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The Double Impact Solution.

10 Years
EMF Microfinance Fund

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Unlocking the Potential

Whatever the definition of poverty, there is no doubt that absolute poverty is declining while relative poverty is rising. Half of the world's population is living on less than five dollars per day, and two billion people have less than two dollars per day to live on. The most important reason for this dismal situation is the insufficient access on the part of individuals to work, education and a source of finance.

The poor are excluded from formal financial markets and are dominated by the tough and often unreliable rules of informal markets. This is especially true of financial markets and the role of microentrepreneurs and microbusinesses. They are looking for opportunities, for access to small loans, for know-how and the legalization of their business environment. And that's what microfinance and the Enabling Microfinance Fund in particular is all about.

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Microfinance - An Introduction

Microfinance can be defined as provision of access to capital and financial services in low income economies. Microfinance is offered both to businesses and individuals in the form of credit, savings, remittances, payment services, insurance and other basic financial products.

Of all the people living in poverty worldwide, approximately 500 million are estimated to constitute the economically active poor, who are trying to improve their income through microbusinesses and accordingly have a need for loans and other financial services. People with low income or assets, however, are often perceived as “un-bankable” by traditional banks. They are excluded from access to credit or other financial services.

From Microloans to Microentrepreneurs

There is no doubt, poverty can be alleviated if economically poor people are given opportunities. Millions of individual cases show the powerful energies that can be set free if access to credit, know-how and markets is assured. It is all about the empowerment of people, all about making a commercial investment in a huge, promising market with entrepreneurial bottom-up dynamics.

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Unlike conventional credit institutions, microfinance institutions grant small loans without the usual collateral. Instead, other credit mechanisms apply:

- Microcredits are characterized by very small loan amounts, often beginning at less than USD 100 and potentially reaching multiples of that amount over the course of a customer relationship.
- Loans are often granted on a group basis.
- Microcredits have short maturities and are paid back on a weekly basis.
- Microfinance counsellors meet customers on site. It is important to highlight the very personal nature of microfinance throughout the process. Loan counselling is often accompanied by entrepreneurial coaching.

Microcredits are granted in developing and emerging countries through microfinance institutions, which are specialized, locally rooted organizations. This allows loan counsellors not only to (re)assess the micro entrepreneurs, but to accompany them for an extended period of time. This customer relationship is key to the success of the model. Experience shows that more than 97% of instalments are paid on time, and the average loan default rate of 1.1% is significantly lower than the write-downs of traditional financial institutions.

The potential demand for microcredits, totalling around USD 250 billion, significantly exceeds the capital available for granting loans. This relationship impressively demonstrates the undeveloped growth potential of the sector. More recently, the definition of microcredit has expanded to include small and medium-sized enterprise financing.

Small and Medium Enterprises - The "Missing Middle"

More than 95% of registered businesses in the world are small in size and employ the largest proportion of the world's workforce in the private sector of any given economy, whether of high-, middle- or low-income levels. Today, the largest portion of the world's GDP growth is taking place in emerging and frontier markets and those markets have been producing more goods and services than developed markets since 2013.

Today, access to finance is still by far the largest obstacle to growth for micro and small and medium-sized enterprises (SMEs) alike, particularly in low- and middle-income markets. Those companies are key to creating a bottom-up dynamic development by creating millions of jobs. They are the engine of growth, but the pace at which they will grow will depend on the sources of financing they can access.

Existing sources of funding for SMEs in emerging and frontier markets are unofficial money lenders, commercial credit, leasing and supplier credit. While key to providing access to much needed capital, they can be subject to terms that are difficult to meet and are generally not motivated by establishing positive social impact objectives. So, addressing the needs of small and mediumsized enterprises in low-income economies represents not only a tangible value chain but also an important social and financial value creation opportunity for impact investors.

