The Social Performance of Alterfin and its Partners in 2009

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1. Introduction

1.1. Methods used

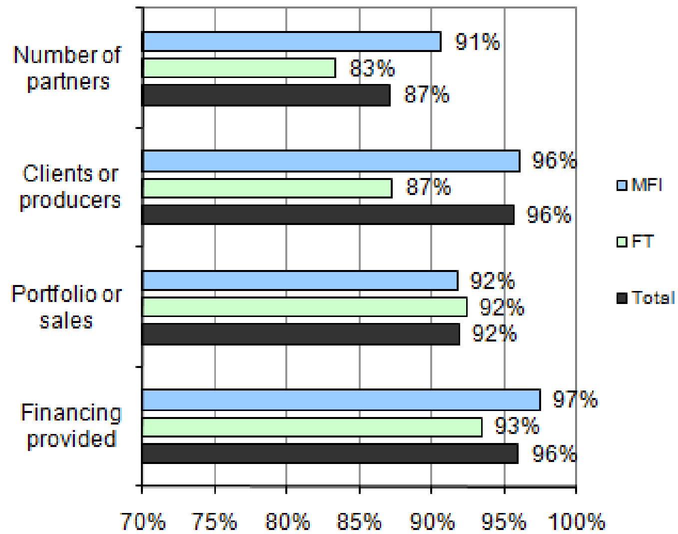
All financing requests are assessed by the credit committee using two types of criteria. First of all there are a series of development criteria, which must clearly reveal that the organisation is working for those in greatest need. Then Alterfin also applies economic criteria. We are of course keen that the organisation should use its resources in a sustainable manner and be able to repay the financing granted. This part of the annual report will give you a detailed insight into the social performance of our partners and of Alterfin.

In 2009 Alterfin continued to develop its system of social performance management. This management system is based in the first instance on a list of questions sent to our partners. Subsequently the partners must themselves monitor their social performance. This is done by means of a grid with a set of indicators. At the end of 2007 we sent this grid for the first time to our microfinance partners (MFI). At the end of 2008 we sent it also to our fair-trade partners (FT). In 2009 we adapted the grid to the evolutions in the sector.

Alterfin is an active member of the Social Performance Task Force (SPTF), a worldwide network of all actors in microfinance (MFI's, regional and international networks, rating agencies, social investors, donor organisation,...). The goal of the SPTF is to move social performance forward and to look for consensus on how to measure and manage it. The crisis and the fact that the MFI competition is growing in different countries has put even more emphasis on this process.

1.2. Representativeness of the results

The survey was sent to 62 partners: 32 MFI and 30 FT organisations.* Answers were received from 54 (29 MFI and 25 FT), representing:



-	87% of the total number of partners;
-	96% of the total number of clients or producers of all our partners;
-	92% of the total microloan portfolio of our MFI partners and 92% of the total turnover of our FT partners;
-	96% of the total financing granted to our partners by Alterfin and responsAbility.

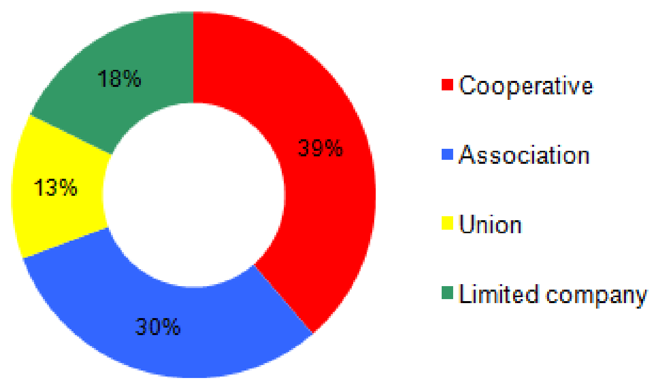
* At the end of 2009 our portfolio was made up of 63 partners. 7 of them were not included in the analysis because they are special cases (e.g. MFI network, the French social investor SIDI, 1 MFI who will stop activities, 2 FT partners who are still in our balance sheet, but are written off). 6 other organisations were sent the survey as they are already partners of Alterfin and will receive a new loan in the course of 2010 or have an outstanding balance with responsAbility. So a total of 62 organisations received our survey.

