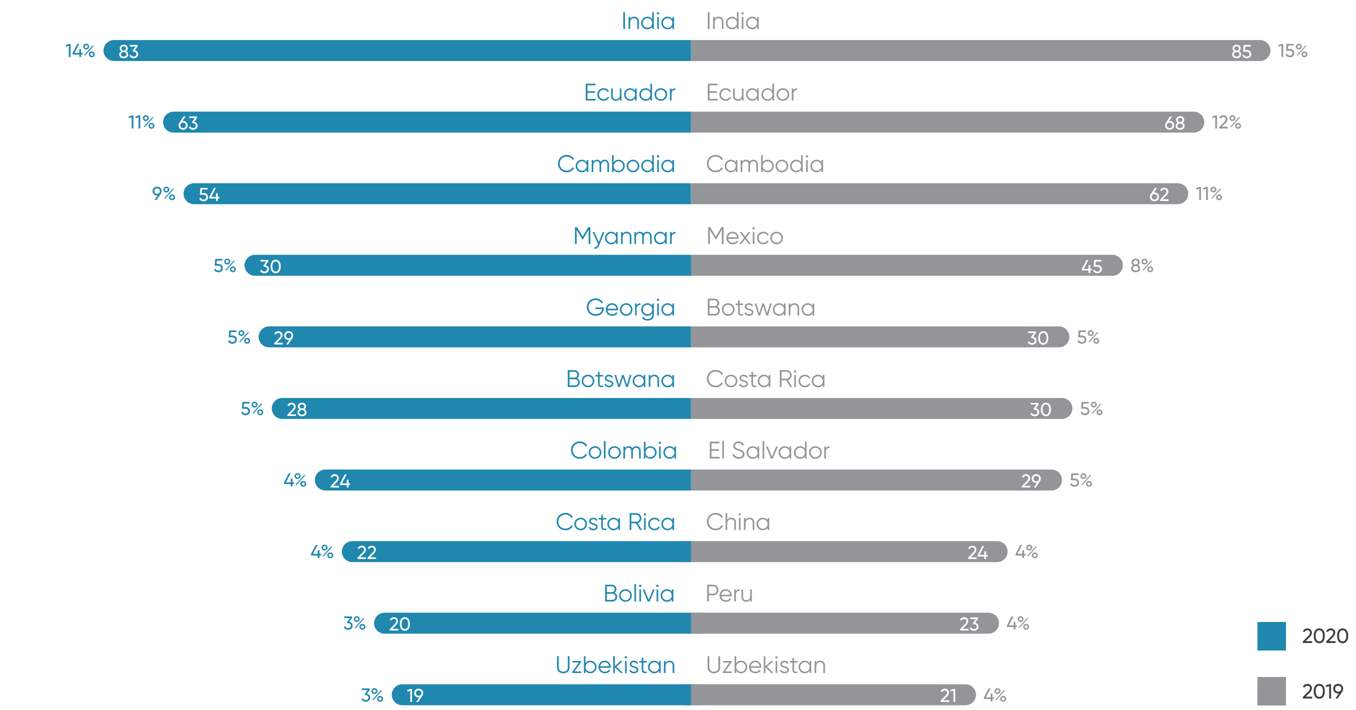
	2020	Δ 2019 to 2020	2019	2018
Total Assets	USD 760 M	-1%	USD 770 M	USD 669 M
Total Portfolio	USD 584 M	+3%	USD 566 M	USD 600 M
Portfolio in Total Assets	77%	+4%	73%	90%
Partner MFIs	139	+6	113	118
Countries	45	+2	43	44
Share of Local Currency in Portfolio*	63%	+1%	62%	56%
Local Currencies Provided	25	+4	21	17

2020
Δ 2019 to 2020
2019
2018

*including EUR and USD loans when legal tender

The top 3 country exposures for MEF mirror the larger MIV market where, comparing to the latest available data for 2019, the top three exposures were India, Ecuador, and Cambodia.

MEF's Top 10 Country Exposures in USD million and in % of MEF total portfolio



MEF Impact | Development

Portfolio by Region

Continued from the previous year, in 2020 MEF recorded a trend towards a more balanced regional diversification. Notably, this is reflected in a further decreasing concentration in Latin America and the Caribbean (LAC) in favour of, in particular, Eastern Europe and Caucasus (EECAU). The latter gained in share again after having levelled off at low single digit exposures in prior years.

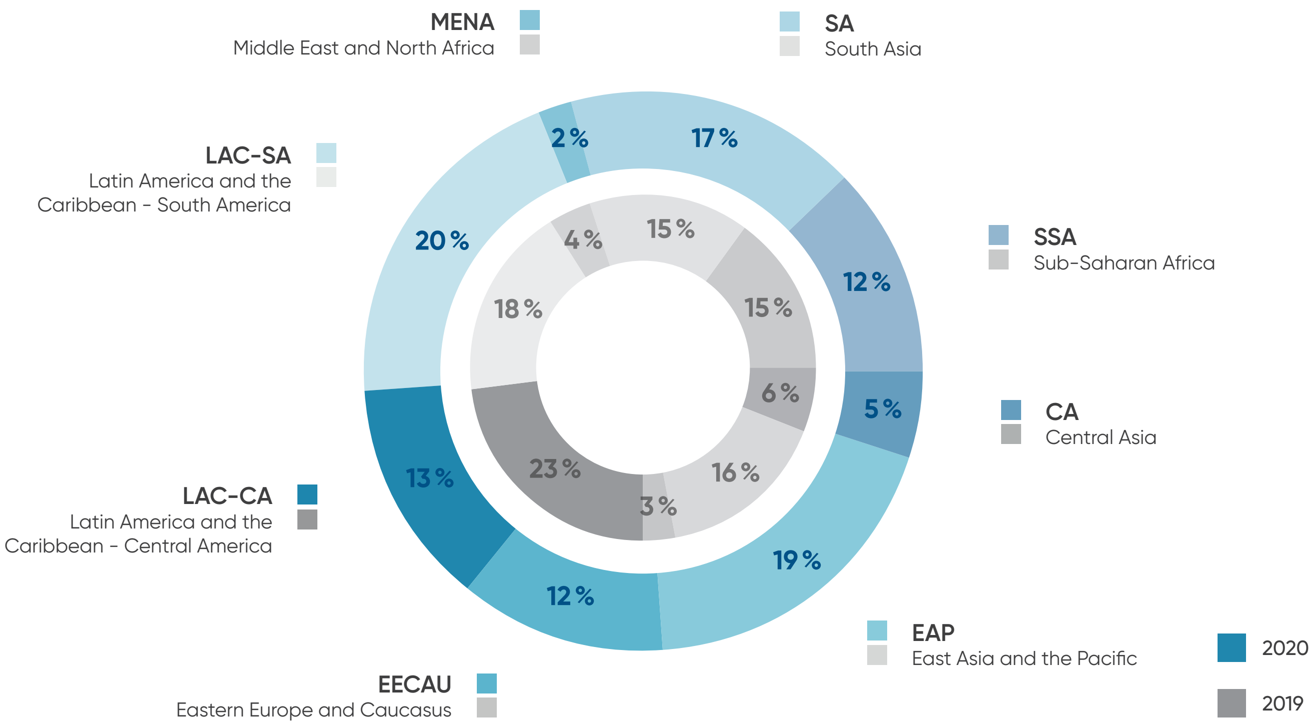
In 2020, the majority of loans disbursed originated from South America (33% of total disbursed loans for LAC-SA and LAC-CA), followed by East Asia and the Pacific (EAP; 19 %) and South Asia (SA; 17 %). Together these regions accounted for 56 % of MEF's portfolio at year-end 2020.

