FEFISOL

Social and Environmental Report

2013

FEFISOL—SA (SICAV—FIS)

FONDS EUROPEEN DE FINANCEMENT SOLIDAIRE POUR L'AFRIQUE

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FEFISOL in action

During this second year of operations, FEFISOL continued developing its portfolio in line with its key investment objectives, including a strong focus on **underserved vulnerable populations**. At end 2012, FEFISOL's clients reach **more than 500 000 final beneficiaries** of which **60%** live in **rural areas** and **69%** are **women**.

Over the period, FEFISOL has financed 20 microfinance institutions (MFIs) in 15 countries, all but one Sub Saharan. In majority, they operate in **some of the less developed countries** and where the penetration level of quality financial services remains low such as Niger, Sierra Leone or Zambia. The MFIs financed are predominantly small institutions in consolidation (Tier 2 and 3), that mostly target **rural population** and **women**.

Out of all the financed MFIs, one is a Tier 1. It has been selected for its social commitment and because it operates and has a prominent role in Tunisia where the support of micro entrepreneurs is a key issue in the present context. All the MFIs financed by FEFISOL, target **low income clients** with an average outstanding loan amount of less than 500 euros (representing on average 30% of GNI per capita PPP).

Despite their relatively small size and operational constraints, the financed MFIs have endeavoured to reach out to less served areas with a network of branches and satellite bureaus. The majority offer voluntary saving services, some have poor-oriented loan products such as 'kick off" loans at concessional conditions. Most provide non-financial services alongside standard MFI financial products, in order to ensure **financial inclusion of vulnerable populations**. Although the smaller MFIs are putting much effort into strengthening financial self-sustainability and upgrading processes, many have also started to implement concrete measures of social performance management to improve the quality of their services, the protection of and benefits to clients.

The fund has also progressed in the financing of Producers' Organizations (POs) in 4 countries. The four financed POs have a strong impact in terms of **outreach** (33 000 smallholders), of **income generation** (a small holder sells on average around 1 000 euros per year to the PO), of **environmental protection** (all exporting financed POs are in the process of converting an increasing number of smallholders to organic farming) and of **community development** (by using the fair trade premium to finance local development projects). Among the financed POs, three target the export markets and one produces rice for the local market of Niger, thus contributing to the country's **food security**. The financed POs are increasingly embarking on improved processing activities that foster the value added retained at a local level. FEFISOL, that has up to now only provided trade finance, will support a few selected investment projects in the future.

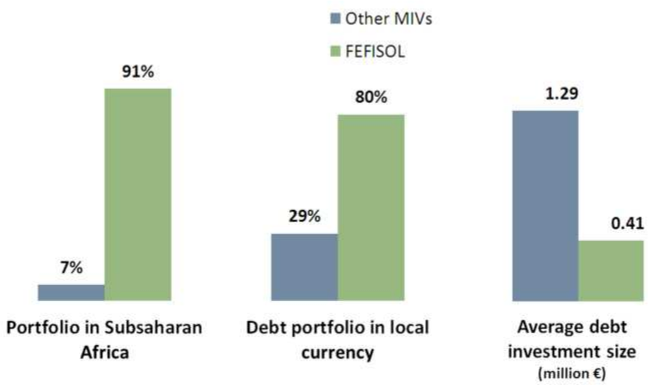
FEFISOL Investment Committee (IC) has a difficult task in assessing the wide range of institutions presented by the team of Investment Officers. It has taken time to review and clarify potential risks and to find the best way to structure and secure the financing. Over the period, IC members have paid particular attention to governance issues of potential investees (ownership structure, profit/margins distribution, local representation). It is determined to **enhance transparency, accountability and balanced power distribution**.

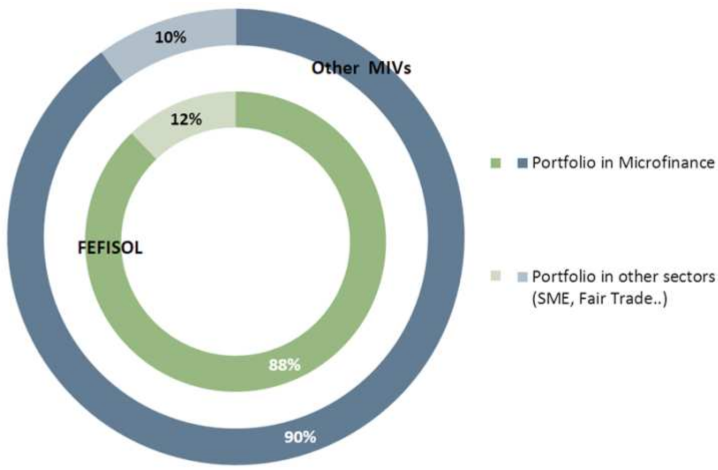
In the future, FEFISOL will implement an even **more proactive social and environmental (S&E) stance** in the selection of its clients. Moreover, the Technical Assistance (TA) Facility will focus on the social performance strengthening of MFIs. Finally, data collection on S&E client performance will also be improved to ensure reliable, coherent and meaningful information, highlighting the S&E achievements of FEFISOL clients.

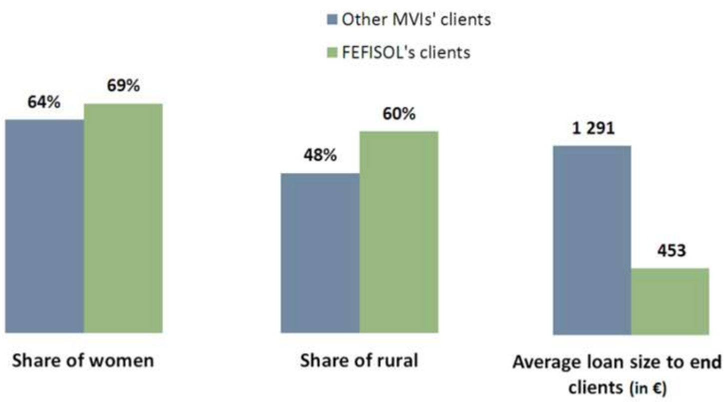
Jean-Pierre BARBIER
Investment Committee Chairperson

FEFISOL at a glance

Where does FEFISOL stand in the market of Microfinance Investment Vehicles (MIVs)?







Source of data for other MIVs:

2012 Symbiotics MIV Survey, Market Data and Peer Group Analysis, July 2012

Sample of 72 MIVs representing 90% of MIV market asset base.

Notice: amounts in USD have been converted to euros with the 2011 average exchange rate of 1.3920

FEFISOL

FEFISOL's financial, social and environmental strategic objectives

FEFISOL SICAV-FIS was established in July 2011 to provide debt and equity financing to African Microfinance Institutions (MFIs) and Producers' Organizations (POs). The fund has the following strategic objectives:

- Financing **Sub-Saharan Africa institutions** (at least 75% of outstanding gross portfolio)
- Promoting financial-services for **rural populations** and financing agricultural activities (MFIs providing services to rural populations and POs, at least 50% of outstanding gross portfolio)
- Focusing on **underserved MFIs, regions and countries** (the Fund focuses on Tier 2 and Tier 3 MFIs, Tier 1 MFIs are limited to 4)
- Providing **local currency** debt financing (80% of gross loan portfolio to be denominated in local currency)
- Providing **medium and long term financing** to finance needed investments and allow for additional leverage (30% of gross outstanding portfolio as equity and loans of up to 5 years to finance investment needs)
- **Strengthening Tier 2 and Tier 3 MFIs equity base and providing active governance support** and follow up when the Fund carries out an investment
- Combining financing and **technical assistance** to strengthen in particular Tier 2/3 MFIs and POs, thus enabling sustained growth and reducing risks
- Selecting clients with **strong economic and social development potential,** promoting and following up on Social and Environmental (S&E) results. This includes the financing of Producers' Organizations that produce and sell to Fair Trade (FT) and Organic markets.

FEFISOL has set up a social and environmental policy that is being implemented and that provides for an annual S&E report. An S&E officer has been appointed who is supported by an S&E expert.

Key figures end of March 2013 -

A year of progressive growth and diversification

	No. of inv. or clients	Disbursed
Total portfolio *	23	9 984 314
Number of clients	21	
Av. investment outstanding		434 101
Country Number	17	
Subsaharan Africa	20	9 236 615
North Africa	1	747 699
Rural	13	6 033 548
Urban & Rural	8	3 950 766
MFI Tier 1	1	747 699
MFI Tier 2	9	4 933 483
MFI Tier 3	6	1 395 609
PO	4	2 383 446
APEX	1	524 077
Equity *	1	1 027 334
Loans *	22	8 956 980
Loans Medium Term *	14	5 997 896
Loans Short Term *	3	880 536
Credit Line *	5	2 078 548
Loans in Euros or USD *	5	2 078 548
Loans in local currency *	17	7 905 766