2. Results

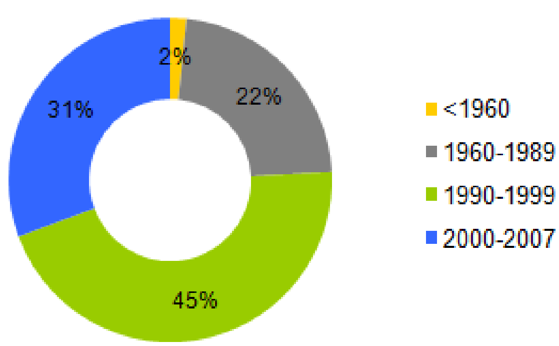
2.1. Institutional framework

Alterfin always works through local intermediary institutions to provide finance to the farmers and businesses it wishes to assist in the southern hemisphere. Our financing arrangements are based on the relationship between Alterfin and the institution in question, referred to as the partner (and not on the relationship between Alterfin and the client of this partner). The institutional aspect is therefore important for us. Alterfin wants to finance and guide its partners with the aim of building a transparent and sustainable financial network in the southern hemisphere.

Alterfin works with a wide range of organisations. In institutional terms the 62 partners who received this survey can be divided into four categories: cooperative, association (foundation, NGO, etc.), union or federation of organisations (second floor) and limited company.



Almost half of our partners began working in the 90s. A further 24% were set up before 1990. The remaining 31% started operating in 2000 or later.



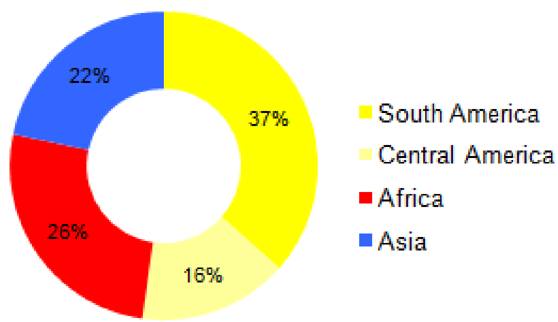
2.2. Impact

A distinction can be made here between the impact in terms of quantity and the impact in terms of quality. The former is the overall number of persons benefiting from the partner's activities, while the latter looks at the type of population involved.

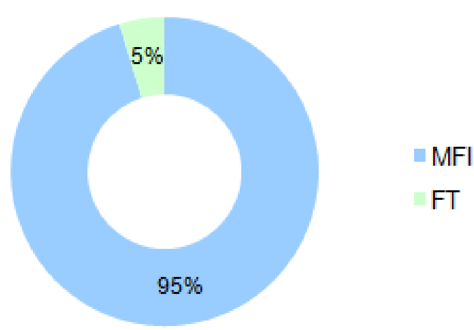
Impact in terms of quantity

At 31 December 2009 our partners were working with over 1.255.000 microfinance clients and producers throughout the world. This estimate is based on the data of partners who responded to the survey (number of clients or members at end-2009) and the most recent information available for the other partners (2008 figures or available MIX-market data).

Of the estimated total number of clients (1.255.000), more than half are to be found in Latin America: 53%. Africa accounts for 26% and Asia went up to 22%.



The MFI partners together account for 95% of the total number of clients. The other beneficiaries are members of FT producer groups.



The median number of clients of our MFI partners is much higher than that of producers of FT organisations:

Number of clients	MFI	FT
Median 2008	11.021	716
Median 2009	13.970	1.351

Our MFI partners have a total of 1.195.000 members or clients. The financing provided by Alterfin and responsAbility to the 29 MFI which answered the survey accounts for 1% and 4% respectively of their total portfolio. By extrapolation we can therefore state that Alterfin and responsAbility finance 1% and 4% respectively of our partners' 1.195.000 clients.

Our FT partners work with almost 60.000 producers. The financing provided by Alterfin and responsAbility to the 25 organisations that took part in the survey amounts to 4% and 8% respectively of their total turnover. Then by extrapolation from the total number of producers linked to all our FT partners, Alterfin and responsAbility could be said to finance 4% and 8% respectively of the 60.000 clients.

Number of clients	MFI	FT	Total
Alterfin	23.910	4.783	28.693
responsAbility	47.820	5.979	53.799
Total	71.730	10.762	82.492

It can thus be stated that at end-2009, at least 82.000 persons (and their families) were being financed by loans from Alterfin, of which 35% came from Alterfin's own capital and 65% from the funds of responsAbility which we manage.

Employees

In order to serve their 1.255.000 clients and producers, our partners rely on their 8.630 employees, 44% of whom are women.