Therefore, the Enabling Microfinance Fund also specifically seeks to support microfinance institutions (MFIs) and small enterprise financing intermediaries (SEFIs), providing more inclusive growth in the sector to an emerging population of small enterprises. And, equally important, their mission and strategy are generally driven by a double bottom line of not only financial profitability but also of social responsibility and sustainable impact. In this way, they commit to positive social impact objectives in parallel to their financial return targets.

Specifically, the Fund aims to allocate about 50% of its portfolio to support the development of small and medium-sized enterprises in low income economies. There is a clear harmony with the microfinance portfolio as many of the SEFIs are microfinance institutions upscaling to SME lending. These institutions have the infrastructure in place to serve SME clients, which were in the past deemed too large to be effectively serviced by growing micro-credit institutions, but they need the capital to develop their SME capacity.

There are three types of SEFIs taken into consideration by the Fund, all of them with a mission and strategy generally driven by financial profitability and sustainable impact at the same time:

- Microfinance institutions that have decided to strategically enter the small enterprise market by opening specific SME product offerings. These are referred to here as “upscaling MFIs”.

- Commercial banks (SME Banks) that position themselves strategically towards an SME clientele; they may include other clients and services but dedicate themselves primarily to this market segment.

- Leasing companies. Leasing is probably the easiest way to fund small nascent businesses’ fixed assets. This type of financing is particularly relevant in emerging markets for small enterprises that lack sufficient collateral or credit history. Leasing offers access to finance without a significant existing asset base, and without any pledge or third-party guarantee.

Investing in Microfinance

Microfinance investments emerged about a decade ago with a tangible value chain for investors and a simple value proposition: the financing of micro-economic activity in emerging markets. Since then the microfinance investment industry has developed into an attractive asset class, mostly due to the dual return profile. MFI investments enable investors to adopt a dual investment approach that pays attention to both social and financial returns.

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From a social point of view, investors contribute to alleviating poverty in developing countries by fostering the development of the microfinance sector, e.g. by narrowing down the funding gap and by providing stable and full currency-hedged funding for MFIs. This enables MFIs to strengthen their capital structure, and some very developed MFIs are sometimes even able to leverage foreign subordinated loans. Ultimately, the more microloans can be granted to micro-borrowers, the more poverty can be alleviated in developing countries, on the whole.

From a financial analysis point of view, microfinance attracts private investors mainly for two reasons: First, the most advanced microfinance institutions exhibit an attractive financial return. For investors, the strong credit quality of micro-borrowers is attractive as it also strengthens the financial position of a whole MFI. Ultimately, the profitability of their investments can be increased and the probability that original investments are fully paid back at maturity is raised at the same time.

Second, research has shown that microfinance investments are conducive to an efficient diversification of portfolios. For example, microfinance in particular stood out during the global financial crisis as an interesting area of diversification and a compelling portfolio stabilizer for many investors. The reason for the low correlation lies in the economic environment of the enterprises, which are situated in markets largely decoupled from developments on the world markets. This indicates a certain independence of microfinance investments from macroeconomic shocks, which have a substantial impact on conventional banks.

In general, it can therefore be stated that, from the investor's point of view, the economic benefit of a microfinance investment consists of above money market returns, low volatility and a low correlation to most of the traditional asset classes.

Why Choose Enabling Microfinance Fund?

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The Business Case - Unlocking the Potential

The Enabling Microfinance Fund was launched in recognition of lack of access to finance as a barrier to large-scale poverty reduction. The MFIs and SEFIs the fund invests in differ from more mainstream financiers by positioning themselves deeper in their markets and providing inclusive growth in to an emerging population of entrepreneurs.

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EMF is therefore focused on supporting financially sound, impact-focused local financial intermediaries that not only serve microentrepreneurs but are additionally developing financial services for enterprises employing between 5 and 100 people. Expanding access to financial services for these customers promotes resilience, business growth, and helps generate and secure sustainable employment. This is key to unlocking the potential of micro, small and medium-sized enterprises to deliver large-scale growth in formal employment within developing countries, leading to poverty reduction at scale over the long term.