While India, Ecuador and Cambodia remained the Funds' top three country exposures, their aggregated share decreased to 34 % of MEF's global portfolio in 2020 (38 % in 2019). In such markets, MEF closely monitors its exposure and works with Investment Advisors to ensure adequate assessments of partner MFIs are made, including on client protection.

Main changes to MEF's regionally more balanced portfolio included:

- Exposure to Latin America and the Caribbean decreased to 33 % (from 41 % in 2019), notably shrinking especially in Central America (LAC-CA) by 39 % to 13 % (from 23 % in 2019) while increasing in South America (LAC-SA) by 18 % to 20 % (from 18 % in 2019).
- The Eastern Europe and Caucasus region almost tripled and accounted for 12 % of total portfolio (up from 3 % in 2019).
- For Sub-Saharan Africa, after a significant 40 % increase in 2019, in 2020 the region decreased to 12 % of total portfolio (15 % in 2019, a 17 % decrease year-on-year).
- The Middle East and North Africa (MENA) region shrank to 2 % of total portfolio (from 4 % in 2019).

Regional Distribution

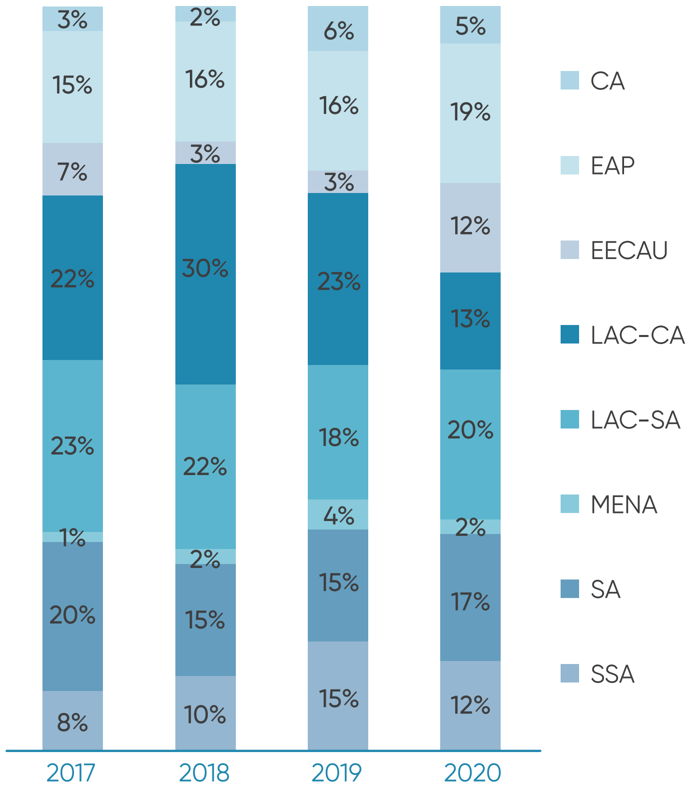


Portfolio Diversification (in USD million)	2018	2019	2020	Δ 2019 to 2020
CA	15	37	30	-19%
EAP	97	91	111	21%
EECAU	16	17	70	312%
LAC-CA	178	128	78	-39%
LAC-SA	131	100	118	18%
MENA	10	22	9	-60%
SA	92	87	97	12%
SSA	61	84	70	-17%
Grand Total	**600**	**566**	**584**	**3%**

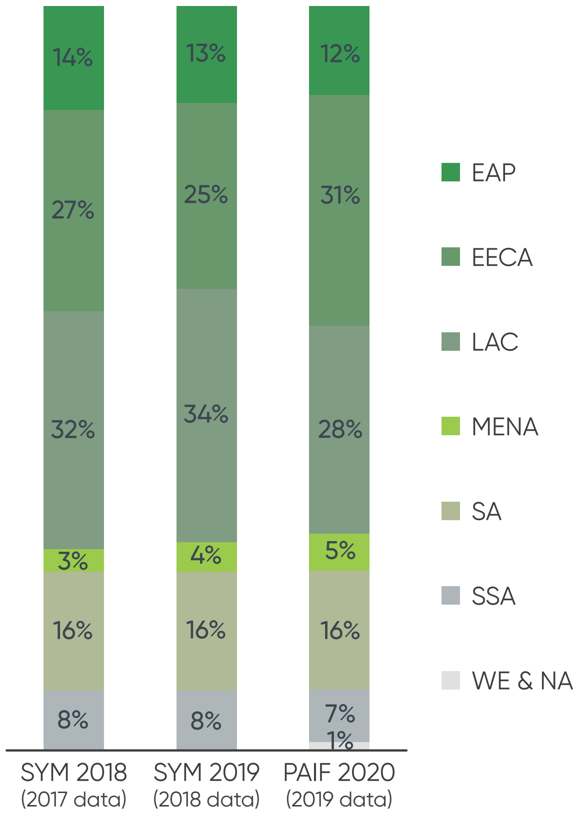
MEF Impact | Development

Portfolio Diversification

MEF Portfolio



MIV Benchmark Portfolio[2]



Overall, MEF is a global fund and active worldwide while other MIVs include many regional as well as some global funds. Benchmarking the regional distribution of MEF's portfolio against MIVs shows that MEF's high exposure to LAC is now in line with direct outstanding portfolio shares for all MIVs (28 % of invested portfolio in 2019 compared to 34 % in 2018 and 32 % in 2017).

While the reduced share of LAC in MEF's portfolio led to a rebalancing of regional exposures, MEF continues to be in line with the industry in South Asia (for MEF 17 % in 2020, 15 % in 2019 vs 16 % for MIVs in 2019) and to have a higher portfolio share than benchmark MIVs in Sub-Saharan Africa (for MEF 12 % in 2020, 15 % in 2019 vs 7 % for MIVs in 2019) and East Asia & Pacific (for MEF 19% in 2020, 16% in 2019 vs 12% for MIVs in 2019). In parallel, MEF remains somewhat under-represented in Middle East & North Africa (for MEF 2% in 2020, 4% in 2019 vs 5% for MIVs in 2019). The most notable difference remains in Eastern Europe, the Caucasus & Central Asia, where the 2019 MIV data reflects a 31 % share in portfolios (25 % for 2018; 27 % in 2017), whereas MEF records a much smaller share in the equivalent of Eastern Europe & Caucasus plus Central Asia of 17 % in 2020, up from 9 % in 2019 (5 % in 2018).