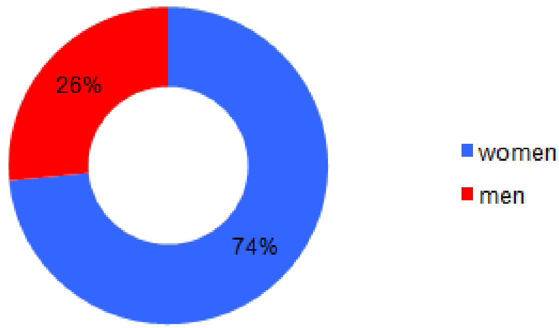
Of the 29 MFI which answered our survey,

- 28 offer their employees training opportunities (97%);
- 23 provide some healthcare cover for their staff (79%);
- 14 let employees participate in the decision-making (48%)
- 12 have procedures in place for grievances (41%)
- 11 have pension arrangements for their workers (38%);

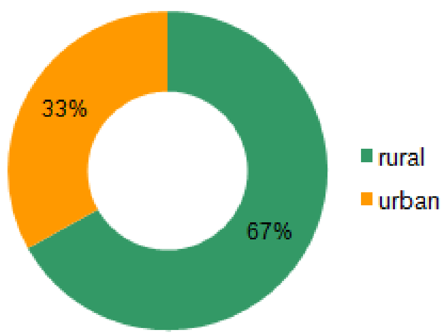
Impact in terms of quality

Types of clients

In the gender breakdown we see that 74% of the clients are women.

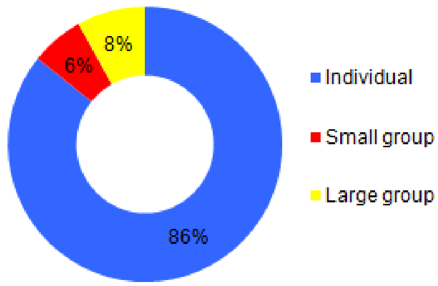


67% of our partners' clients live in a rural setting and 33% in towns.

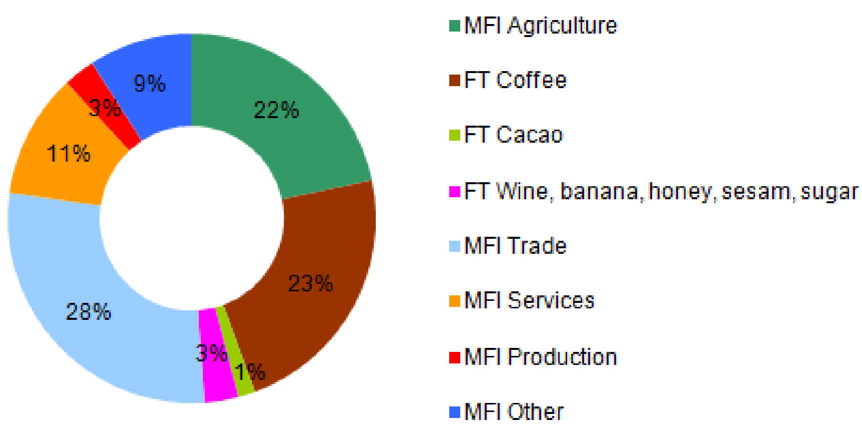


Types of loans

86% of microloans and prefinancing loans to FT producers are granted to individuals; the remainder go to groups.



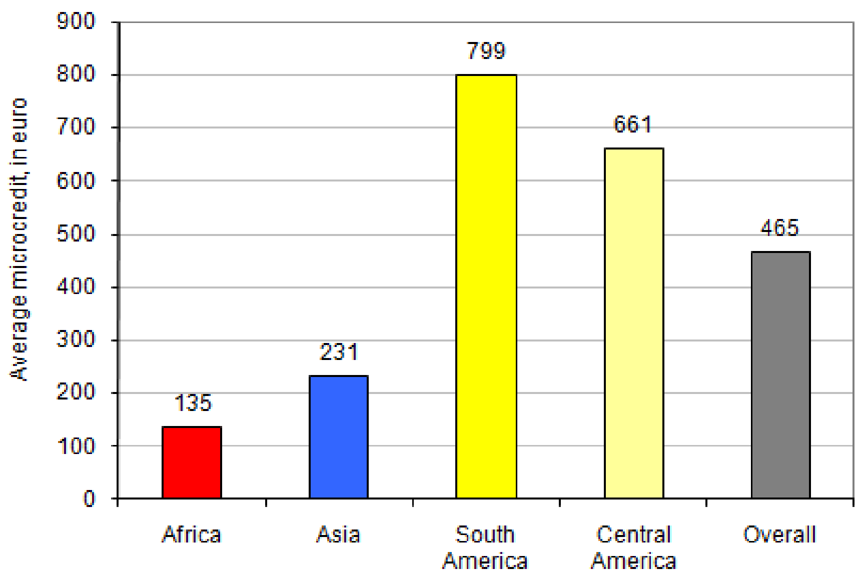
The distribution by sector of activity is as follows:



- 49% for activities linked to agriculture: 22% via the MFI and 27% via the FT organisations (23% coffee, 1% cocoa and 3% wine, bananas, sesam, honey and sugar);
- 28% for trade;
- 11% for services;
- 3% for production;
- 9% for other activities (housing, consumer credit, education, etc.).