This pure debt fund offers investors a capital preservation and growth strategy with "money market plus" returns, targeting around 3.5 to 4.0% annual net return. In order to manage the investment risk, the fund diversifies across:

- a broad range of financing models (whether dedicated MFIs, non-bank financial institutions, or leasing companies),
- a large number of countries permitting global diversification,
- a strong blend of maturities, to allow for clear exits for investors.

The fund's assets are exclusively managed by BlueOrchard; based on EMFs investment strategy this makes it possible to also invest in smaller, attractive transactions. The asset manager has a great track record in the industry and offers specific microfinance fund management expertise and a strong pipeline of investments overseen by local analysts. The combination of having strong investment expertise and a unique, flexible asset allocation allows the Fund to generate excellent returns. Investors can expect low volatility and low correlation with both traditional and alternative asset classes.

The Fund is designed for qualified investors and targets both financial and diversification-focused investors as well as specialized impact investors seeking to benefit from the growth of emerging and frontier markets through sustainable and inclusive investments. It serves institutional investors (pension funds, insurance companies, asset managers and banks) as well as private investors, directly or through private wealth managers, family offices or foundations.

The Foundation – A Guarantee for Double Impact

The Enabling Microfinance Fund is ultimately owned by a nonprofit foundation with the target of generating the greatest possible social impact by reducing poverty. While the EMF Microfinance Fund is the main instrument for achieving this goal, the revenues of Enabling Microfinance AG as the promotor as well as the operating company of the Fund are, in addition, used to launch new projects to improve the conditions along the microfinance value chain, such as a microfinance training program for women.

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The Enabling Microfinance Foundation oversees the operating company and acts as a guarantor for projects to strengthen access to finance in low income economies through capacity building work.

Working along the value chain to establish and strengthen financing institutions is an important driver of qualitatively and quantitatively sustainable sector development. This dual approach is an important factor in strengthening the sector as a whole, supporting norms and standards to protect the interests of the various stakeholders in this new investment value chain, so as not to introduce counterproductive overflows, misuse or abuse of capital into unaccustomed populations.

The EMF Fund in combination with the support work of the EMF Foundation aims to catalyse access to capital where it is needed most by reinforcing the financial intermediation infrastructure and by promoting more inclusive financial policies. At the same time, the fund demonstrates the commercial viability of investing in micro, small and medium-sized enterprises in low- and middleincome countries and aims to inspire a new generation of investors to address the wider financing gap.

Microfinance Guarantee Fund for African Women

The latest project of the Enabling Microfinance Foundation involves supporting promising women microentrepreneurs in Kenya and Cameroon in obtaining access to microfinancing. The project foresees the establishment of a microfinance guarantee fund within the structures of two training organisations in Kenya and Cameroon.

This provides women microentrepreneurs with the necessary backing vis-àvis micro-finance institutions to improve credit terms and thus the economic growth potential of the women. With the Fund, training organisations will collaborate more effectively with MFIs for the benefit of microentrepreneurs, thereby fostering poverty reduction. As such the project is a model for further, similar constellations in other regions.

The Inclusion Report - Measuring the Impact

There has been a shift in focus in recent years from general concern about poverty alleviation to a desire for more disciplined measurement of the direct outreach and inclusion of microfinance investments. Microfinance investors have also moved away from a unilateral and simplified view of the sector and have developed a more elaborate understanding of its shared profits and mutual social benefits in the current context of ongoing globalization.

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In essence, the principal impact that microfinance is looking to achieve is to improve the economic wellbeing of microfinance clients: to help them grow their businesses, increase their incomes and create greater economic stability and security.

This has led investors and practitioners to increase the emphasis they put on the level of social responsibility in order to safeguard and ensure long term positive impact and sustainable wealth creation.