[2] MIV data based on 2019 data kindly shared by the PAIF Report team. Data for 2018 and 2017 per MIV Surveys (2018 data per Symbiotics MIV Survey 2019: Market Data & Peer Group Analysis; 13th edition, September 2019 ('SYM 2019' or '2019 MIV Survey'); (https://symbioticsgroup.com/wp-content/uploads/2020/02/symbiotics-symbiotics-2019-miv-survey.pdf); 2017 data per 2018 MIV Survey; https://symbioticsgroup.com/wp-content/uploads/2018/10/Symbiotics-2018-MIV-Survey.pdf).

Legend of regions for SYM Survey and PAIF 2020: 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 2020)

MEF Impact | Development

A Balanced Portfolio

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 going to countries that are among the most vulnerable.

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

This year the analysis of the full portfolio shows again a significant percentage of investments by the Fund in the more vulnerable countries:

- 5 % in 'low HDI' (7 % in 2019)
- 8 % in 'fragile and conflict-affected states' (6 % in 2019)
- 43 % in 'high or very high risk countries on the WorldRiskIndex*' (51 % in 2019)

Low HDI (below 0.550)
5%
7 % in 2019

Fragile and conflict-affected states
8%
6 % in 2019

High or very high risk on the WorldRiskIndex
43%
51 % in 2019

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

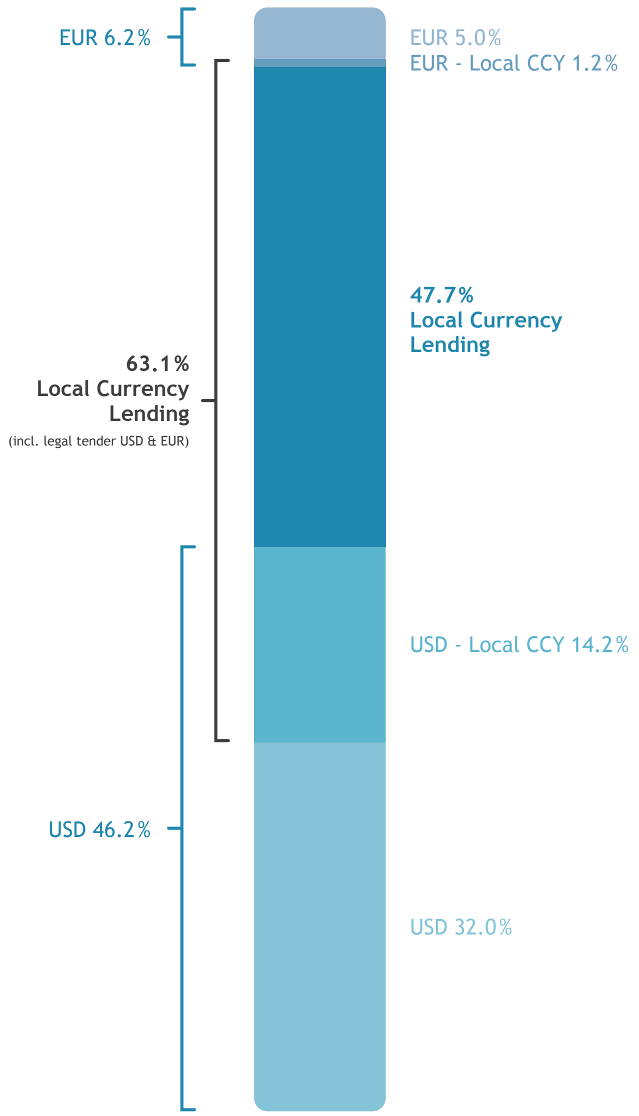
WorldRiskIndex
WRI, developed by the German foundation 'Bündnis Entwicklung Hilft' and managed by the Ruhr University of Bochum in Germany, considers a country's exposure to extreme natural events and its capacity to respond to such events. WRI is not just an assessment of environmental risk; it takes 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.

MEF Impact | Development

Local Currency Financing

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. For partner MFIs it is important to lend in local currency and, in turn, to be financed in local currency in order to remove conversion risks at the level of both the MFIs and their borrowers.

With sustained demand for such financing, the Fund strives to grow its local currency offer and help progressively de-risk financing for its partner MFIs. In 2020, MEF slightly increased its total share of local currency lending to 63 % (62 % in 2019) when including countries where USD and EUR are legal tender. More pronounced was the growth of lending in local currencies without USD or EUR as legal tender to nearly 48 % of total portfolio in 2020 (up from close to 44 % in 2019). As in previous years, however, market volatility exerted upward pressure on hedging costs, exacerbating a price disadvantage for international lenders in many markets. For instance, in Africa, sharp currency depreciations due to plunging commodity prices mainly affected the Democratic Republic of Congo, Ghana, Kenya, Nigeria and South Africa, and increased hedging costs.



Local currencies:	BWP, CNY, GHS, HNL, HTG, INR, KES, KGS, KZT, MNT, MXN, NGN, PEN, PLN, RUB, THB, TJS, TZS, UZS, XOF, ZMW
EUR – Local CCY:	EUR as legal tender in Kosovo and Montenegro
USD – Local CCY:	USD as legal tender in Ecuador, El Salvador and Panama

All investments hedged to USD

With 48 % of total exposure in local currency in 2020 (44 % in 2019), MEF performs above market average for local currency lending. The 2020 PAIF Survey shows the portion of direct debt investments in MFIs in local currency at 39 % in 2019 (44 % in 2018; per 2019 MIV Survey).

MEF Impact | Development

Average Investment Size

With USD 4.5 million in 2020, MEF's outstanding average investment size remained about the same as in 2019. However, an average blurs a more granular picture: While MEF's portfolio includes some large transactions, due to its size and 'deeper pocket' than most microfinance funds, MEF loan amounts align with partner size; partner MFIs with fewer active borrowers have a lower average investment (of USD 3.5 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.