Notice
With * = number of investments

At end of march 2013,

9.98 million euros in 21 clients

The outstanding portfolio

8.27 million Euros, of which: **91%**

58% in rural areas,

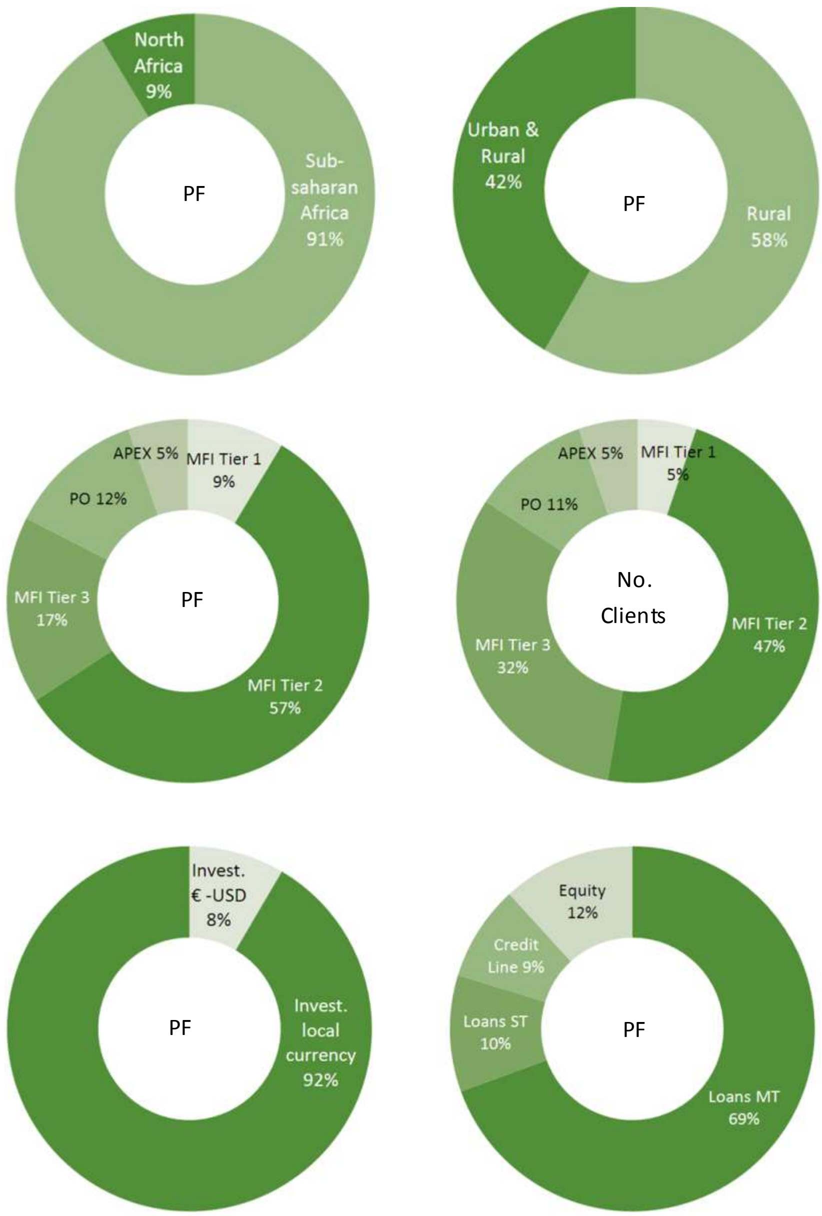
12% in Producers' Organizations,

FEFISOL's average investment outstanding is of **435 400 euros.**

68% of clients have received an investment of **less than 400 000 euros**.

No. of outstanding clients	Outstanding in Euros (fx SPOT rate)
19	8 272 591
19	
	435 400
16	
18	7 556 557
1	716 034
11	4 473 777
8	3 198 814
1	716 034
9	4 727 059
6	1 382 814
2	1 004 898
1	441 786
1	974 260
18	7 298 331
14	5 743 609
3	854 722
1	700 000
1	700 000
18	7 572 591

Without * = number of clients



Outstanding portfolio (PF) breakdown, end of March 2013

FEFISOL has invested

in 17 countries.

at end March 2013 is of

are invested in Subsaharan Africa,

74% in Tier 2 and Tier 3 MFIs,

and **92%** in local currency.

Social and environmental and performance assessment

FEFISOL Social and Environmental screening system

Social and environmental (S&E) risk and performance assessment is conducted at different stages of the life of the investment and according to several specific procedures, as described below:

- FEFISOL investment officers conduct thorough **due diligences** that include an S&E risk screening and a social and environmental performance analysis.

- In addition, the **Investment Adviser** provides the Investment Committee (IC) with a **S&E case review** of all the deals that are analyzed at due diligence stage.

- Then, during the life of the investment, the investment officer and investment adviser **regularly update the S&E client profile** (field report, monthly portfolio report, annual S&E questionnaire).

- Finally the **Technical Assistance (TA) Facility** can help FEFISOL's clients improve their social performance.

Over the period, progress have been made to deepen the S&E analysis of potential and ongoing investees. Amongst other things, the Investment Adviser S&E case review has been systematized and the due diligence tool has been fleshed out on S&E issues. Furthermore, the Investment Committee has been sensitized to social performance and risk assessment (see Focus n°1.)

Focus No. 1

Raising FEFISOL Investment Committee's awareness and skills on social and environmental issues.

A seminar was organized end of November 2012 with FEFISOL Investment Committee. The objective was to analyze the results of the S&E screening process and questionnaires, discuss recurrent issues and improve assessments.

Ways in which S&E analysis could be better included in IC decisions were reviewed as well as the S&E warning signals that could have an impact on the overall MFI or PO financial performance.

The seminar dealt with specific issues such as MFI clients' overindebtedness and fair and transparent pricing practices.

Due Diligence

- **Up front social and environmental risk screening**
  - National and international regulations
  - CPP
  - Environmental impact of financed activities
- **Social and environmental questionnaires**
  - Mission, governance, targeting and outreach, products and services, SR towards clients, employees and community, environmental responsibility

Investment follow-up

- **Follow-up on social and environmental risk** (ongoing)
- **Social and environmental questionnaires** (annually)
- **Key performance indicators (annually)**
  - Number of active borrowers/depositors, % women, % rural, PAR30, Interest rates, Financial ratios

of FEFISOL's investees

Step forward

Next year, The IC seminar will be followed by the following:

- IC dedicating a specific time per due diligence to discuss S&E issues, put down in the minutes
- Renewing S&E seminars with FEFISOL Board and investment officers
- Raising client awareness on S&E challenges by investment officers during due diligence and by sending an S&E document with principles, tools and key initiatives at disbursement stage .

Results at end March 2013

— Investment Committee Activity

Over the period 2011-2012, FEFISOL Investment Committee reviewed **32 investment proposals** at pre-selection stage. 56% led to a due diligence including an in-depth social and environmental screening. 83% of due diligences presented to the Investment Committee were approved at final stage and 44% were disbursed.

Pending disbursements are due to a number of reasons: changes in context that lead the client to suspend its funding request (particularly for POs), difficulties in meeting pre-condition or in gathering the required pre-disbursement information.

Out of the 21 active clients to date, **1/3** received S&E recommendations in the investment decision notice that mainly dealt with portfolio quality, overindebtedness, risk management and pricing.

Over the period, 3 proposals were rejected or suspended because of S&E issues including incompatible ownership structure or profit/margins distribution. For one PO proposal, additional information was requested about environmental risks.

During the period one client had a risk category change (from medium to high) because of an institutional crisis but for no client was there an S&E non-compliance warning.

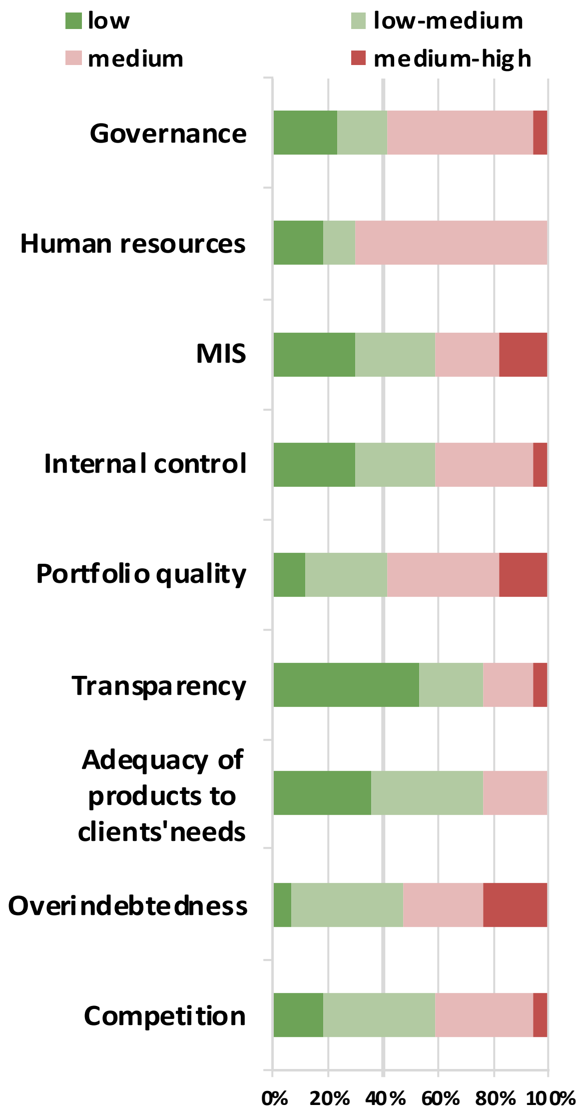
During the period, **4** of the investment proposals were rejected for **S&E non-compliance** or required an additional **in-depth analysis on social and environmental issues**.

Technical Assistance

- Improve client protection
- Improve social performance management
- Social audits / ratings

Results at end March 2013

— Due diligence risk scoring of FEFISOL's clients



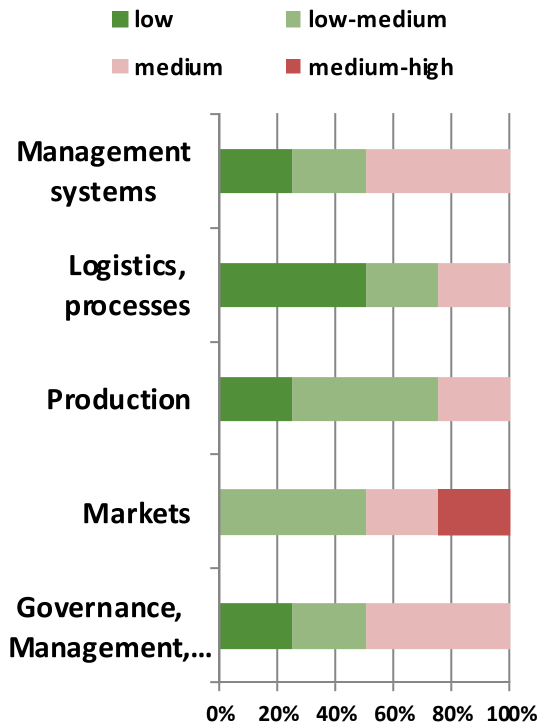
MICROFINANCE

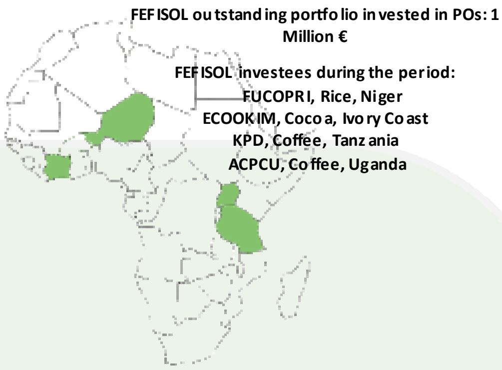
The opposite graph shows due diligence scores for key S&E risk categories for 17 clients (16 MFIs and 1 APEX). In the due diligence framework, a total of 18 categories are assessed and rated according to 5 levels of risk. As far as FEFISOL's microfinance clients are concerned, **risks appear to be concentrated on governance, human resources, portfolio quality, MIS and over-indebtedness**. This is consistent with the analysis of the situation of FEFISOL's investees at end December 2012 that is detailed hereafter.