Transparent and credible communication is of utmost importance, and therefore Oxfam GB, as an objective third-party, has been appointed Impact Advisor to EMF. We do think that any Fund should be aware of and report on the immediate impact of the investments in terms of outreach and inclusion. Therefore, as a member of the Fund's Advisory Committee, Oxfam's focus is on understanding, measuring and ensuring the social impact of the Fund.

The Fund believes that reporting can be best served by the collection and reporting of indicators using a tiered system with different requirements for specific investments (senior loans vs. subordinated debt, etc.). All activities of the Enabling Microfinance Fund are then summarized in the yearly impact report which is prepared exclusively by Oxfam and will be distributed to all investors. This report goes beyond the story of individual borrowers; it aims to give a deep and credible insight into the lessons learned and the social outreach of the portfolio.

The Impact Advisor - Introduction

Oxfam has a long tradition of supporting men and women build their livelihoods. It has supported small-scale farmers and other microfinance entrepreneurs with grants and loans for decades. Oxfam's enterprise development work focuses on small and medium-sized enterprises (SMEs) that are vehicles for job creation and/or the development of affordable products and services for people living in poverty.

Oxfam recognises that a great way to create change is through investing in small enterprises that make a positive impact for social change by creating jobs and increasing income to change lives of marginalized groups including smallscale farmers, women and youth

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Fund Facts

The unique investment approach established by EMF in conjunction with exceptional skills of the asset manager and Oxfam GB as specialised Impact Advisor makes it possible to generate an outstanding financial and social return to investors.

Fund Facts

This document is only for professional investors. This document is provided for information purposes only and does not constitute an offer or a recommendation to buy or sell any security or financial instrument. Information provided herein is believed to be correct, but its accuracy and completeness are not guaranteed and may be subject to change.

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Fund Facts	
Fund Name	Enabling Microfinance Fund AGmvK
Fund Structure	Alternative Investment Fund AIF
Investment Manager	BlueOrchard Finance Ltd
Date of inception	September 2008
Fund Currency	USD / CHF

I Classes - Share Terms	
Subscriptions	Monthly
Redemptions	monthly, 90 days notice
Minimum Investment	USD/CHF 100'000
all-in-fee	1.85%
Use of profits	accumulating/distributing

S Classes - Share Terms	
Subscriptions	Monthly
Redemptions	monthly, 90 days notice
Minimum Investment	USD/CHF 3 Mio.
all-in-fee	1.70%
Use of profits	accumulating/distributing

Client Protection Principles – Placing Clients First

Responsible financial inclusion encompasses core Client Protection Principles to help financial service providers practice good ethics and smart business. The Client Protection Principles are the minimum standards that clients should expect to receive when doing business with a microfinance financial service provider. All institutions must be fully transparent in the pricing, terms, and conditions and work with clients to prevent them from borrowing more money than they can repay or using products they do not need.

Responsible financial inclusion protects clients, businesses, and the industry as a whole. And therefore, one key criterion of the Enabling Microfinance Fund is that all microfinance institutions in the portfolio must adhere to those best practice standards set by the Smart Campaign.

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Client Protection Principles	Examples of standards assessed
Principle 1 **Appropriate Product Design and Delivery**	Products are designed to be appropriate to client needs; client feedback is sought for product design and delivery.
Principle 2 **Prevention of Over-indebtedness**	Robust processes are used to verify repayment capacity of clients; credit bureau data is checked systematically (when applicable).
Principle 3 **Transparency**	The total cost of the loan, including all charges, is communicated to clients both verbally and in writing.
Principle 4 **Responsible Pricing**	Market-based, non-discriminatory pricing is applied and excessive fees are not charged.
Principle 5 **Fair and Respectful Treatment of Clients**	Clients are informed of their rights; both in-house and third-party collection staff are trained on fair and responsible treatment of clients.
Principle 6 **Privacy of Client Data**	Client confidentiality is protected with appropriate technology systems.
Principle 7 **Mechanisms for Complaint Resolution**	Clients are aware of how to submit complaints; the complaints resolution system is active and effective.

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