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

∅ investment size
Small outreach
USD 3.5 M (2020)
USD 3.1 M (2019)

∅ investment size
Medium outreach
USD 3.4 M (2020)
USD 4.0 M (2019)

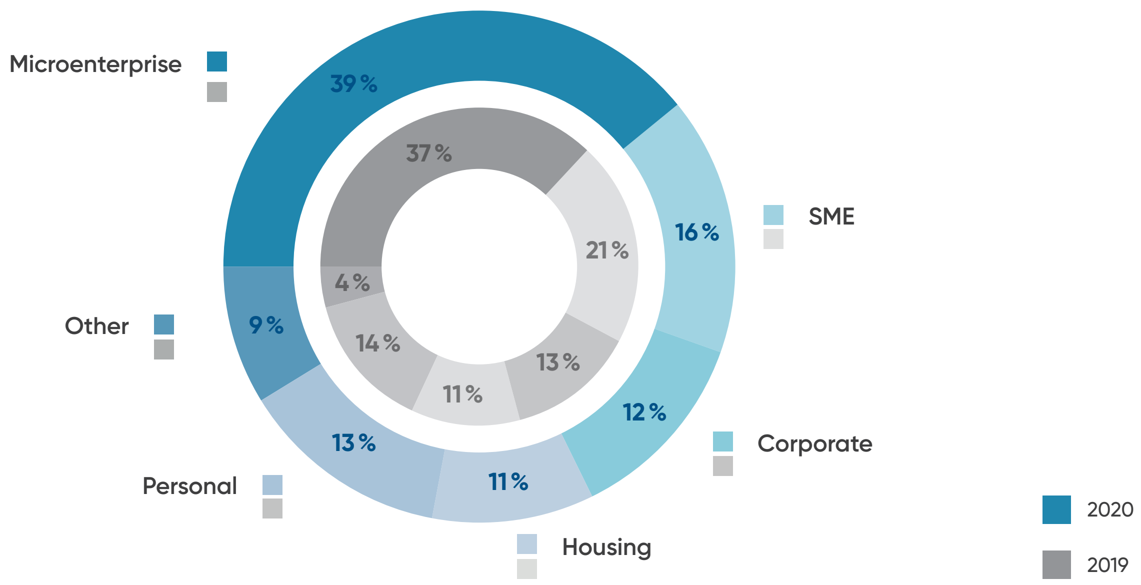
∅ investment size
Large outreach
USD 6.2 M (2020)
USD 6.4 M (2019)

With an average investment outstanding of USD 4.5 million per partner MFI (in 2020; USD 4.2 million in 2019), MEF is above the MIV benchmark of USD 3.1 million (in 2019; per 2020 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 (2019 average MIV portfolio size of USD 186 million compared to MEF with 566 million in 2019).

Focus on Micro & Small Productive Loans

MEF's investments mainly support the provision of financing to microenterprises and private households engaged in entrepreneurial activities, with a portion of investments being directed at small enterprises as well. MEF partner MFIs may further be engaged in other segments, but it is worth noting that the portion of MEF partner MFIs' total portfolios going to microenterprises went up to 39% in 2020 from 37% in 2019, while the portion of their total portfolios going to small & medium enterprises (SMEs) declined to 16% in 2020 (21% in 2019). Only small shares of the partner MFIs' total portfolios were dedicated to larger businesses (referred to as corporate in the charts), housing or personal loans. Independent of the loan purpose of MEF partner MFIs in their total portfolios, MEF loans to these partner 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 MEF Partner MFIs per their Total Portfolios



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

MEF Impact | Outreach[3]

As in previous years, in 2020 MEF has shown a very strong and positive outreach through its partner MFIs, in particular owing to their portfolios reflecting: a strong focus on the microfinance segment, as evidenced by the average loan amount per borrower which remains low; a high proportion of women borrowers, well above industry-average; and 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 partner MFIs and their borrowers.

In 2020, MEF partner MFIs provided loans to over 24 million borrowers (increasing from over 21 million in 2019), with 58 % of them rural borrowers (57 % in 2019) and around 85 % of them women (84 % in 2019). Out of these, MEF financing was used for on-lending to approximately 650,000 borrowers, increasing from 475,000 in 2019 – a figure that results from a more granular perspective than the global figure of 25 million total borrowers of MEF partner MFIs.[4] Such increase in outreach was supported by a year-on-year portfolio increase of USD 17.8 million (3.2 %) and also reflects the dynamics of the portfolio composition of MEF as a demand-oriented lender.

The PAIF Report captures the median number of active borrowers financed as 135,000 per MIV in 2019 and reports that this figure has been stable for the last three years. MEF, with 650,000 active borrowers (475,000 in 2019) reaches a significant population in developing markets around the globe.

The outreach of MEF partner MFIs is supported by a variety of factors: (i) their large networks which grew to 20,442 branches in 2020 (up from 11,168 in 2019); (ii) mobile banking services, which is now offered by 77 % of partner MFIs (up from 50 % in 2019); and (iii) their predominant orientation towards microfinance rather than SME banking, as the following analysis of average loan amounts illustrates.

Indeed, the outstanding loan amount per borrower of MEF partner MFIs globally stood on average at USD 1,439 in 2020 (USD 1,801 in 2019). With 91 % of MEF partner MFIs recording an average loan size to their end-borrowers of below USD 15,000 (85 % in 2019), they clearly offer predominantly microfinance. While the regional averages vary substantially, they also remain well within the microfinance segment – with loan averages ranging from USD 355 per borrower in South Asia (increasing from USD 306 in 2019) to USD 7,728 in MENA (USD 2,961 in 2019). 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. And fluctuations also reflect MEF's demand-oriented nature; for instance, while in 2020 and in 2019 the bandwidth of lowest to highest average by region was broadly similar, in 2020 the average in MENA increased and in both SSA and EAP it decreased substantially. Such variations in a year-on-year perspective can occur when, for instance, a new partner 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. Or similarly, a large variation may show when such loans are paid off and the partner MFI exited MEF's portfolio.

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 decreased to USD 1,439 (USD 1,801 in 2019). This compares to the average recorded across all MIVs of USD 2,442 in 2019 (PAIF Report 2020; and USD 2,148 for 2018, per 2019 MIV Survey).

2020	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2020	Global 2019
Total Loan Portfolios All Partner MFIs (USD M)	2,009	8,387	2,314	7,124	8,090	427	4,821	1,936	**35,109**	38,399
Number of Borrowers	724,530	4,518,949	951,910	954,773	1,930,512	55,258	13,571,783	1,696,121	**24,403,836**	21,317,942
Average Loan Amount per Borrower (USD)	2,773	1,856	2,431	7,462	4,191	7,728	355	1,141	**1,439**	1,801
Number of Branches	540	2,361	779	873	890	21	13,776	1,202	**20,442**	11,168

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' 2020 data reveals a strong outreach to women and rural borrowers and to borrowers engaged in productive activities (such as Agriculture & Livestock and Production & Manufacturing).

[3] Data in this section is based on MEF's portfolio of partner MFIs, with most data drawing on largely consistent 126 data points out of 139 partner MFIs in the portfolio.

[4] 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

2020	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2020	Global 2019
Share of Women Borrowers (in %)	45	83	47	54	52	92	98	76	**85**	84
Share of Rural Borrowers (in %)[5]	68	61	55	57	43	77	61	46	**58**	57

Women borrowers encompass women themselves as well as women-headed households or women-led micro or small enterprises. While MEF partner MFIs' portfolios show a high share of 85% of women borrowers (up from 84% in 2019), this is particularly true for South Asia which records a very high share of 98% 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 partner MFIs in MENA, EAP and SSA.