Average loan

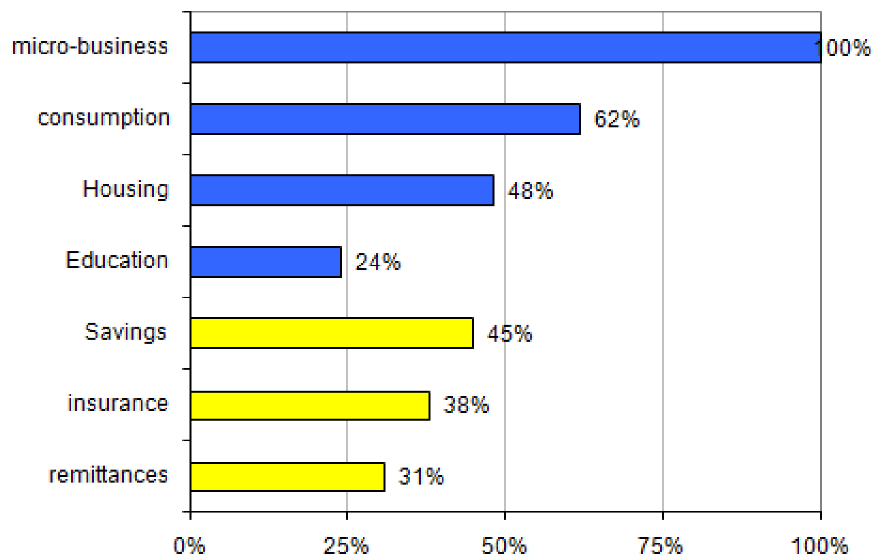
The average loan weighted by the number of clients per MFI varies considerably between regions: from EUR 135 in Africa to EUR 799 in Latin America. The overall average loan is EUR 465 per client:



The average microloan is well below the per capita average national income of the countries concerned (the relationship is 19,4% for our entire loan portfolio, weighted by the number of clients per MFI). This is evidence that our microfinance partners work with relatively poor population groups.

2.3. Financial products and services of our MFI partners

The MFI that answered our survey offer the following financial products:



Loans

Clients can obtain various types of loan. All the MFI partners propose operating capital for the income-generating activities of their clients. Nearly all of them also offer investment capital in the form of long-term loans. Some also provide their clients with consumer credit and loans for housing and education.

Savings

At 13 of our 32 MFI partners, clients can obtain savings products. In all, over 322 000 clients of 'our' MFI (27% of the total number of clients they work with) have a savings account with an average balance of EUR 366.

It should be pointed out that the MFI with the status of associations are not as a rule allowed by domestic law to take in savings. A number of these foundations and NGOs, for the most part the longest established institutions, are therefore in the process of acquiring the status of banks. A direct benefit of this is that they can then act as savings institutions. This not only enables them to satisfy the demand of their clients, but also offers an alternative and cheap method of financing their microloan portfolio.

Remittances

Another product proposed is the possibility of receiving remittances from family members working abroad (31% of MFI's).

Life assurance

Clients concluding a loan contract can in some cases also take out insurance. In the event of death or permanent invalidity as a result of an accident, the outstanding balance of the loan is repaid to the MFI by the insurance. In addition the family members generally receive a contribution towards the funeral costs (38% of MFI's).

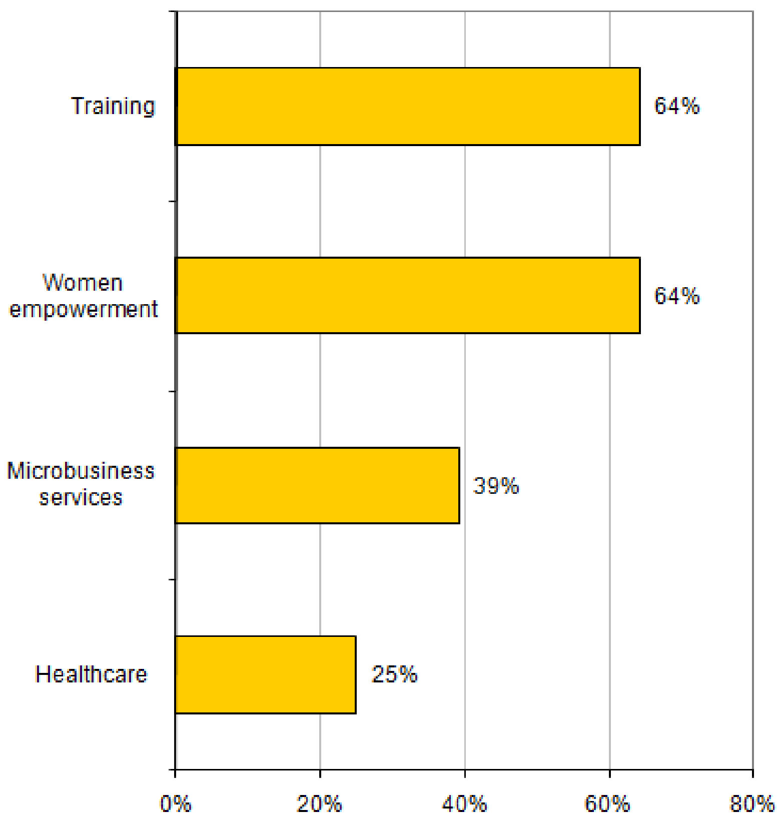
2.4. Other services (non-financial) of our MFI partners