These risk profiles and necessary follow up and TA support are being discussed at IC and Investment Officer level.

PRODUCERS' ORGANIZATIONS

With regard to PO risk scoring, major risks are unsurprisingly at **market, human resources and governance level**. This is an ongoing observation. Investment Officers support POs in contacting additional buyers and stress the need to consolidate buyer relations. Nevertheless it is a very difficult business, with buyers signing purchase contracts as late as possible and switching suppliers frequently (as even for niche markets, supply is increasing).





Focus No. 2

The challenges of Producers' Organizations financing in Africa

FEFISOL currently finances one food producing organization (FUCOPRI – Niger – rice) and 3 cash crop organizations: ECOOKIM (Ivory Coast—cocoa), KPD Ltd (Tanzania—coffee) and ACPCU (Uganda—coffee).

ACPCU and ECOOKIM are set up as Unions of farmer cooperatives while KPD is a company limited by shares whose owners include the founders, the farmers and a number of SACCOs from the region. End 2012 the three POs counted with 6 500, 3 250 and 23 500 members respectively. All have decided to specialize in quality, niche markets and are **fair trade certified**. All 3 are also **gradually promoting and achieving the organic certification** of an increasing number of their members.

ACPCU and ECOOKIM have a long standing experience in production and commodity trade. On the other hand, KPD is a younger organization experiencing rapid growth to be consolidated in the next two years.

All face a **challenging environment**:

- Supply has to be secured from members, on time and of the quality requested by buyers
- Organic and Fair Trade certifications require appropriate management systems and close supervision
- Buyers commit purchases just at the beginning of, or even further along, the agricultural season and a lot of effort is required to strengthen relationships, especially with the larger buyers
- The larger buyers are very demanding in terms of consistent quality and timely shipping, and may switch to alternative suppliers if not satisfied
- Demand for certified products is erratic and some of FEFISOL's clients have to manage various certifications to enhance market potential.

It thus takes a lot of experience and professional management to run these organizations.

Besides the ones currently financed, half a dozen POs are being analyzed, two of which are at disbursement stage end March 2012.
FEFISOL supports POs by providing trade finance and access to technical assistance. It is also considering investment finance for the stronger organizations that have long standing buyer relationships.

At due diligence stage various S&E aspects are considered including: analysis of farm level prices and margin distribution along the value chain, payment modalities to farmers, services provided to members, use of the Fair Trade and organic premiums, ownership structure, functioning of governance and possible environmental issues such as mono versus multiculture, water management, pressure on scarce land resources, and soil conservation practices.

To mitigate risks, FEFISOL coordinates with the principal buyers that endorse the purchase contracts and sometimes provide an additional guarantee. The fund counts with a few investment officers specialized in the agricultural value chain finance. External expert advice is also sought on specific issues. A close follow-up by a local NGO or consultant is also carried out to ensure a good understanding of the agricultural season.

FEFISOL Investment Officers participate in various trade fairs and investor forums that specialize in agriculture value chain financing. This enables the team to discuss issues, analyze cofinancing opportunities and meet new interesting Producers' Organizations.

©Photos: up-left: ECOOKIM, Ivory Coast, down-right: ACPCU, Uganda

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FEFISOL's investees key performance indicators

Reporting data as of	2010			
MFIs	Total		Average	Median
	# or Euro		# or Euro	# or Euro
Number of MFIs	**15**		**15**	**15**
Number of branches	197		13	8
Number employees	1 960		131	87
of which women	559		37	35
No active borrowers	283 196		18 880	7 355
of which women	187 915		12 528	5 444
of which rural	119 276		7 952	5 259
No active depositors	256 335		17 089	5 210
Total Assets	107 214 010		7 147 601	3 389 629
Gross loan portfolio	88 476 660		5 898 444	2 114 689
Average loan outstanding	5 436		362	198
Total Deposits	24 293 964		1 619 598	385 895
Total Equity	29 136 753		1 942 450	490 908
RATIOS	Min. value	Max. value	Average	Median
Sustainability and profitability				
Portfolio Yield	11.8%	109.2%	36.7%	31.1%
ROA	-64.4%	9.4%	-2.5%	2.6%
Portfolio quality				
Portfolio at Risk (PAR) Ratio	0.3%	13.4%	6.8%	7.8%
Risk Coverage Ratio	36.7%	1227.0%	149.4%	55.9%
Efficiency and productivity				
Operating Expenses Ratio	9.4%	156.8%	38.9%	22.8%
Average EIR	0.0%	156.0%	44.7%	32.3%
Asset/Liability Management				
Liabilities/Equity	46.0%	962.1%	334.1%	239.2%
Qualitative Information	Number of Yes			
Financial rating (past 3 years)	4			
Social rating (past 3 years)	1			
Performance management system	NA			
Signatory of Smart Campaign	NA			
Use of energy conservation practices or renewable energy	NA			

Notice

- Please note that 2012 data is based on unaudited accounts.
- Moreover, a constant average exchange rate to Euro was used in order to avoid fluctuation effects from one year to another.

— Microfinance Institutions

2011

Total	Average	Median	% evolution
# or Euro	# or Euro	# or Euro	on aggregated figures or averages
15	15	15	
208	14	7	6%
2 476	165	95	26%
1 102	73	39	97%
351 166	23 411	9 853	24%
242 892	16 193	8 160	29%
155 565	10 371	6 359	30%
335 432	22 362	7 992	31%
149 135 727	9 942 382	4 417 712	39%
120 140 880	8 009 392	2 982 208	36%
5 467	364	295	1%
30 966 418	2 064 428	531 464	27%
35 765 440	2 384 363	836 121	23%

Min. value	Max. value	Average	Median	% evolution
17.3%	93.8%	35.8%	29.8%	-2.4%
-41.4%	14.7%	0.2%	2.9%	-109.3%
1.6%	18.3%	5.7%	4.1%	-17.1%
21.9%	207.7%	77.6%	79.6%	-48.0%
11.0%	86.1%	33.1%	20.5%	-14.9%
0.0%	156.0%	48.4%	35.3%	8.2%
80.0%	897.0%	314.8%	248%	111%

Number of Yes
5
2
4
3
2

2012

Total	Average	Median	% evolution
# or Euro	# or Euro	# or Euro	on aggregated figures or averages
15	15		
235	16	8	13%
2 703	180	104	9%
1 197	80	39	9%
390 130	26 009	12 684	11%
257 831	17 189	9 208	6%
178 396	11 893	6 251	15%
484 547	44 050	23 531	44%
175 730 450	11 715 363	5 403 415	18%
137 808 823	9 187 255	3 425 969	15%
6 799	453	262	24%
41 191 160	2 746 077	1 247 538	33%
40 855 474	2 723 698	754 117	14%

Min. value	Max. value	Average	Median	% evolution
15.9%	65.0%	35.6%	29.0%	-0.5%
-38.0%	12.0%	0.1%	2.6%	-73.8%
1.8%	33.0%	9.8%	6.4%	73.6%
19.0%	126.0%	71.4%	76.3%	-8.0%
12.0%	69.0%	28.3%	23.9%	-14.5%
21.0%	104.0%	45.5%	37.0%	-6.1%
80.0%	780.0%	303.9%	299%	291%

Number of Yes
6
3
7
6
5

- Although there are 16 MFIs in FEFISOL's portfolio, we are providing the data for 15 of them as the information was not available or reliable for one MFI, which is going through an institutional crisis.
- We also excluded the one APEX data that was not consistent with the rest of the information

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FEFISOL's investees key performance indicators

Reporting data as of Producers Organisations	2010 Total # or Euro	2010 Average # or Euro	2011 Total # or Euro	2011 Average # or Euro	2011 % evolution Total
Number of consolidated POs	**3**		**3**		
Number of smallholder suppliers	30.267	10.089	31.013	10.338	2%
Number of cooperatives suppliers	17	6	21	7	24%
Number of permanent staff	41	14	44	15	7%
of which women	3	1	11	4	270%
Number of seasonal staff	110	37	111	37	1%
Number of clients	14	5	13	4	-7%
Average size of producers' farms (hectares)		4		4	0%
Average purchase per producer		882		754	-15%
Amount of raw material bought to producers	7.853.650	2.617.883	7.481.277	2.493.759	-5%
% of raw material purchase / Total sales	90%	90%	83%	83%	-8%
Total Expenses	8.770.853	2.923.618	8.734.907	2.911.636	0%
Total Equity	439.012	146.337	626.765	208.922	43%
Total sales	8.683.784	2.894.595	8.974.792	2.991.597	3%

Ratios	2010 Min. value	2010 Max. value	2010 Average	2011 Min. value	2011 Max. value	2011 Average	2011 % evolution Average
% sales fair trade	0%	77%	31%	16%	83%	57%	83%
% sales organic	0%	0%	0%	0%	0%	0%	
% sales organic and fair trade	0%	77%	31%	16%	83%	57%	83%
Net Income margin (% of sales)	-3%	1%	0%	0%	4%	2%	

Qualitative information	2010 Number of Yes	2011 Number of Yes
Use of energy conservation practices or renewable energy	2	2
Fair Trade certification	0	0
Organic certification	0	0

— Producers' organizations

	2012		
	Total # or Euro	Average # or Euro	% evolution Total
	3		
	33.334	11.111	7%
	23	8	10%
	44	15	0%
	11	4	-1%
	149	50	34%
	15	5	15%
		3	-8%
		1.018	35%
	11.625.132	3.875.044	55%
	82%	82%	-2%
	14.252.056	4.750.685	63%
	1.050.522	350.174	68%
	14.194.401	4.731.467	58%

Min. value	Max. value	Average	% evolution Average
16%	81%	54%	-5%
0%	5%	2%	
16%	81%	56%	-2%
0%	5%	2%	24%

Number of Yes
2
0
0

Notice

- Please note that 2012 data is based on unaudited accounts.
- Although there are 4 POs in FEFISOL's portfolio, we are providing the data for 3 of them as the information was not available or reliable for the last one.
- Moreover, a constant average exchange rate to Euro was used in order to avoid fluctuation effects from one year to another.
- Sales increased sharply in 2012 mainly thanks to one of the POs, which benefited from an important financing from FEFISOL.