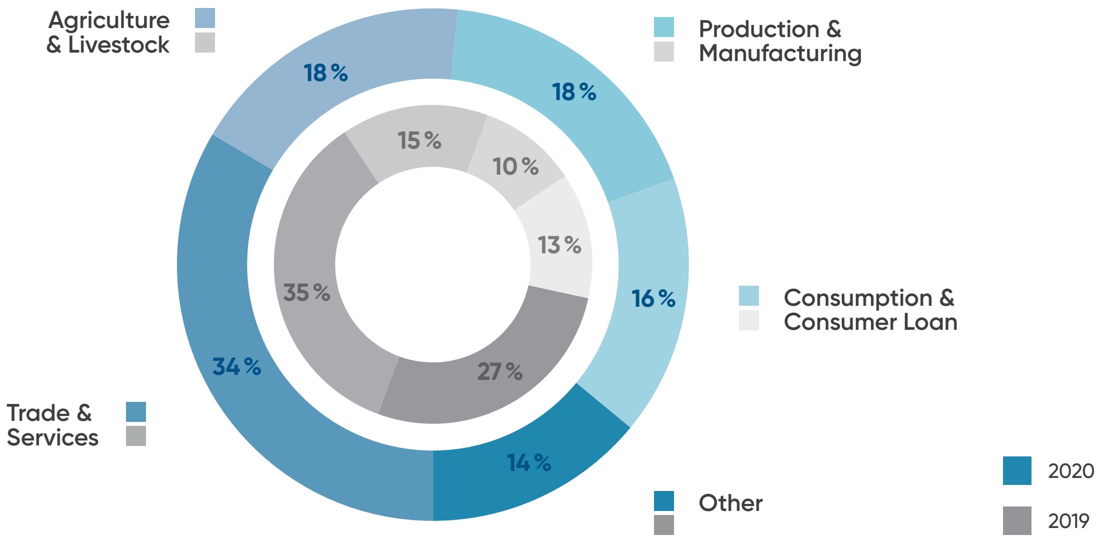
As for lending in rural areas, the global portfolio of MEF partner MFIs and their clients shows a strong record as well with 58% rural borrowers in 2020 (57% in 2019). Almost all regional portfolios record at least 50% of rural borrowers with a markedly stronger outreach in MENA with 77% of the portfolio going to rural areas.[5]

The 85% share of women borrowers in MEF partner MFI portfolios is well above the industry average of 69% (in 2019, per PAIF Report 2020; 67% in 2018, per 2019 MIV Survey; MEF's portfolio recorded 84% in 2019, 80% in 2018).

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

Regarding lending to the 'productive sectors' (Agriculture & Livestock or Production & Manufacturing), MEF partner MFIs' portfolios show a sizeable share of 36% in 2020, increasing from 25% in 2019. Regionally, as in the previous year, South Asia stands out with the highest share of 68% (56% in 2019) of the portfolio in these sectors. Latin America was lagging behind in this respect in 2019, however South America notably recorded a high increase to 39% of portfolio in 2020 compared to 17% in 2019, while Central America still showed the lowest share at 17% with only a small increase from 14% in 2019.

Distribution by Activity of MEF Partner MFIs per their Total Portfolios



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

2020	CA	EAP	EECAU	LAC-CA	LAC-SA	MENA	SA	SSA	Global 2020	Global 2019
Productive Sectors (in %)	36	32	33	17	39	28	68	20	**36**	25
Agriculture & Livestock (in %)	18	19	13	7	12	6	47	8	**18**	15
Production & Manufacturing (in %)	18	13	20	10	27	22	21	11	**18**	10

[5] 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 – capturing 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 practices.

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 had reported on this basis in MEF's Impact Report 2018. Stepping up this commitment, beginning in 2019, the Board of Directors engaged CERISE to coordinate the social performance analysis of MEF partner MFIs. CERISE, a global leader in impact measurement, manages the widely recognised social performance tool SPI4-ALINUS[6] 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 partner 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 78% of MEF partner MFIs (108 of 139 for 2020) and benchmarking these results to CERISE's global database of 459 MFIs. (See also box below on the sample and benchmarking. Note also page 25 with further information on CERISE, SPI4-ALINUS and USSPM.)

MEF is delighted to continue this cooperation with CERISE and to again have this analysis which provides a transparent measure of MEF's impact using an industry standard social audit tool.

The following pages provide more details on the Universal Standards and how MEF partner MFIs and the portfolio as a whole score against them. They also report on how these scores benchmark in a peer comparison.

SPI4-ALINUS at MEF - 2020 Sample & Benchmarking

The start of the collaboration to apply ALINUS for 2019 impact reporting had coincided with the outbreak of COVID-19, thus further exacerbating the typical challenges of any first attempt to apply a uniform and generally accepted standard of data collection across MEF's portfolio. The current reporting period 2020 was again hampered by the COVID-19 pandemic and, in this second year of collaboration, this was further compounded by the fact that CERISE was affected by a fire in a data centre of one of its service providers in early 2021. In a joint effort, the CERISE team, with valiant support of MEF partner MFIs and Investment Advisors, managed to recover or close most data gaps. The sample size was affected in the sense that for only five of MEF partner MFIs data could not be recovered or recollected post the incident.

For 2019, the constraints posed by a transition in times of crisis led to an analysis based on input from only 45 out of the 133 MEF partner MFIs for which CERISE obtained data. CERISE had considered this as a sufficiently robust and representative sample to serve as an initial basis for analysis and benchmarking to their global database of 406 MFIs.

For 2020, the reporting sample was markedly improved: out of 139 partner MFIs in MEF's portfolio 126 provided quantitative indicators, including 108 which further provided also data on the qualitative indicators. With a count of 459 MFIs in CERISE's global database for benchmarking, MEF partner MFIs account for close to one quarter of the global peer group.

Notably, CERISE signalled 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 MFIs through this collaboration.

While delighted with the Fund's social impact score for 2019, the Board at the time was also well aware that a similar analysis performed on the entire portfolio might have led to less positive results; there was a certain selection bias of the respondents representing those who were already fully adhering to global standards and capable of reporting. Despite this, MEF decided to publish the 2019 findings, mindful that this year's score for 2020 – with a sample composed of more MFIs and among them more that would use SPI4-ALINUS for the first time – the results might look different. And indeed the results look different but in a very positive and promising way, with scores remaining above the benchmarks in all dimensions, as reported here.

[6] 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 25 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

71 % | 57 % CERISE global benchmark

70% in 2019 | 56% in 2019

- MEF introduced SPI4-ALINUS with its 2019 social performance reporting.
- With an overall ALINUS score of 71 %, MEF portfolio MFIs demonstrate stronger social performance than their peers (57 %).[7]
- MEF partner MFIs outscore the CERISE benchmark in all dimensions.

With an overall score of 71 % – compared to 57 % of 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 70 %.