In addition to financial services, most MFI partners offer their clients and members a series of non-financial services.

64% of our MFI partners provide training for their clients. In the MFI sector, this means basic training in finance and in health/nutrition.

64% of the MFI's work on women empowerment.

39% offer specific micro business service and 25% offer healthcare services to their clients.



2.5. Social Rating

Due to rising demand for transparency in social performance of MFI's, rating agencies that do financial ratings, also began to offer social ratings. These social ratings do not directly measure the impact on the clients (as this process is too complex), but evaluate the processes within the MFI that should lead to final impact on clients.

15 of our MFI partners who responded the survey have already been socially rated and at least 2 are in the process of obtaining one.

2.6. Client protection principles

Alterfin is concerned about all effects of microfinance on client's life's. Therefore, Alterfin is one of the endorsers of the campaign for client protection (together with a wide range of other providers of financial services, networks, MFI's,...). The 6 principles for client protection are the following:

- Avoidance of over-indebtedness
- Transparent and responsible pricing
- Appropriate collections practices
- Ethical staff behaviour
- Mechanisms to address complaints from clients
- Privacy on client data

Since this year, the MFI's had to indicate in the survey which processes they already have in place regarding each of these 6 principles. These aspects are also part of evaluation during field visits and in our credit committee.

2.7. Fair trade

Introduction

The present international trade situation makes it very difficult for many small producers in the countries of the southern hemisphere to earn a decent living from their agricultural activities. Fair trade is a model, based on more balanced relations between trading partners:

- Producers get together in cooperatives or associations that work on democratic principles.
- Working conditions are decent and human rights are respected.
- Producers are paid a "fair" price, in line with production costs, and not determined by the balance of power on international markets.
- The use of intermediaries is avoided.
- Generally purchasers pay (part) in advance so that producers have less (or no) need for other sources of financing.
- Respect for the environment and organic production are promoted.
- The consumer is informed about the origin of the product.

The table below gives an overview of the products and countries concerned by our FT financing:

2009	Coffee	Cocoa	Wine	Bananas	Honey	Sesame	Sugar	Total
Number of FT partners	21	3	2	1	1	1	1	30
Number of countries	Peru Ecuador Nicaragua Honduras El Salvador Guatemala Laos	Peru Ecuador	Chile	Ecuador	Chile	Nicaragua	Costa Rica	9

Prefinancing

By granting loans to groups of "fair-trade" farmers, Alterfin enables them to prefinance their harvest. This secures easier access to the market for small producers. Our loans make it possible for cooperatives to purchase the products of their members, so that they are not sold to intermediaries at unduly low prices.

