

# Impact investing in action

## The Microfinance Enhancement Facility

February 2020

*The value of investments will fluctuate, which will cause prices to fall as well as rise and you may not get back the original amount you invested.*

Expected social impact

52,000 loans to micro and small entrepreneurs<sup>2</sup>

- M&G provided US\$90 million senior debt finance
- Expected return premium over equivalent-rated public bonds
- Key M&G impact theme and expected metrics<sup>1</sup>:
  - Economic inclusion of micro and small entrepreneurs in developing countries

### This investment aligns with the following UN Sustainable Development Goals (SDGs):



### Investment impact overview:

M&G provided US\$90 million in senior debt financing to the Microfinance Enhancement Facility (MEF), a \$690 million global microfinance debt fund set up in 2009 to offer a reliable and stable source of finance to microfinance institutions (MFIs) in a wide range of developing countries. The MEF provides short and medium-term debt to MFIs, which in turn, offer loans to thousands of micro and small entrepreneurs in developing countries to support economic development and help break the cycle of poverty.

The transaction finances a well-diversified pool of loans in terms of country and MFI entity exposure. As a demand-oriented fund, the MEF has lent to over 230 MFIs across all developing regions since its inception. The MFIs provide a variety of services to support development activity including unsecured credit, insurance, housing loans, deposits and savings.

The transaction qualified as an impact investment under the category of economic inclusion according to our thematic impact eligibility criteria<sup>3</sup>.



#### Social impact theme: Economic inclusion

With an average underlying loan size of \$1,730, M&G financing will directly help around 52,000 micro and small entrepreneurs in developing countries.

The MEF has progressively grown the share of local currency lending in its portfolio to 62% (all local currency loans are fully hedged to the US dollar), thereby de-risking many of its investee institutions and their clients from currency fluctuations. The activities of the MEF and its partner financial institutions have a strong developmental profile, with the majority of final borrowers (80% of all loans) women, female-headed households or women-led micro, small and medium-sized enterprises. Moreover, around two-thirds of the loans made in 2018 were to borrowers in rural areas lacking access to conventional finance. The funding therefore directly supports low-income borrowers that struggle to obtain the necessary finance needed to meet their financial goals and achieve a better quality of life.



<sup>1</sup> Impact metrics are intended to provide an indication of expected outcome.

<sup>2</sup> Based on an average loan size of \$1,730 to final borrowers.

<sup>3</sup> At M&G we assess impact investments against criteria developed in conjunction with a leading sustainability adviser.

## Attractive expected returns

In addition to generating positive social impact, the investment targets a competitive financial return and is expected to generate an attractive return premium over equivalent-rated public bonds.

### Innovative financing solution – Providing finance at scale

The innovative transaction structure allows M&G to provide finance at scale to borrowers in developing countries by applying our ABS expertise to a diversified pool of loans.

The transaction provides a significant level of credit enhancement for senior noteholders given significant equity capital commitments in the fund's capital structure from reputed government and quasi-government counterparties. The MEF was set up by the International Finance Corporation (IFC, the private sector arm of the World Bank Group), alongside KfW (the German development bank) and OeEB (the Austrian development bank). These development finance institutions have been the cornerstone investors in the fund since its inception. Given this strong equity sponsorship, the deal was rated AA by M&G analysts and provides a high-quality vehicle through which our investors may achieve both measurable social impact and attractive financial returns.



M&G Investments is a member of the Global Impact Investing Network (GIIN). Our membership signifies a commitment to deepening our engagement in the impact investing industry.

[www.mandg.com/impactinvesting](http://www.mandg.com/impactinvesting)

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