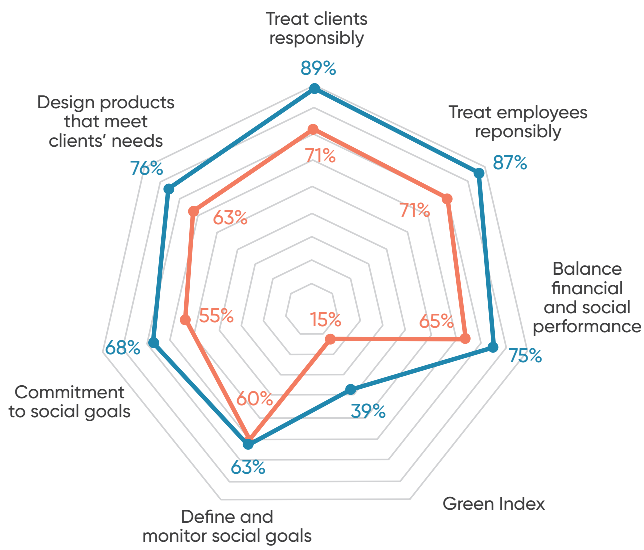
MEF partner MFIs are largely high performers considering the frequency of overall scores: more than half of MEF partner MFIs reach a score above 71 % (which is considered 'Very Good' or 'Excellent'), compared to 24 % in the CERISE peer group.

While this is below last year's performance, where almost three quarters (73 %) of MEF partner MFIs reached scores of 'Very Good' or 'Excellent', this comparison is not a straight forward one as the sample size has greatly increased in 2020. Moreover, the 2020 sample comprises most of MEF's portfolio, including many MFIs who are reporting on SPM indicators for the first time. The 2019 sample, apart from being much smaller, consisted of MEF partner MFIs already in CERISE's database at the time, thus a group of MFIs that had completed social audits in the past and as such were those in MEF's portfolio most familiar with, and sensitised to, SPM.

Overall, the 2020 data confirms several observations from the 2019 reporting, with a clearly representative and much larger sample of results. MEF partner MFIs show solid SPM practices when compared to the benchmarks and, notably, cover the basics of client protection. The high scores on responsible client treatment in Dimension 4 and on responsible pricing in Dimension 6 indicate a successful screening of institutions with a client protection filter. The 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.

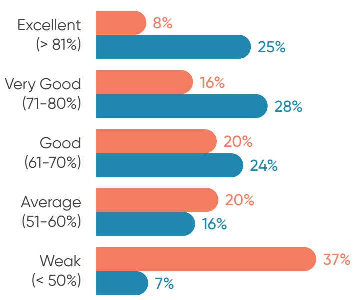
MEF Partner MFIs | Overall Scores

Benchmarked to their Peers



MEF Partner MFIs | Frequency of Scores

Benchmarked to their Peers



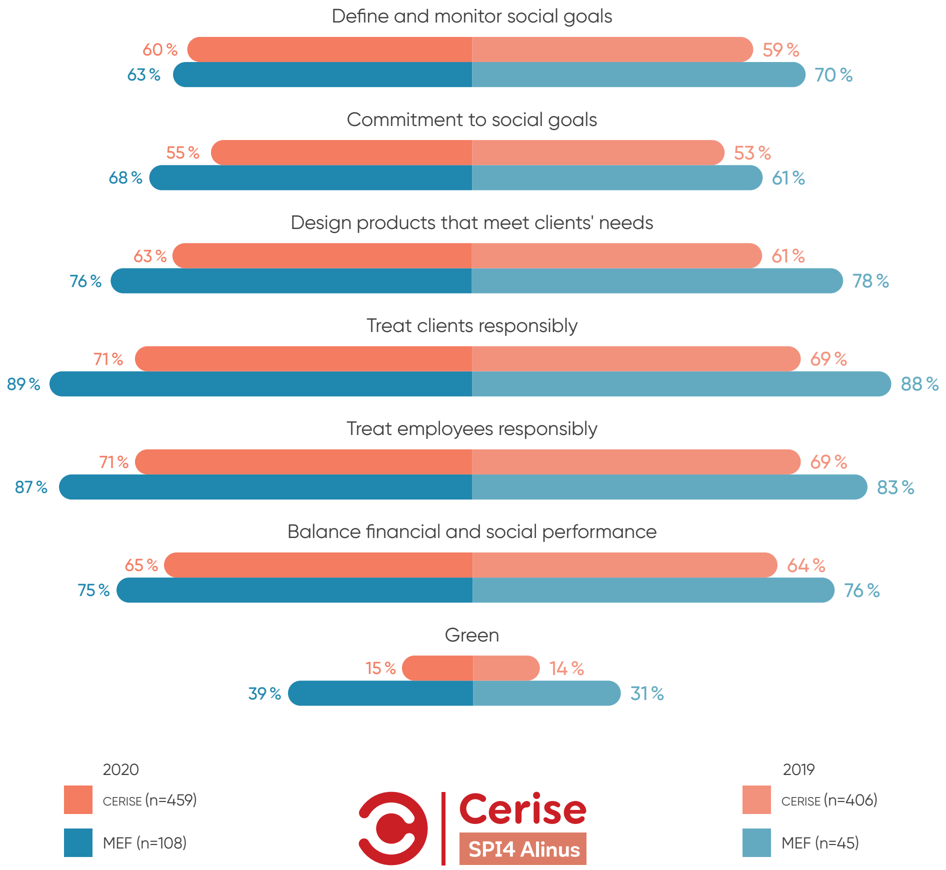
[7] On the basis of a sample of 108 MEF partner MFIs analysed by CERISE for this scoring and benchmarking, as is also indicated in Box 1. This compares to a sample size of 45 MEF partner MFIs in 2019.

The benchmarking is against a global peer group dataset by CERISE with 459 respondents for 2020 data.

MEF Impact | Social Performance

While it is gratifying to see such high performance, MEF anticipates ups and downs in the scores over the years within a reasonable margin. Such variations may well occur as MEF also finances MFIs that do not yet have in place a full reporting framework and best social performance practices. As it is a key part of MEF's 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 partner MFIs have minimum standards in place and, ever more importantly, are positioned to improve their practices over time.

Scores 2020 and 2019



MEF Impact | Social Performance

Dimension 1 | Define and Monitor Social Goals

Average D1 Score

63 % | 60 %*

70 % | 59 % in 2019

*MEF score compared to global benchmark

MEF partner MFIs show strong practices in defining and monitoring social goals, slightly higher than the benchmark (63 % for D1 | compared to 60 % for their peers), as CERISE highlighted. This is a lower but broadly consistent score compared to the findings of 2019 (70 % for D1 | compared to 59 % 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 66 %)
- however they score slightly below the benchmark on collecting and disclosing client-level data (52 % | compared to 54 %)

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

68 % | 55 %*

61% | 53% in 2019

*MEF score compared to global benchmark

MEF partner MFIs overall show stronger commitment to social goals (68% for D2) than their peers (55%). This is well above average, as CERISE highlighted, and shows an improvement compared to the findings of 2019 (61% for D2 | compared to 53% for the benchmark).