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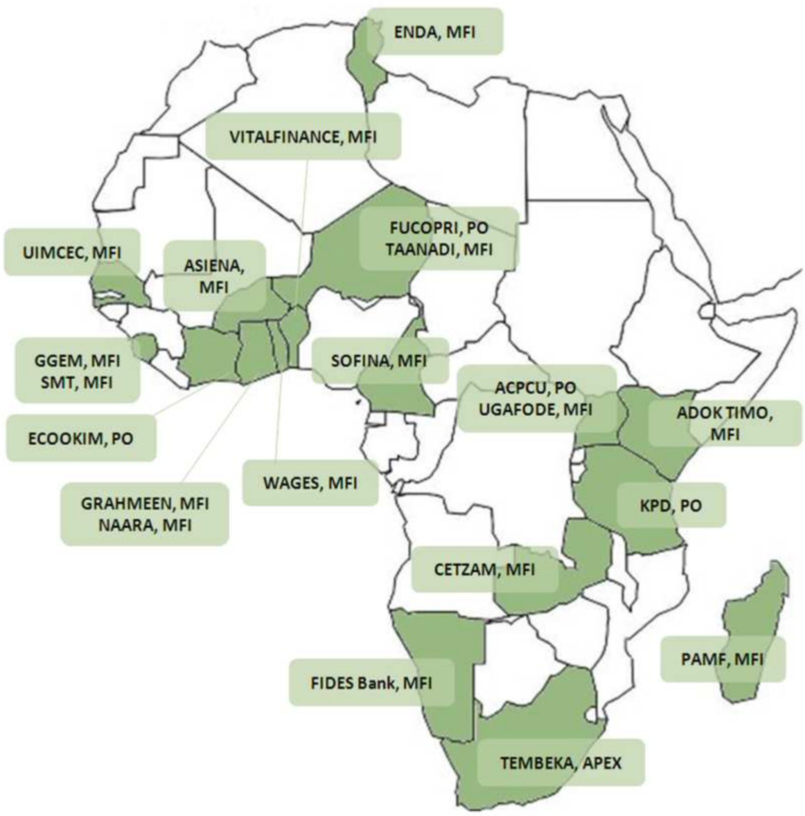
FEFISOL's clients social and environmental strategic objectives

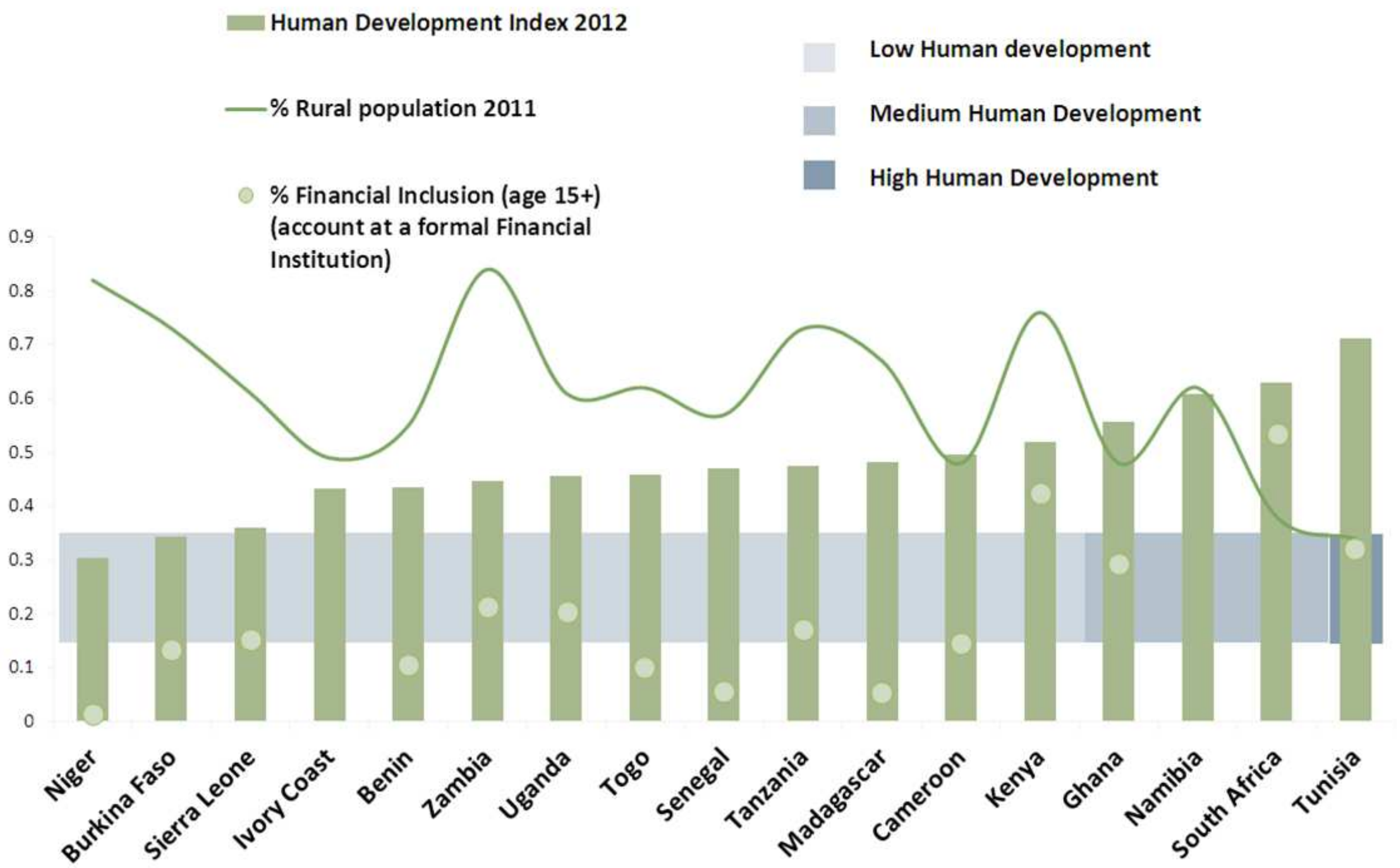
# of MFIs in FEFISOL portfolio	**16**
# of POs in FEFISOL portfolio	**4**
# of APEX in FEFISOL portfolio	**1**
Economic growth	
Target Entity growth (2011-2012)	
Average growth of MFI equity	18%
Average growth of PO equity	68%
Target Entity activity growth (2011-2012)	
Average growth of MFIs gross loan portfolio	18%
Average growth of MFIs total assets	21%
Average growth of PO buyers	15%
Average growth of PO sales	58%
Job creation	
Average growth of clients' employees	4%
Social responsibility	
Responsibility towards clients	
Number of target entities paying a complementary pension or health insurance	13
Number of target entities that have provided training to their staff	11
Responsibility towards clients	
Number of MFIs that provide comprehensible loan conditions information to their clients	13
Number of MFIs that analyze systematically client overdindebtedness	11
Overall social responsibility	
Number of MFIs that follow social performance indicators	7
Number of MFIs that have carried out a social rating	3
Number of POs that have a fair trade certification	3
Environmental responsibility	
Number of MFIs and POs that user renewable energy source or energy conservation measures	7
Number of POs producing organic or implementing environment protection measures	3

FEFISOL's investees at a glance



FEFISOL's investees are located in 16 Subsahara-African countries and 1 North-African country. **76%** of these countries are ranged in the « **low Human Development** » countries. 3 of them are part of the 10 least developed countries of the world (*UN Development Program data*).

On average **61%** of those countries' population is **rural** and only **20%** of adults (more than 15) have **access to a formal financial institution** (*World Bank data*).