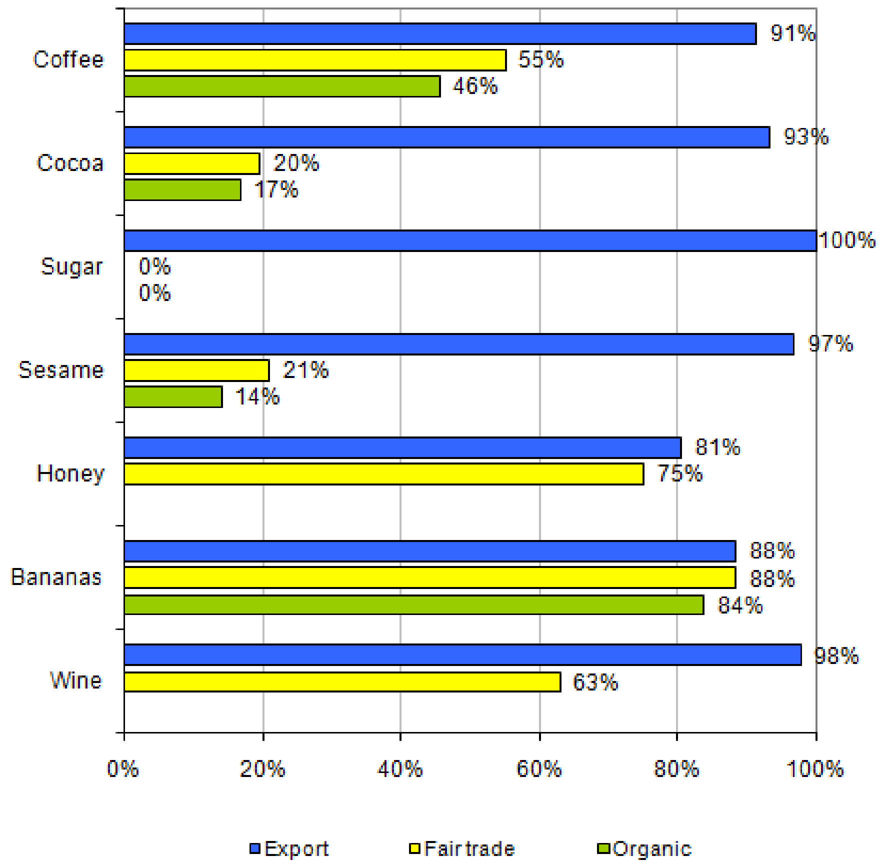
The principle is simple: members receive from their cooperative an advance on their future crop. After the harvest and once the crops are delivered to the cooperative, the producers receive the remainder of the money. In addition to the prefinancing, the cooperatives often provide their members technical assistance. They also look after the processing of the crop and marketing through fair-trade channels.

Markets

The mayor part of the production is exported. Most of our partners have the FLO label (Fairtrade Labelling Organizations International is the umbrella body of fair trade brands). In addition, most of our FT partners have an organic certification for (some of) their products. Organic produce often benefits better prices and sales.

Some partners are still in the process to obtain the FLO-label.

The following chart shows the various markets by product:

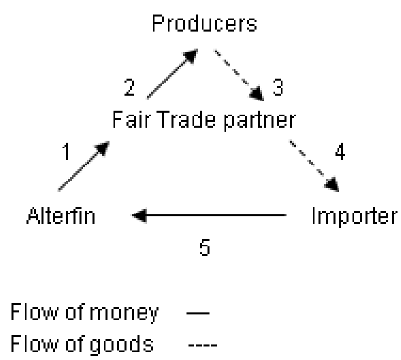


Turnover of our FT partners, by product	Euro
Coffee	77 948 322
Cocoa	13 870 357
Sesame	3 207 421
Bananas	1 624 445
Honey	2 455 891
Wine	620 079
Total 2009	106 108 217

Some partners sell more than one product (e.g. coffee and cacao, bananas and cacao,...), so sales data are calculated for both.

End 2008, beginning 2009 there was a crisis on the cocoa market. Prices went down significantly and there was less demand for Fairtrade and organic. Producers had to sell the cocoa as conventional. The market has recovered since then, with even higher prices.

When Alterfin finances a “fair-trade” partner, it works with importers. We use the partners’ export contracts as a guarantee for our loan. The strongest of Alterfin’s fair-trade partners are able to handle their exports themselves, whereas the smaller ones go through intermediaries. The diagram below shows the financing and product flows of the set-up and the place of the various actors:



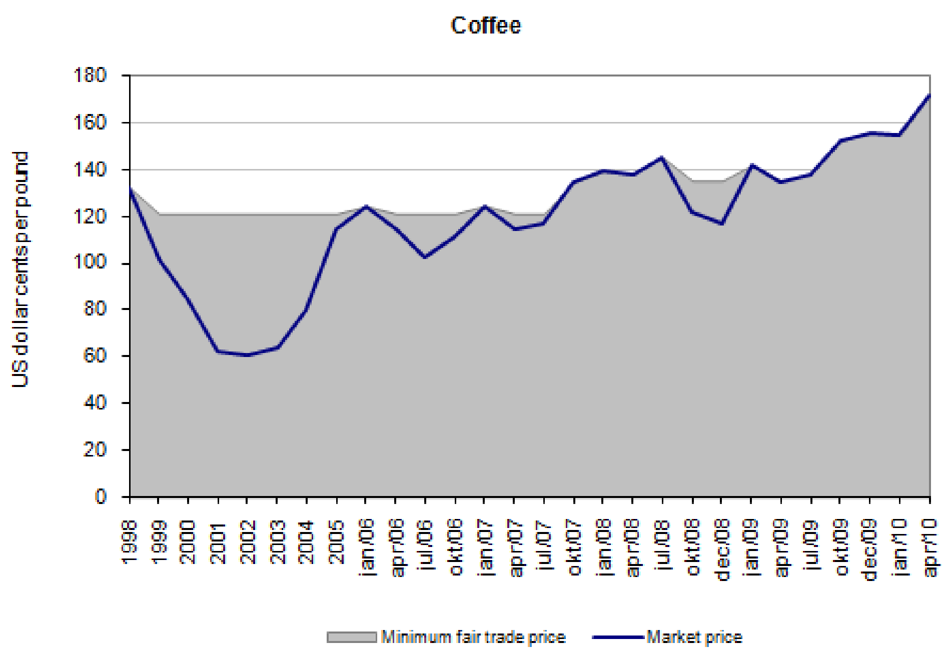
Alterfin grants a loan to a producers' association in the developing country (1), which then provides prefinancing to its members by way of a payment on account (2). The producers undertake to deliver their crop to the cooperative (3) and receive the balance upon delivery. After processing, the cooperative exports the goods to an importer (4) so that they can be sold through the fair-trade channels. It is laid down by contract that the importer pays Alterfin direct for the consignment and not the partner (5). In this way the loan is repaid to Alterfin. Once Alterfin has got its money back, we grant a new loan to the partner.