A closer look reveals:

- MEF partner MFIs score particularly well on the number of board members with Social Performance Management (SPM) expertise compared to the benchmark (77 % | compared to 55 %) – which research links positively to social impact as well as overall performance and sustainability
- MEF partner MFIs are also more likely to have a designated SPM champion among its board members or a committee that reports to the board (42 % | compared to 26 %)[8]
- while MEF partner MFIs score close but slightly below the benchmarks regarding women in management (35 % | compared to 36%) and below the benchmark regarding board representation (22 % | compared to 31 % 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 (75 % | compared to 52 %); for 2020 CERISE also notes that social performance incentives are more widespread among MEF partner MFIs compared to 2019

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.

[8] As CERISE had noted in last year's report, 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)).

MEF Impact | Social Performance

Dimension 3 | Design Products that Meet Clients' Needs

Average D3 Score

76% | 63%*

78% | 61% in 2019

*MEF score compared to global benchmark

MEF partner MFIs significantly outscore their peers on products designed to meet clients' needs (76 % for D3 | compared to 63 % for their peers). This is largely consistent with the findings of 2019 with broadly similar scores (78% for D3 | compared to 61% 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 (80 % | compared to 58 %), where MEF partner MFIs excel most
- on regular client satisfaction surveys MEF partner MFIs also scored well above the benchmark (70 % | compared to 45 %)
- MEF partner MFIs also fare better than their peers on benefits to clients through product and services diversity (72 % | compared to 66 %) – including voluntary insurance (34 % | compared to 12 %) and payment services (57 % | compared to 27 %), but are slightly less likely to offer voluntary savings (46 % | compared to 48 %) and non-financial services (54 % | compared to 60 %)

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

89% | 71%*

88% | 69% in 2019

*MEF score compared to global benchmark

MEF partner MFIs are particularly strong in client protection practices (89 % for D4 | compared to 71% for their peers). This is consistent with the findings of 2019 with similar scores (88 % for D4 | compared to 69 % for the benchmark).

A closer look at the indicators shows a strong performance on adherence to Client Protection Principles (CPPs)[9]:

- client protection is a strong focus for MEF's Investment Advisors in selecting and encouraging microfinance investees
- 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 (82 % | compared to 68 %); MFIs with a CPP-compliant anti-discriminatory policy (59 % | compared to 49 %); MFIs that inform their clients how their data is used and shared (83 % | compared to 58 %); MFIs that have CPP-compliant complaints management systems (79 % | compared to 43 %); and MFIs that provide clients with a CPP-compliant key facts document (94 % | compared to 65 %)

Dimension 4 | Treat Clients Responsibly

At the very minimum, positive social impact starts 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).

[9] The Smart Campaign closed in December 2020 with the last Smart Certification mission completed in April 2021. Going forward, CERISE and SPTF (the Social Performance Task Force) will provide continuity on the Client Protection Certification (see https://sptf.info/client-protection/the-client-protection-pathway). This will be in collaboration with the certified rating agencies that previously worked on Smart Campaign Certifications. The successor Client Protection Certification will use the same CPP framework but will no longer be a pass/fail exercise. This successor certification started in May 2021 and assesses for three levels of recognition (bronze, silver and gold), making it a more attainable objective.

MEF Impact | Social Performance

Dimension 5 | Treat Employees Responsibly

Average D5 Score

87% | 71%*

83% | 69% in 2019

*MEF score compared to global benchmark

MEF partner MFIs show significantly stronger practices in treating employees responsibly (87 % for D5) than their peers (71 %). This reflects a stronger score than the findings of 2019 (83% for D5 | compared to 69% for the benchmark).

A closer look reveals:

- MEF partner MFIs outperform the benchmark most in monitoring of employee satisfaction and turnover (65 % | compared to 34 %)
- on assessing health and safety risks of employees and analysing results by gender MEF partner MFIs have strongly improved, and more than their peers (55 % | compared to 33 % in 2020; and 40 % | compared to 33 % in 2019)

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

75% | 65%*

76% | 64% in 2019

*MEF score compared to global benchmark

MEF partner MFIs outperform their peers on balancing financial and social performance (75 % for D6 | compared to 65 % for their peers). This reflects a slightly lower score than the findings of 2019 (76% for D6 | compared to 64% for the benchmark).

A closer look at the numbers reveals:

- MEF partner MFIs score especially high on growth rates (88 % | compared to 72 %)
- they are also predominantly compliant with the client protection indicator on responsible pricing (94 % | compared to 81 %)

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 24):

- close to two thirds of the MFIs (65% | compared to 62% in 2019) 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 (119 of 122 in 2020 | compared to 111 of 115 in 2019) 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.

Green Index

Average Green Score

39 % | 15 %*

31 % | 14 % in 2019

*MEF score compared to global benchmark

MEF partner MFIs outperform the benchmark on CERISE's Green Index (39 % for Green Index | compared to 15 % for their peers).[10] This reflects a markedly better score than the findings of 2019 (31 % for this index | compared to 14 % 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 (28 % | compared to 6 %) and they are more likely to implement actions to reduce their internal ecological footprint (52 % | compared to 42 %)
- more than one third of MEF partner MFIs implement actions to reduce their internal ecological footprint, more than their peers (39% | compared to 14%)
- one quarter of MEF partner MFIs offer loan products to finance renewable energy/energy efficient technologies, more than their peers (26% | compared to 14 %)

Note that as CERISE only introduced this Green Index with its data collection for 2019, the initial uptake and reporting was limited. MEF therefore did not report on this in 2019 though introduces it as of its 2020 report as this dimension is being mainstreamed in the benchmarking. The sample of respondents reflects that this is a process: in 2020, 81 of MEF partner MFIs reported on the Green Score compared to 32 in 2019; whereas for the global benchmark, in 2020, 154 reported on it compared to 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.

[10] Note that that the sample for the Green Index is smaller (N=81) compared to the sample for the other dimensions (N=126) because reporting on the Green Index was optional.

ALINUS | MEF Partner MFIs | Scores by Dimension

	MEF	CERISE
NUMBER OF AUDITS	108	459
D1 Define and Monitor Social Goals	63 %	60 %
Social Strategy	75 %	66 %
Reporting of Client-level Data	52 %	54 %
D2 Commitment to Social Goals	68 %	55 %
Board Accountability	62 %	45 %
Senior Management Accountability	65 %	52 %
Staff Accountability	77 %	67 %
D3 Design Products that Meet Clients' Needs	76 %	63 %
Client Needs and Preferences	80 %	58 %
Benefits to Clients	72 %	66 %
D4 Treat Clients Responsibly	89 %	71 %
Prevention of Over-indebtedness	90 %	77 %
Transparency	92 %	73 %
Fair and Respectful Treatment of Clients	88 %	75 %
Privacy of Client Data	92 %	70 %
Mechanisms for Complaint Resolution	83 %	61 %
D5 Treat Employees Responsibly	87 %	71 %
HR Policy	83 %	70 %
Communication of Terms of Employment	94 %	84 %
Employee Satisfaction	83 %	58 %
D6 Balance Financial and Social Performance	75 %	65 %
Growth Rates	88 %	72 %
Alignment of Objectives	72 %	70 %
Responsible Pricing	94 %	81 %
Compensation	46 %	37 %
Green Index	39 %	15 %
Managing Internal Environmental Risks	50 %	19 %
Managing External Environmental Risks	36 %	11 %
The Provider Fosters Green Opportunities	30 %	13 %
TOTAL SCORE	71 %	57 %