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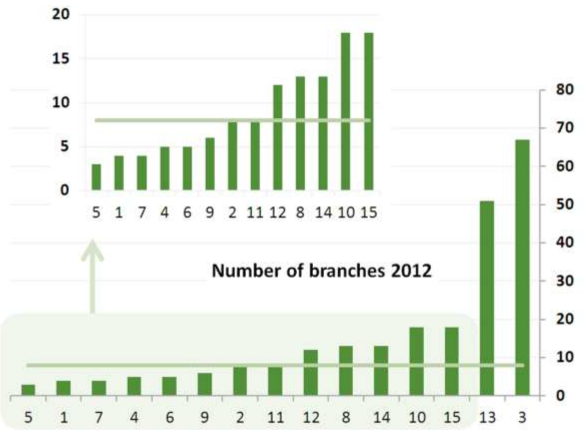
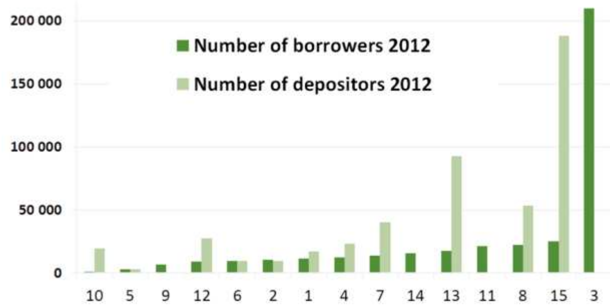
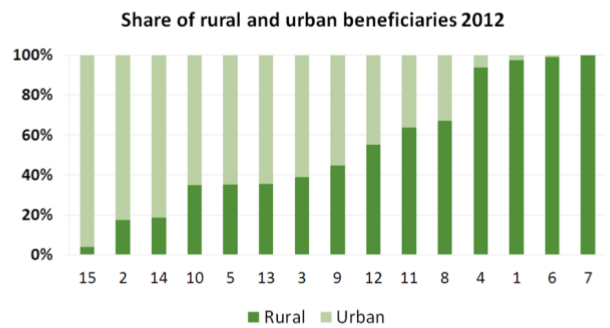






MICROFINANCE INSTITUTIONS

FEFISOL has invested in **10 new MFIs during 2012**, pursuing its investment policy in terms of rural scope, size and social criteria and reaching 16 MFIs end March 2013.

- Except for one Tier-1 financial institution located in North-Africa (that has been excluded of the histograms) and 1 large Tier 2 sub-Saharan MFI, FEFISOL's clients are predominantly **Tier 2 and 3** (77% have less than 10 million euros of total assets) with quite homogeneous profile.
- Most of FEFISOL clients (except for two as outlined above) are small in size with around **8 branches**.
- Median Gross Loan Portfolio is of **3.4 million €.**
- In terms of beneficiaries, most of FEFISOL's clients serve around **12 700 borrowers** (median) while the number of depositors is usually much more important. Some MFIs have not acquired a deposit-taking license and thus are only allowed to collect collateral (compulsory) savings.
- Rural beneficiaries represent approximately **45%** of MFIs' borrowers.
- Targeting low-income and vulnerable populations is part and parcel of MFIs mission (the young, women, rural people in particular)

Notice
Each number on the horizontal axis corresponds to one specific MFI. Light green lines on the 2 first graphs represent medians.

PRODUCERS' ORGANIZATIONS

FEFISOL has invested in **3 new POs in 2012**, producing rice, coffee and cocoa, reaching 4 POs investees end March 2013. 3 of them are dedicated to export while the rice PO targets the local market. POs supported by FEFISOL are quite different in terms of size:

- Except for one PO, they all rely on cooperatives, reaching an important number of smallholder suppliers that can vary from around **3 200 to 23 500.**
- Total sales go from less than 1 million up to close to 12 million euros.
- Smallholders plots' size range from 0,41 to 7 hectares.
- Exporting POs sell to between 3 and 7 buyers.
- Most of POs' production has recently been FT certified and FT production represents an increasing share of total sales.
- Moreover, thanks to FEFISOL Technical Assistance facility, the certification for organic production is in progress and should be obtained or extended in 2013 for some POs.

FEFISOL's clients' social and environmental performance

Mission

MICROFINANCE
FEFISOL's microfinance clients have common approaches in their mission statements that are consistent with FEFISOL policy and strategic objectives:

- Targeting low-income and vulnerable populations (the young, women, rural people are the most quoted)
- Promoting income-generating activities
- Adapting the products and services to clients' needs
- Offering sustainable financial services
- Improving revenue and standard of living of target populations

PRODUCERS' ORGANIZATIONS
For POs, mission statements mainly deal with:

- Giving access to market with high added value (Organic, Fair Trade)
- Empowering smallholders
- Giving priority to family-based agriculture

Governance

MICROFINANCE
FEFISOL's clients have standard governance practices with an average of 3.5 Board meetings per year and all use written minutes.

Women representation in FEFISOL clients' Board is of 25% on average.

During the period, the IC has given much attention to **ownership structure, decision making power distribution, Board/MD independence and profit margin distribution**. As pointed earlier, 3 cases have been rejected for these specific reasons.

Out of FEFISOL's microfinance clients, 56% have been assessed as medium risk as far as governance is concerned mainly due to infrequent meetings or limited capacity/role compared to skilled MDs and top management.

PRODUCERS' ORGANIZATIONS
At POs level, foreign/local shareholding has been more closely scrutinized as well as smallholders stake at governance level. A debate is going on on different POs ownership and management structures. All of the existing POs are smallholder-member based, one has set up a specialized management company. Most recent POs cases analyzed include various set ups with a mix of local and foreign ownership and with or without smallholder shareholding.
For cooperative/union structured POs, management and upgrading of governance is a real issue, with strong pressure to increase the number of members. Important training is also needed for both old and new members.

Governance and social & environmental performance

MICROFINANCE
More than **50%** of FEFISOL's clients have taken concrete measures to sensitize their Board members on social and environmental issues. This has been done

Keys to understanding FEFISOL Social and Environmental Report

End March 2013, FEFISOL has three types of clients: MFIs, APEX and POs. As the social and environmental issues and challenges of each category may differ. The report sometimes provides data for each category and sometimes aggregates data for microfinance (MFIs and APEX) on the one hand, and Producers' Organizations on the other. The database of S&E questionnaires is based on the information of 86% of organizations in FEFISOL outstanding portfolio.

With respects to financial performance 2010-2011 data is analyzed based on audited financial statements while 2011-2012 data analysis is based on management financial statements as most FEFISOL MFI clients complete auditing in June.

through regular Board trainings, analysis of social performance data during Board meetings or field visits to clients.

PRODUCERS' ORGANIZATIONS

POs' Board members are trained on S&E performance issues to then pass on awareness to their members or member cooperatives. Boards particularly debate on agricultural season, pricing, organic and/or Fair Trade standards and on the allocation of the Fair Trade bonus.

Economic growth

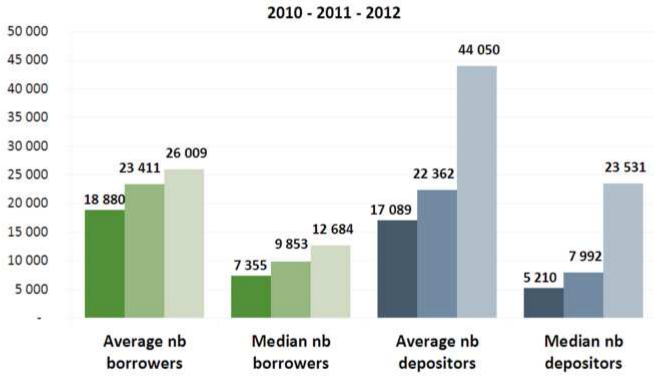
MICROFINANCE INSTITUTIONS

While growth has been positive over the period it appears to have slowed down compared to 2010-2011. This trend will be further checked next year.

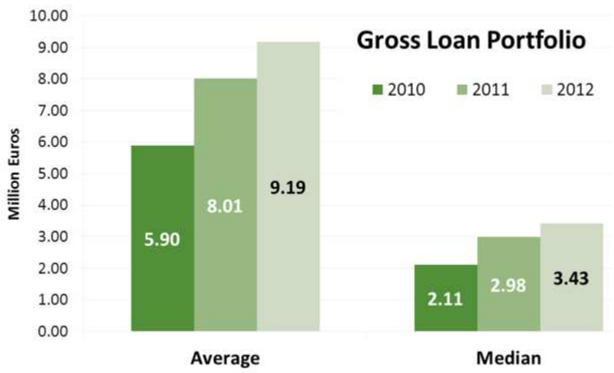
Branch networks and staffing have witnessed positive trends. Over 2010-2011, FEFISOL's MFIs staff increased by 26%, with an interesting doubling of women staff, reaching 45% of total staff. MFIs have also opened new branches (+6%) reaching an average 14 branches per institution. In 2012, the number of branches continued to grow (+13%) while staff increased at a lower pace (+9%). FEFISOL 's MFIs clients are increasing their network either because they are in a strong growth phase or to reach lesser served areas.

MFIs financed by FEFISOL increased their outreach by 25% in 2011, totaling 351 000 active borrowers. The positive trend continued in 2012 but at a slower pace (+11%) with close to **400 000 active borrowers**.

The number of **active depositors** showed the strongest growth rate with 31% in 2011 and 44% in 2012, reaching almost **485 000 depositors**. This may show that an essential service MFIs are providing to poor populations is access to deposit facilities.



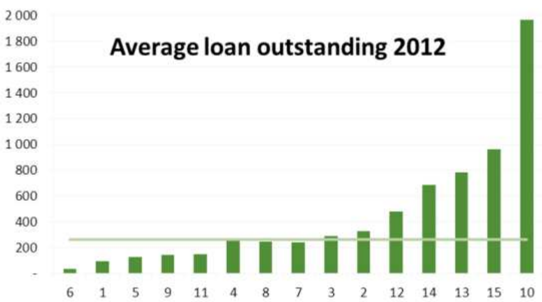
The **gross loan portfolio** grew by 36% during 2010-2011 and by 15% during 2011- 2012, reaching **138 million euros**.



	Average growth on aggregated data 2011-2012	Average of MFIs growth 2011-2012
% growth branches	13%	20%
% growth employees	9%	10%
% growth borrowers	11%	7%
% growth depositors	44%	74%
% growth Gross loan portfolio	15%	18%
% growth average loan	24%	14%
% growth operating expense ratio	-14%	-16%

The table shows growth of aggregate data and average of MFI growth rates. The second estimate gives a clue to average MFI growth rates, although size of MFIs can have a considerable impact on growth rates. The important growth in deposits is the result of some MFIs recently acquiring deposit-taking license. Loan portfolios have increased by 20% on average , which is an interesting result compared to the growth rates shown in certain business plans...