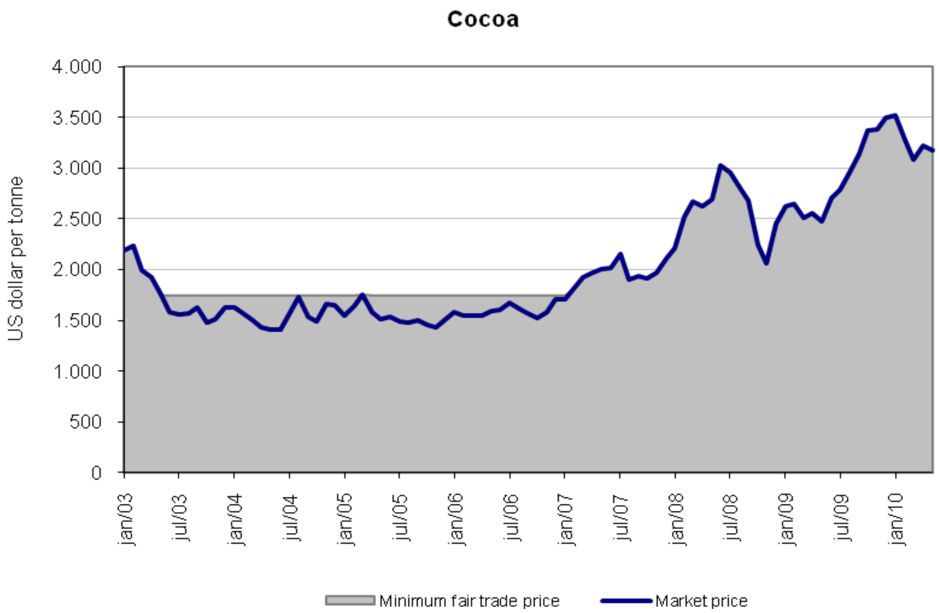
Fair prices

One of the fundamental principles of fair trade is that producers receive a “fair” price for their crops in relation to the production costs. The system also includes a minimum price guaranteed to producers.

In recent years the world market price for coffee and cocoa has frequently been below the minimum fair-trade price; small fair-trade farmers therefore received a higher price than they would have done through other sales channels. But from 2007 onwards, the situation was the reverse, with market prices higher than the fair-trade minimum. This change was mainly the result of the strong demand for coffee and cocoa.

The price of a pound of Arabica coffee on the world market has ranged from barely 60 US cents at the end of 2001 to over 155 US cents end 2009 (even 171 april 2010). Over the same period, thanks to fair trade and its minimum price (set for a long time at 121 US cents and raised to 135 US cents in mid-2008), thousands of families have escaped financial ruin. But at times when market prices are high (higher than the minimum fair-trade price), fair trade faces the challenge of keeping producers loyal to the system. It also demands better quality and therefore more work. As a result some producers have tended to sell their products through traditional channels.