ALINUS | MEF Partner MFIs | Scores by Region

	Europe and Central Asia		Latin America and the Caribbean	
	MEF	CERISE	MEF	CERISE
NUMBER OF AUDITS	27	37	39	142
D1 Define and Monitor Social Goals	**61 %**	**66 %**	**58 %**	**61 %**
Social Strategy	75 %	74 %	68 %	65 %
Reporting of Client-level Data	47 %	58 %	48 %	56 %
D2 Commitment to Social Goals	**64 %**	**65 %**	**67 %**	**55 %**
Board Accountability	55 %	56 %	62 %	45 %
Senior Management Accountability	59 %	63 %	62 %	51 %
Staff Accountability	78 %	75 %	78 %	70 %
D3 Design Products that Meet Clients' Needs	**78 %**	**75 %**	**77 %**	**67 %**
Client Needs and Preferences	81 %	77 %	81 %	61 %
Benefits to Clients	76 %	74 %	74 %	72 %
D4 Treat Clients Responsibly	**89 %**	**89 %**	**88 %**	**75 %**
Prevention of Over-indebtedness	87 %	92 %	91 %	86 %
Transparency	90 %	88 %	92 %	77 %
Fair and Respectful Treatment of Clients	87 %	86 %	85 %	76 %
Privacy of Client Data	94 %	94 %	92 %	76 %
Mechanisms for Complaint Resolution	85 %	84 %	79 %	62 %
D5 Treat Employees Responsibly	**89 %**	**83 %**	**86 %**	**74 %**
HR Policy	85 %	78 %	83 %	74 %
Communication of Terms of Employment	98 %	93 %	91 %	87 %
Employee Satisfaction	85 %	78 %	82 %	61 %
D6 Balance Financial and Social Performance	**74 %**	**74 %**	**75 %**	**69 %**
Growth Rates	87 %	86 %	87 %	75 %
Alignment of Objectives	72 %	75 %	74 %	77 %
Responsible Pricing	96 %	92 %	92 %	84 %
Compensation	41 %	42 %	46 %	40 %
Green Index	**44 %**	**34 %**	**43 %**	**11 %**
Managing Internal Environmental Risks	54 %	43 %	60 %	15 %
Managing External Environmental Risks	40 %	30 %	38 %	8 %
The Provider Fosters Green Opportunities	39 %	28 %	31 %	11 %
TOTAL SCORE	**71 %**	**69 %**	**71 %**	**59 %**

ALINUS | MEF Partner MFIs | Scores by Region

	Middle East and North Africa		South and South East Asia		Sub-Saharan Africa	
	MEF	CERISE	MEF	CERISE	MEF	CERISE
NUMBER OF AUDITS	2	14	31	105	9	161
D1 Define and Monitor Social Goals	88 %	62 %	71 %	71 %	60 %	51 %
Social Strategy	88 %	63 %	81 %	75 %	77 %	59 %
Reporting of Client-level Data	89 %	62 %	61 %	67 %	43 %	43 %
D2 Commitment to Social Goals	79 %	53 %	72 %	64 %	68 %	46 %
Board Accountability	57 %	44 %	69 %	55 %	61 %	37 %
Senior Management Accountability	80 %	47 %	70 %	61 %	72 %	45 %
Staff Accountability	100 %	68 %	76 %	75 %	69 %	56 %
D3 Design Products that Meet Clients' Needs	73 %	61 %	73 %	67 %	80 %	53 %
Client Needs and Preferences	75 %	57 %	81 %	67 %	78 %	46 %
Benefits to Clients	70 %	66 %	65 %	67 %	81 %	59 %
D4 Treat Clients Responsibly	96 %	77 %	91 %	77 %	86 %	60 %
Prevention of Over-indebtedness	85 %	80 %	91 %	81 %	87 %	63 %
Transparency	100 %	75 %	93 %	78 %	87 %	63 %
Fair and Respectful Treatment of Clients	94 %	85 %	90 %	82 %	96 %	68 %
Privacy of Client Data	100 %	71 %	93 %	75 %	80 %	57 %
Mechanisms for Complaint Resolution	100 %	74 %	87 %	70 %	79 %	48 %
D5 Treat Employees Responsibly	94 %	73 %	87 %	75 %	84 %	62 %
HR Policy	85 %	66 %	83 %	75 %	80 %	62 %
Communication of Terms of Employment	98 %	81 %	95 %	85 %	89 %	79 %
Employee Satisfaction	100 %	73 %	82 %	66 %	84 %	45 %
D6 Balance Financial and Social Performance	73 %	55 %	79 %	72 %	66 %	56 %
Growth Rates	100 %	69 %	90 %	75 %	82 %	64 %
Alignment of Objectives	63 %	54 %	72 %	75 %	67 %	59 %
Responsible Pricing	90 %	78 %	98 %	86 %	89 %	73 %
Compensation	38 %	17 %	57 %	51 %	28 %	26 %
Green Index	42 %	13 %	30 %	15 %	31 %	12 %
Managing Internal Environmental Risks	25 %	21 %	34 %	21 %	50 %	17 %
Managing External Environmental Risks	50 %	4 %	37 %	14 %	11 %	8 %
The Provider Fosters Green Opportunities	50 %	14 %	18 %	11 %	33 %	11 %
TOTAL SCORE	78 %	57 %	72 %	63 %	68 %	48 %

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 (65 % | 62 % in 2019) 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 (119 of 122 in 2020 | compared to 111 of 115 in 2019) 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 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 shows an assessment 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 (65 % or 76 of 117 in 2020, compared to 62 % or 58 of 94 in 2019) 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 2020		Global 2019
Below Financial Performance Limit (< 100 %)	1	2	2	3	7	0	1	3	19	16 %	16 %
Within Financial and Social Performance Range (100 % < x < 130 %)	4	11	10	10	21	1	14	5	76	65 %	62 %
Beyond Social Performance Limit (> 130 %)	3	4	4	3	0	0	2	6	22	19 %	22 %

n=117

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 microlending institutions 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 (119 of 122 in 2020 | compared to 111 of 115 in 2019) 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 2020		Global 2019
Below (better than) Acceptable Range (< 15 %)	9	13	15	14	21	1	16	8	97	80 %	81 %
Likely in Acceptable Range (15 % < X < 50 %)	1	4	1	3	5	1	1	6	22	18 %	16 %
Above (worse than) Acceptable Range (> 50 %)	0	0	0	1	0	0	1	1	3	2 %	3 %

n=122

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.

MEF Exclusion List

At all times, the Investment Advisors and 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 MEF 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

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

General Secretary

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

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

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