The **average loan outstanding** per borrower slightly increased to an average of 453 euros end 2012 but this figure has to be analyzed with caution as it is highly dependent on currency fluctuations. End of 2012, the average loan outstanding ranges from 40 to 1 970 euros. For 50% of FEFISOL's MFIs clients, the average loan outstanding is below 300 euros (median of 291 euros). 8 MFIs saw their average loan amount decrease over 2010-2011 and 4 over 2011-2012 (one of which in both periods).



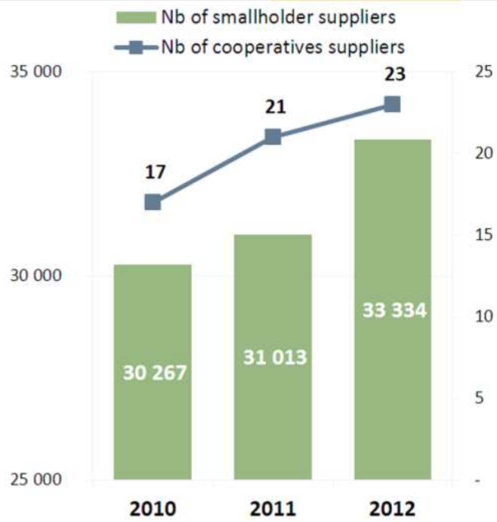
> FEFISOL's MFIs clients have had **positive growth rates** although those have slowed down compared to 2010-2011.
>
> Thanks to FEFISOL's financing, Producers' organizations have **increased sales and export capacity to value added markets**.

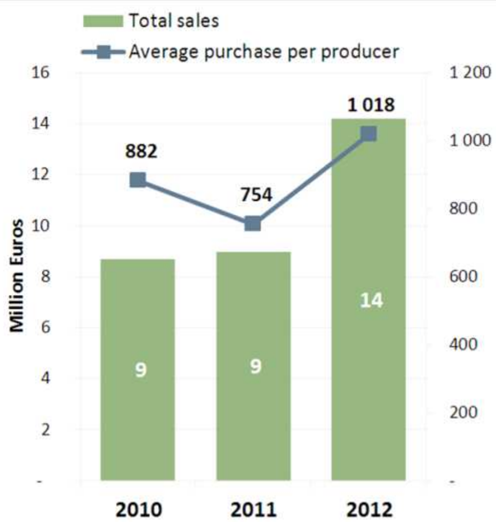
PRODUCERS' ORGANIZATIONS

Sales increased sharply in 2012 (**+58%**), reaching a total of 14 million euros, which is in part linked to FEFISOL's financing.

The average purchase per producer of the 3 exporting POs has increased by **35%** in 2011—2012, reaching **1 018 USD** end 2012.

An important rise in total **equity** should be highlighted, thanks to an increase in new members and new cooperatives in the Producers' Organizations.

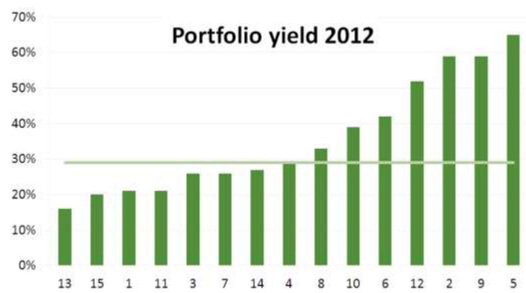




Financial performance

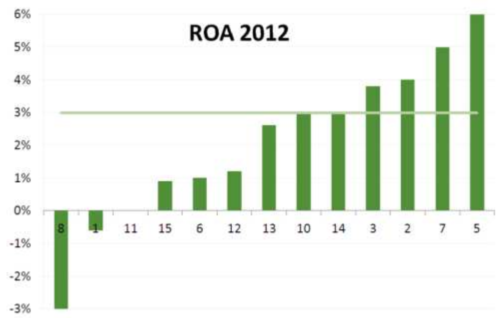
MICROFINANCE INSTITUTIONS

Portfolio yield, sustainability and profitability



The portfolio yields of FEFISOL's MFIs clients are spread out, showing a wide range of country specific situations, although the spread between min. and max. values decreased in 2011 as compared to 2010. The average portfolio yield increased slightly in 2011 to 35.8% and was of 35.6% end of 2012. Portfolio yields are moderately below the average effective interest rates, except for one client. For this one, the gap is very significant and a TA support was provided to better assess portfolio quality and improve risk management.

While on average **Financial Self-Sufficiency before grants** crossed the 100% line, reaching 102,3% in 2011, sustainability remains fragile, with very disparate **ROA** levels. Overall, the median ROA ratio is at 3% in 2012. The following chart shows the range of different ROAs. From this range have been excluded two extreme values one negative for an MFI in Namibia in consolidation phase and having faced difficulties in 2012 and one very positive for a small MFI in Sierra Leone that is linked to particular circumstances.



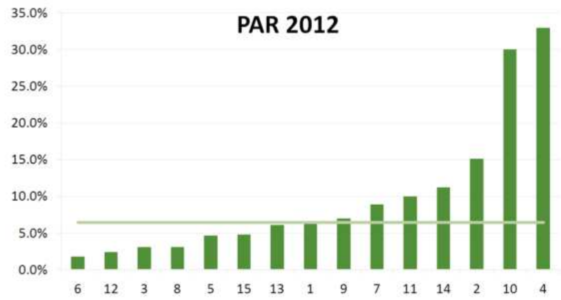
Portfolio quality

While portfolio quality had improved between 2010 and 2011 with **PAR30** decreasing by 17% to an average of 5.7%, it increased quite substantially in 2012 to an average of 9.8%.

As shown in the graph hereafter, two clients have a high PAR30. One of them experienced a staff strike at the end of 2012 and as a consequence, no repayment was booked in December which explains that the PAR30 figure increased drastically. For the other one, the high PAR30 can be explained by the fact that the MFI has never written off. Nevertheless, its provisioning policy seems correct (risk coverage ratio of 76%).

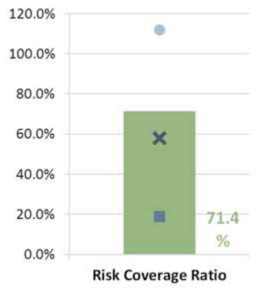
PAR 30 benchmarking needs to be analyzed with care. The PAR level as such is important but needs to be considered with:

- profile of the institution: rural areas and agricultural activities are often riskier.
- write offs of the year (MFIs can improve year end PAR by writing off)
- write off regulatory procedures (these vary from country to country)
- rescheduled and refinanced portfolio
- trends in the PAR 30 level and in the age balance
- data quality.

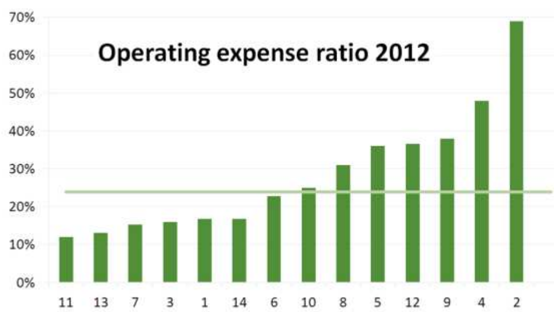


Excluding these two clients, the **average PAR30 is of 7%** which is slightly above the Subsaharan African 2011 benchmark of 5%.

Risk Coverage ratio declined to an average 71% at end 2012. Risk coverage ratios vary a lot and are difficult to compare without additional data, because provisioning rules vary from one country to another and because compulsory savings can either be deducted from loan loss reserves postings or not by the MFIs.



Efficiency
As far as the efficiency of FEFISOL's MFIs clients is concerned, a decreasing trend of the **operating expense ratio** can be highlighted (from 39% in 2010 to 28% in 2012).



Asset/liability management
Financial management is good, as shown by the stable 300% **debt to equity ratio**.

PRODUCERS' ORGANIZATIONS
Although POs have grown, as a matter of fact, **net income margin** remains quite low at an average **2,2%,** but is progressing. This does not really enable a reinforcement of equity through balance brought forward.

Purchase of raw material represents most of the expenses and amounts to an average of 80% to 90% of sales.

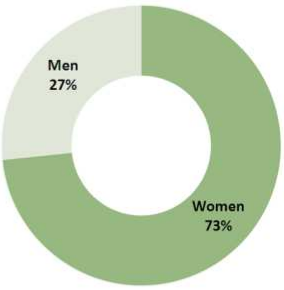
Targeting and outreach

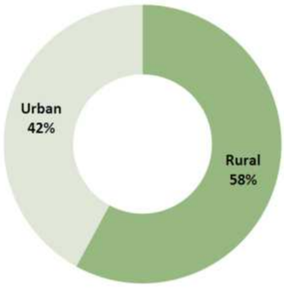
MICROFINANCE
As pointed out earlier, one of FEFISOL's strategic objectives is to improve access to financial services for rural populations and to promote the financing of agricultural activities by financing rural MFIs and POs. FEFISOL considers rural MFIs to be those which report that over 50% of their active clients (borrowers and depositors) live in rural areas.

In line with this investment objective, around **58%** of FEFISOL microfinance final beneficiaries live in rural areas and **73%** are women. Some MFIs particularly focus on rural clients (Taanadi in Niger, ASIENA in Burkina Faso and Naara in Ghana) and some on women (ASIENA and Grahmeen Ghana).

FEFISOL

40% of MFIs stated that they have a specific tool or methodology to analyze the level of poverty/ vulnerability of their clients: poverty assessment tools, progress out of poverty index or own developed tool.





PRODUCERS' ORGANIZATIONS
FEFISOL POs clients are working with **23 grassroots cooperatives** representing over **33 300 smallholders** whose farms' average size is of **3 hectares**.

FEFISOL's clients reach around 540 000 final beneficiaries (MFIs and APEX final borrowers and POs' producers) **of which 60% live in rural areas and reach more than 480 000 active depositors**.