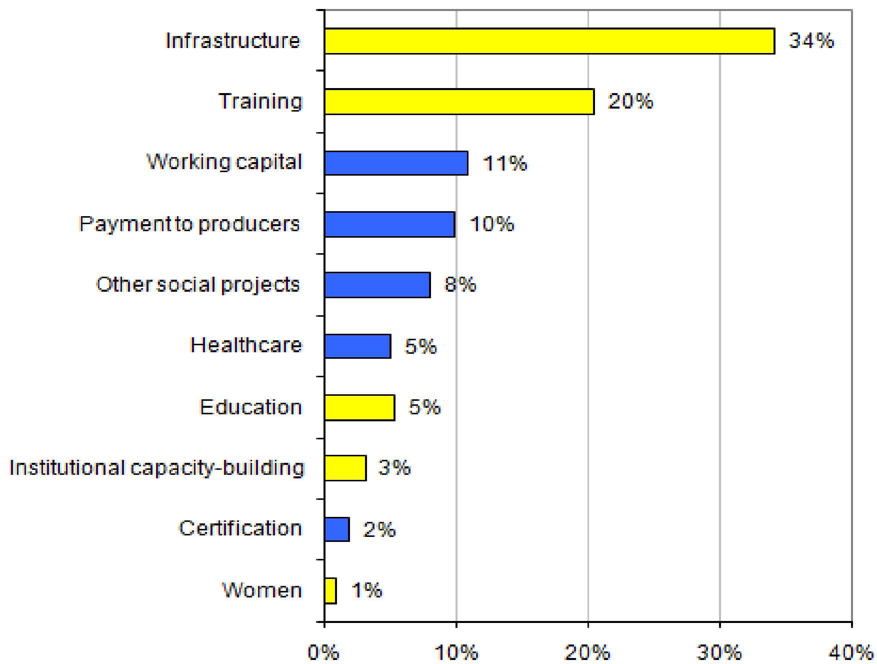


Source of coffee prices: average annual and monthly prices for “Other mild Arabicas” on the New York market, International Coffee Organization: www.ico.org Source of cocoa prices: average annual and monthly prices, International Cocoa Organization, www.icco.org

Higher prices are obviously welcomed by producers. But this also means that our partners (i.e. the cooperatives) need more funds to purchase the products of their members. Alterfin endeavours to respond to their request for more resources and has indeed significantly increased its financing of these partners over the last years.

Premium

In addition to the minimum price, fair-trade buyers also pay a premium to the producers group. They decide together for which purpose it will be used. The chart below shows how our partners have allocated this premium in the last year:



Other services offered by FT-partners

Producers' associations mainly offer technical assistance to their members to improve crop quality and quantity.
A lot of them also invest in infrastructure, healthcare, school fees, community projects.
Some of them have special projects for women.
Some offer savings and/or remittances services.

3. Conclusions

At the end of 2009 Alterfin was financing, via its partners, at least 82 000 people (and their families). 35% of these clients are financed by Alterfin's own capital, the other 65% by the funds of responsAbility.

More than half of the clients live in Latin America (53%). Africa and Asia account for 26% and 22% respectively.

The average loan ranges from EUR 135 in Africa to EUR 799 in Latin America. The average microloan is well below the per capita average national income of the countries concerned. This is a good indication that our microfinance partners work with relatively poor population groups. 74% of their clients are women and 67% of our partners' clients live in rural areas. 49% of our financing goes to the agricultural sector.

All these indicators show that we are indeed reaching the people we want to reach. However social impact is not only a matter of measuring how many people and who exactly is benefiting from our activities. Social impact is also about how these people are benefiting from it. Until now most MFI's do not have workable tools to measure the impact on the individual lifes of people. Instead more and more of them try to manage what is called "social performance".

Social performance measures how well an MFI translates its social goals into practice. The assumption being that, if all processes within the institution are well adapted to its social mission, this will most probably lead to the desired impact on the client's life. This measurement makes organisations reflect on their mission, their strategies, their products, transparency...

15 of the 29 MFI's in our survey have already obtained an independent social rating from a specialized rating agency, and at least 2 others are in the process of obtaining it soon.

As part of the movement to put social performance in the forefront, Alterfin also endorsed a list of 6 principles regarding the protection of the MFI's clients (avoidance of over-indebtedness, transparency on pricing and terms towards clients, ...) and asked MFI's which measures are taken in regard to these 6 principles.

Our partners employ over 8 630 people, 44% of whom are women.

Our MFI partners propose a wide range of financial products and services. Their prime mission is to make available loans to develop an income-generating activity. Other products offered are urgent domestic needs/consumer credit, housing and education loans. 13 of the 32 MFI partners also take in savings with an average balance of EUR 366. 31% of MFI's offer remittances and 38% offer insurance.

During 2009, Alterfin decided to raise its part in producer financing. The groups of FT producers centralise the products of their members, process them and market them. The mayor part is exported, a large proportion is fair-trade and for some products also organic. Due to the crisis in cocoa, demand for FT and organic fell dramatically, but will recover this year. Producers receive a fair price for their crops and a premium that they invest in the growth of their activities, training of producers, extra payments to producers and in social projects.

Most partners (MFI and FT) also support their clients/members by providing other services (non-financial) and projects in education, healthcare, community organisation, women empowerment and infrastructure development.

This report gives different pieces of the social performance jigsaw puzzle. The picture is not yet complete, but we are however convinced that the process helps us to increase our own social performance.