

# FINDEV CANADA TRANSACTION SUMMARY

## MFX Solutions, Inc. (MFX)

*This document provides an overview of the FinDev Canada transaction, including a summary of the anticipated development impacts and of the environmental, social and governance (ESG) assessment performed, potential risks identified, and related mitigation measures to be implemented.*



### Transaction Description

MFX Solutions, Inc. offers currency hedging products and risk management education to the impact investing community. MFX makes hedging accessible to impact investors with hedging instruments tailored to their needs and expertise to help them manage currency risk.

### Transaction Details

<b>COUNTERPARTY</b>	MFX Solutions, Inc. (the "Company", "MFX")
<b>DOMICILE OF INCORPORATION</b>	United States
<b>DOMICILE OF OPERATIONS</b>	Latin America, the Caribbean, Sub-Saharan Africa
<b>TERM OF FINANCING</b>	Collateral facility: 31 December 2031 Revolving line of credit: 5 years
<b>SECTOR</b>	Financial Services
<b>IFC PERFORMANCE STANDARDS TRANSACTION CATEGORY</b>	Category FI-3
<b>FINANCING PRODUCT</b>	Collateral facility and revolving line of credit
<b>FINDEV CANADA TRANSACTION AMOUNT</b>	USD 50 million
<b>DATE OF TRANSACTION DISCLOSURE</b>	17 February 2020
<b>DATE OF TRANSACTION SIGNING</b>	21 December 2021
<b>DATE OF TRANSACTION SUMMARY PUBLICATION</b>	September 21, 2022
<b>2X CHALLENGE QUALIFYING</b>	No

## Summary of Anticipated Development Impacts

The main development impact of MFX comes from its support for local currency development lending which is inherently safer and less burdensome for impact borrowers. MFX's currency hedging products allow impact investors to mitigate the risk on local currency loans in emerging and frontier markets where hedging can otherwise be difficult or impossible. By shifting the impact lending model away from hard currency loans, MFX relieves the recipients of those loans from the risk of devaluation which can make dollar borrowing unsustainable. MFX was founded by development investors with a mission to help microfinance institutions manage currency risk in the most volatile frontier markets where lending can be the most challenging but the needs for development finance is greatest. Since then, MFX has expanded its development mandate from financial inclusion into other impact sectors such as renewable energy, agriculture, and SME financing, thereby increasing its impact.

The impact theory of change below summarizes how MFX will contribute to FinDev Canada's long-term development impact goals and to the two Sustainable Impact Goals ("SDGs") that focus on access to finance: SDG 8 "Decent work and economic growth" and SDG 9 "Industry, innovation and infrastructure".

### Barriers:

- Development finance is predominantly provided in dollars or Euros while borrowers emerging markets operate with local currencies, which are often highly volatile
- Currency mismatch result in higher borrowing costs and defaults
- Burden of managing currency risk often placed on recipients of development finance (e.g. microfinance institutions, local borrowers who are disproportionately women)
- High collateral requirements on hedging drain funds intended for impact





## MARKET DEVELOPMENT

- **Increasing access to local currency financing in emerging markets:** MFX provides impact investors with the ability to hedge loan currencies with little to no collateral required. Such collateral requirements can tie up funds intended for development, representing a structural impediment that MFX helps mitigate. In addition, MFX provides investors with hedging products not otherwise available in the market.
- **Reducing burden of currency risk on recipients of development finance:** MFX helps providers and recipients of development finance to efficiently hedge their risk. Historically, because loans have been mostly in hard currency, risk has fallen to the recipient of development financing, a microfinance institution or an entity that is providing a good or service in the local market. This imposes a risk of loss if the local currency devalues which is difficult to quantify or manage in frontier markets with immature financial sectors and high volatility.



## WOMEN'S ECONOMIC EMPOWERMENT

- **Supporting local financial institutions that primarily serve women:** Since its inception, MFX has focused on providing services designed to help microfinance institutions with access to financial services, especially microcredit loans for women. A majority of MFX's hedge portfolio is used to finance the microfinance sector with local currency products. Typically, these clients have a large portion of women borrowers, who thereby benefit from MFX's products and services.

## Summary of Environmental and Social Assessment and Related Risk Mitigation Measures

FinDev Canada considers the transaction to be Category FI-3 (equivalent to Category C) as our support will be directed towards lower-risk transactions in microfinance, SME finance and other lower-risk opportunities which carry limited to no environmental and social (E&S) risks.

FinDev Canada due diligence for MFX consisted of E&S documentation review and due diligence questions directed to the Company. In line with the IFC Interpretation Note on Financial Intermediaries, FinDev Canada due diligence sought to confirm the following: that support would not be directed towards activities on the IFC Exclusion List; that the Company has implemented a simple E&S screening procedure, commensurate with the minimal level of E&S risk; that the Company's workforce are managed in accordance with relevant IFC Performance Standards (IFC PS) conditions; and that the Company has a process in place to ensure its borrowers' compliance with applicable national laws and regulations.

MFX has an Environmental and Social Management System in place which is aligned with the IFC performance standards. MFX's processes and commitments satisfy FinDev Canada's expectation of a simple E&S screening procedure that is aligned with the IFC PS, suitable to manage the Company's E&S risks, and includes restrictions that will ensure FinDev Canada's support cannot be directed towards any activities listed on the IFC Exclusion List. In addition, any transactions outside the eligible lower risk sectors defined in our facility agreement (i.e. microfinance, SME lending) in which the Company seeks to participate in will require review and approval by FinDev Canada.

FinDev Canada is of the opinion that adverse environmental, social, or human rights risks associated with the transaction are low. The Company's risk management system is designed to meet or exceed host country standards and FinDev Canada does not anticipate MFX having any difficulty in maintaining regulatory compliance in the markets in which it serves and functions. This review has been completed in accordance with FinDev Canada's E&S Policy.

An illustrative list of key documents reviewed is outlined below:

- MFX Operational Charter (January 2018)
- MFX Human Resources Policies (July 2016)
- MFX Anti Money Laundering, Counterterrorist Financing and Know Your Client Policy (November 2020)

The following International Finance Corporation (IFC) Performance Standards were applied in FinDev Canada's assessment in addition to host country requirements and the IFC Interpretation Note on Financial Intermediaries:

- IFC Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- IFC Performance Standard 2: Labor and Working Conditions