Products and services

MICROFINANCE INSTITUTIONS

Financial services

- For around **65%** of FEFISOL's MFIs clients, individual lending represents more than 50% of their gross loan portfolio.
- **63%** of FEFISOL's MFIs offer voluntary saving products.
- Almost **80%** of them offer insurance products, predominantly debtor's life insurance, but

Focus No. 3

Clients first

In January 2013, a big fire hit Lome and Kara markets. As a consequence, over 200 of WAGES' clients were directly affected and often lost all their goods and selling stand. The fire also indirectly affected many other clients, leading to an economic slowdown.

WAGES showed a great reactivity and immediately took measures by sending its field officers and branch managers to visit and support all the victims. Later on, the victims were received at the head office by the top management to discuss what measures had to be taken to help them recover from this critical situation.

About 2-3% of Wages' portfolio was affected. The institution thus decided to implement a "special fire loan" for people to restart their activities.

WAGES' clients were reassured as each situation was discussed individually in order to provide quick and appropriate financial proposals: suspension of loan recoveries, renegotiation/refinancing of former credits, no additional guarantees being requested for new credits....

Moreover, a special credit was put in place for collateral victims with very favorable conditions.

This exceptional situation of course led to a PAR 30 increase to 10%, but showed that WAGES is very dynamic and reactive for its clients sake. PAR is expected to decrease when the situation gets better and people can repay their loans again.

Pictures of the market fire and reinstalled clients thanks to WAGES "fire loan"
© Photos: WAGES, Togo

also agricultural or life insurance.
- Finally, 56% of MFIs offer other services like money transfer (44%).

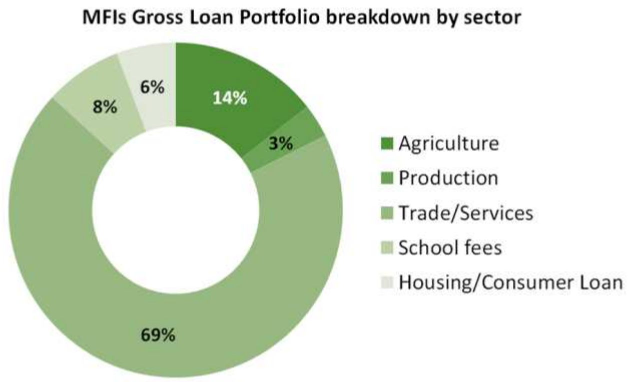
Level of effective interest rates
At due diligence stage, FEFISOL calculates average MFI lending effective interest rates by:
- Calculating the effective rate for each major product using the Microfinance Transparency toolkit, taking into account tenor, grace period, digressive versus flat rates and upfront fee but not taking into account the impact of compulsory savings
- Pondering each major product effective interest rate by the relative weight the product has in the end year outstanding portfolio.

Effective interest rates of FEFISOL's current clients range from 20% to 104%. 71% of MFI clients have EIR of less than 50% The highest level is for a Zambian MFI and is below country practices as presented in the Zambian Microfinance Transparency report.

The Zambian microfinance sector faces various problems. MFIs struggle with high default rates, operational costs are high as the infrastructure is insufficient and the population density is low. End 2012, the Central Bank introduced a new regulation on interest rates to change their calculation from flat to declining and to impose a cap on the rates. Other measures may be taken to restructure the sector.

FEFISOL has approved (and partly provided) a TA project to the Zambian client to audit portfolio quality, improve risk assessment, review loan products (especially agriculture) so as to reduce delivery and follow-up costs and reduce rates to the client.

MFIs portfolio breakdown
On average, FEFISOL's MFIs clients dedicate 87% of their portfolio to income generating activities, of which 14% to agriculture (based on 2011 portfolio reports of 80% of clients).



Non –financial services
- 69% of FEFISOL's MFIs clients are offering non-financial services to their clients. This goes from financial education to AIDS prevention but mainly deals with capacity building and small businesses development support.

PRODUCERS' ORGANIZATIONS
POs' principal service is the commercialization of raw material (coffee, cocoa and rice).

Depending on the context, prices can be set either by the public authorities, according to international prices, or to fair trade minimum prices.

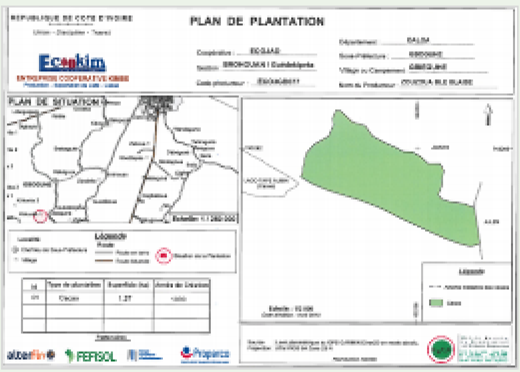
Moreover, 100% of FEFISOL POs clients train their members on organic and/or Fair Trade standards, on good and environment-friendly practices and/or on good working conditions. Three of them even dedicate part of their result to social activities such as education, awareness programs on women's rights…

FEFISOL

Focus No. 4

Geolocalization of cocoa plots to improve quality and productivity

With the contribution of FEFISOL technical assistance Facility, a PO from Ivory Coast realized a pilot mapping of more than 200 producers plots. Thanks to this project, the organization and its producers will improve their planning of activity and will be able to enhance their productivity. For instance, by knowing the exact size of their plot, the producers will be able to plan exactly how much input they need an rationalize their costs.



Social responsibility to the clients

MICROFINANCE

The three Founders of FEFISOL, and FESISOL as a fund, endorsed the SMART Campaign. As a consequence, one of FEFISOL's social objectives is to pay particular attention on how Client Protection Principles are incorporated and carried out by its clients. Some aspects of the CPPs are already integrated to the due diligence and the reporting tool.

An analysis of MFIs responses in the S&E questionnaire, shows that:

- **19%** of FEFISOL MFIs clients have carried out a social audit in the past 3 years
- **38%** have endorsed the Smart Campaign. One FEFISOL client has stepped into a process of certification of client protection principles and has already been smart-assessed (external assessment on strengths, weaknesses, and opportunities to enhance business practices around client protection).

MFIs are at different stages of development when it comes to client protection principles implementation.

- **64%** of MFIs systematically analyze the level of debt of clients through **formal or informal share of information with other MFIs**.
- **50%** use a **credit bureau**.
- **79%** of MFIs combine written, oral information and interviews with the client to **communicate on the loan conditions** (interest rate, fees, collateral).
- **86%** of MFIs have a **code of conduct on debt recovery** and assess their loan officers by different means: unexpected field visit, client satisfaction survey…
- **64%** have a complaint resolution mechanism and for **57%**, human resources are dedicated to it.

Out of the 17 countries recipient of FEFISOL microfinance debt facilities, 4 have received a **medium -high ranking for over indebtedness** : Benin, Cameroon, Niger and Senegal. Several aspects were highlighted as warning signs by the investment officers: inexistence of a credit bureau, lack of information exchange between MFIs, concentration and competition of MFIs in a region or lack of capacity of loan officers in the appraisal of clients' repayment capacity.

Very few overindebtedness studies have been realized in FEFISOL intervention countries to cross-check the risk assessment of loan officers with statistics.

Step forward

The Technical Assistance Facility social performance global project will partly focus on overindebtedness prevention and will propose support to its clients to improve the knowledge of their market, of their clients' profile, and improve the ability of loan officers in the appreciation of their clients' repayment capacity.

PRODUCERS' ORGANIZATIONS

3 out of the 4 POs clients (the 3 exporting ones) are **Fair-Trade certified**. They are committed to a fair value added distribution through the price they offer and through the Fair Trade (FT) premium they invest to the benefit of their members.

© Photo: ECOOKIM, Ivory Coast — construction of a new warehouse thanks to FT premium

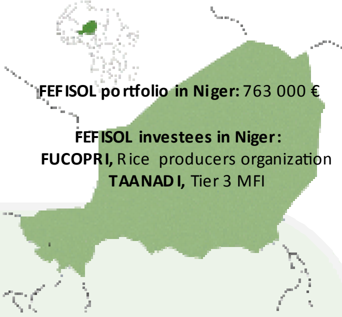
Social responsibility to the employees

MICROFINANCE

Maintaining skilled and motivated human resources is a real issue for MFIs, which is why they have to pay particular attention to their social responsibility towards employees. The S&E questionnaires show that:

- Around **40%** of employees are women
- **79%** of MFIs have a salary scale
- **64%** offer complementary social insurance to employees
- **64%** have dedicated part of the result to staff training.

The risk assessment of FEFISOL's MFIs clients shows that **71%** of MFIs have a medium risk regarding human resources. Managing Directors are often skilled, experienced and



Focus No. 5

Food security financing in one of the poorest countries of Africa

FEFISOL aims at contributing to poverty alleviation through the supply of financial services in under-served parts of Africa, most particularly in rural areas. Niger, one of the poorest countries in the region, that suffers from difficult climatic conditions and ranks 186/187 on the HDI scale, is one of the target countries of FEFISOL. The fund is currently financing 2 entities: Taanadi, a rural MFI, and Fucopri, a rice producers' organization. Toghether they represent **9% of FEFISOL's outstanding portfolio at end March 2013**.

- **Taanadi** is a Tier 3 rural MFI focusing on the financing of agricultural groups (75% of its portfolio). **80% of Taanadi's active clients are rural** and 85% are women. The institution has developed products and services particularly adapted to the needs of its agricultural clients. **Warrantage loan** for example is a short term loan secured by stock. It enables agricultural organizations to wait for better market conditions before selling their crops. Thanks to this product, farmers can face their current expenses without having to sell their crop immediately at a moment when supply is strong and prices low. In addition to financial services, Taanadi also provides **non-financial services** such as capacity building to Village Banks.

- **Fucopri** is an umbrella organization, comprising 9 Unions (37 cooperatives) producing rice. Through Fucopri, FEFISOL is financing irrigated rice production, which is key for the country's food security, independence from imported food and reduced exposure to world commodity price shocks. Fucopri is the most important rice producing farmer organization in Niger, representing **25 000 families**. It supports smallholders, enabling families to have food and generate additional income to satisfy other important needs.

©Photos: TAANADI, Niger

committed but some MFIs have witnessed an important turnover in key middle and low management departments, such as operations, finance, management and information technology. Furthermore, almost all of them formulated a need for capacity building of their staff, to which FEFISOL TA Facility will try to respond.

PRODUCERS' ORGANIZATIONS

As far as staff is concerned, POs are relatively small in terms of permanent staff with an average 15 people, of which 27% are women. However in one case, seasonal staff has risen up to 110 for the last agricultural season, as illustrated in the graph below. The number of permanent staff remained stable over the last 3 years while seasonal staff increased by 34% in 2012.

The number of permanent staff is relatively small in comparison to the amount of sales because, in many cases, member cooperatives also manage part of the activity.

Environmental responsibility

MICROFINANCE

MFIs can improve their environmental performance by:

- Implementing energy conservation practices at their level
- Excluding the financing of activities with significant, negative, environmental impact and/or targeting the financing of activities with positive impact on the environment.

These two aspects are analyzed in the S&E questionnaire.

FEFISOL's current clients, have mainly reported that they do not finance activities with significant negative impact on the environment. Some have their own exclusion list and specifically refuse to finance certain activities like logging, charcoal burning, impure pharmaceutical products. Others finance activities with strong environmental value added: organic culture, plastic recycling, improved stoves, planting of trees.

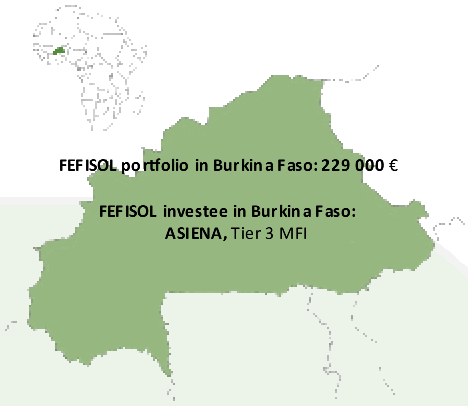
Only 2 MFIs have reported to have specific procedures to improve energy consumption management using solar power for part of their activities.

Furthermore, 2 MFIs are currently running pilot projects on solar energy. They should decide, at the end of 2013, if they can develop it or not.

As a whole, a majority of MFIs don't appear to have included in their strategy, policy or procedures, specific measures to improve environmental performance. This is not inconsistent with the whole microfinance sector that has just started to work on this environmental dimension.

PRODUCERS' ORGANIZATIONS

3 out of 4 POs financed by FEFISOL are, or are about to be, organic-certified. All of them take concrete measures to raise their members' awareness about the environment protection and good farming practices, through regular field visits, trainings on water and soil conservation or waste disposal, among other issues.



Focus No. 6

Empowering individuals for community development

ASIENA (Association Inter-Instituts "Ensemble et Avec") is an NGO founded in 2003 in Burkina Faso by 34 religious congregations and regulated by the Central Bank. Their Savings and Credits department is focused on rural and female clients, mostly illiterate, who could nevertheless generate revenues via an economic activity. ASIENA is specialized in self-help groups, an efficient tool to empower rural populations: the concept of these self-help groups, called "Mutuelles de Solidarité" in French, started in 1995 in Senegal and rapidly spread throughout Africa and Haiti.

Derived from "tontines" or Rotating Savings and Credits Associations (ROSCAs), self-help groups are a group of people, knowing and trusting each other, who decide to contribute to a common fund in order to create and manage by themselves a simple, flexible and joint-financing system. In concrete terms, there are two different types of contributions collected from participants: a refundable contribution used as a credit generator (to be put in a green box) and a non-refundable contribution, generally used in case of emergency to help people hit by disasters (to be put in a red box). At last, a blue box can receive external financing and can sometimes be used for bulk-buying for the community.

Self-help groups are a very good way to foster the empowerment of their members: by giving them access to a quick and flexible financing and to a savings opportunity, it stimulates their ability to make plans, as they do not have to think only about the next day anymore. Self-help groups also have a teaching role to the extent that people can learn how to budget their own resources and get their lives more under control.

According to Sister Bernadette, Manager of ASIENA, access to financial services is not the only ground for solidarity groups as women are also very interested in the social aspects of it: sharing experience, meeting people, giving solidarity its true meaning. Moreover, ASIENA emphasizes the importance of creating solidarity groups for women only, because it gives them a greater freedom of speech.

ASIENA has an active role in savings and credits and also provides training for social and economic development to people in need. ASIENA's roles are to help in the implementation of solidarity groups and provide them with external funding.

From 2008 to end 2012, ASIENA sharply increased the number of groups , from 108 to about 800, which represents almost 17 000 final beneficiaries. Typically, these people will develop their own business such as small retail shops, animal breeding, farming, shea butter production ….

Finally, ASIENA is keen on developing health care, making it one of the priority of the "red box" expenses because having a good health is the first condition to be met in order to be efficient in developing its own business. ASIENA is therefore able to reach very poor people, those who would be excluded even by regular MFIs.

ASIENA has been a long-time partner of SIDI and is now part of FEFISOL's portfolio .

Technical Assistance Facility

FEFISOL has a **Technical Assistance Facility** financed by the **European Investment Bank** and **PROPARCO**. It provides grants for technical assistance to FEFISOL's clients in addition to the financing provided by FEFISOL in the form of loan, guarantee or equity investment.

Technical Assistance Facility 2012-2013 achievements

During 2012, 6 TA Facilities were validated for African beneficiaries, 2 Tier-3 and 1 Tier-2 MFIs, 1 APEX and 2 POs, for a total of 210 000 €.

TA project purposes are very diverse:

- The TA implemented for **Cetzam**, a leading MFI in Zambia, aimed at improving the quality of financial information, such as PAR 30, the quality of portfolio and audit reports and also aimed at training 3 key managers to risk mapping and management.
- **Ecookim** in Ivory Coast is a cocoa Producers' Organization. The provided technical assistance dealts with geolocalisation of smallholder plots in order to improve traceability and facilitate monitoring for organic agricultural certification. In particular, this is expected to increase organic sales, to improve productivity and to develop the member base.
- **Tembeka**, South Africa, is a group providing financial services and technical assistance to MFIs and POs. It received TA support in order to increase the number of its clients and gross loan portfolio by training key staff of small social MFIs.
- **Fides Bank**, Namibia, implemented a TA project to improve back office procedures, including staff training.
- **KPD** is a Tanzanian coffee producer: a TA support was granted, first to improve the quality of coffee beans and obtain the organic certification, and second to analyze the feasibility of the acquisition of a new processing plant.
- In Kenya, **Adok Timo,** a young MFI that is going through a crisis needs support in managing priorities and day-to-day operations. In a second phase, this MFI will benefit from a support on MIS and data reliability improvement.

A social performance global project

During the 1st year of activity of the Technical Assistance Facility, it has been noticed that FEFISOL's clients were requesting, in priority, basic support to improve their day-to-day practices and operations (improvement of procedures, improvement of quality information, improvement of MIS…). None of the proposals specifically dealt with social performance.

Given the profile of our investees, Tier 2 – Tier 3 MFI in consolidation that face a lot of challenges, FEFISOL wants to be more proactive on social performance and has decided to dedicate part of the Technical Assistance Facility to this issue.

To address FEFISOL clients' needs, the project will not give priority to social performance management (follow-up of indicators, reporting…), but to the improvement of practices in coherence with their social mission and to the benefits of final clients. Given the weaknesses or risks identified during due diligence, the project will put the emphasis on the following objectives:

- **The prevention of over-indebtedness**: a TA can be implemented in order to help MFIs improve their knowledge of the market, of their clients' profile, and to strengthen the ability of loan officers in the appreciation of their clients' repayment capacity. Typically, the TA Facility would cover expenses for market/clients studies, workshops and training sessions for loan officers.

- **Providing fair and transparent conditions of products and services toward clients:** the TA facility can pay for workshops/trainings on EIR calculation, documentation and methodology of communication to clients on conditions of services.
- **Raising awareness of governance bodies on Social Performance issues**: the TA facility can cover expenses for training sessions with governance bodies
- **Designing, implementing and improving Social Performance management systems**: the TA can be put in place to assist the MFIs in the definition of their mission, vision, objectives and strategy, and help in the implementation of their processes. Typically the TA facility would pay for social audits/ratings, client protection certification, consultancy of Social Performance experts and workshops.

Focus No. 7

Social Performance Management in practice

More than half of FEFISOL's MFIs have started to put in place some concrete measures of social performance management (SPM) so that their actions fit their social mission, and final clients' needs, better, or to improve their practices and the quality of their products and services.

The majority is just starting on the SPM pathway but some of them are already quite advanced. Two MFIs in particular have set off interesting dynamics in terms of SPM.

UGAFODE, in Uganda, was facing several issues such as low portfolio quality, complaints, and bad retention of clients. The management team realized that the institution was getting away from its initial target population with the average loan size perceptibly increasing and that its staff was lacking capacity. With the support of the Board, they started to refine and flesh out their social objectives and to design the ways to address them. In particular, they reshaped their group lending methodology and trained credit officers to target in priority women and poorer people. They developed new savings products. They opened one new branch in a remote area as well as contact offices in rural areas that are far from other existing branches. They relocated their head office to make access easier for clients. They drew up a process to get clients feedback (suggestion boxes, hotline..).

UIMCEC, in Senegal, has a specific department in charge of financial education and social performance management. End of 2012, several activities were carried out: more than 300 final clients were trained and 14 staff members were coached to the basics of social performance. The *Progress Out of Poverty Index* (PPI) was applied to a sample of 10% of final clients and showed, among other things, that 20% of UIMCEC clients were poor according to PPI score, and that 46% were living below the 2,5 USD/day PPP poverty line.
Finally, a satisfaction survey was conducted with around 400 clients, in order to improve and adapt the products to clients' needs.

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