



FONDATION GRAMEEN
CRÉDIT AGRICOLE



Microfinance & Social Business

Social Performance Report 2017

Microfinance Portfolio

Table of content

INTRO – Methodology

- Using industry tools to measure social performance of our partners

PART I – Our portfolio partners' social performance

- Portfolio performance and benchmarking against global market
- Progress from 2016

PART II – The fulfilment of our social mission

- Measuring results on our social mission
- Evolution since 2016



Introduction : **Assessment Methodology**

The social performance of our partners evaluated by using the “Universal Standards”.

Social Performance evaluates an organization’s effectiveness in achieving its stated social goals and create value for clients.

Responsible Inclusive Finance means delivering financial services in a transparent, fair and safe way, so they are the most likely to generate benefits for poor clients.

Since 2012, the microfinance industry has agreed on **a set of best management practices that lead to strong SPM**. These practices form the **Universal Standards for Social Performance Management** (“the Universal Standards”).

Developed through broad consultation, the Universal Standards reflect current best practice. By allowing for evaluation and comparative analysis, they push practitioners toward better performance.

The Foundation has largely contributed to this work and applies the analysis since its beginning.



The six dimensions cover 19 globally recognized Standards

Dimension 1: DEFINE AND MONITOR SOCIAL GOALS

- 1a) Social strategy
- 1b) Reporting of client-level data

Dimension 2: COMMITMENT TO SOCIAL GOALS

- 2a) Board accountability
- 2b) Senior management accountability
- 2c) Staff accountability

Dimension 3: PRODUCTS FOR CLIENTS' NEED/PREFERENCES

- 3a) Clients needs and preferences
- 3b) Benefits to clients

Dimension 4: TREAT CLIENTS RESPONSIBLY

- 4a) Prevention of over-indebtedness
- 4b) Transparency
- 4c) Fair and respectful treatment of clients
- 4d) Privacy of client data
- 4e) Mechanisms for complaint resolution

Dimension 5: TREAT EMPLOYEES RESPONSIBLY

- 5a) HR policy
- 5b) Communication of terms of employment
- 5c) Employee satisfaction

Dimension 6: BALANCE FINANCIAL AND SOCIAL PERFORMANCE

- 6a) Growth rates
- 6b) Alignment of objectives
- 6c) Profits
- 6d) Compensation

Social Performance of our Partners

Progress from 2016

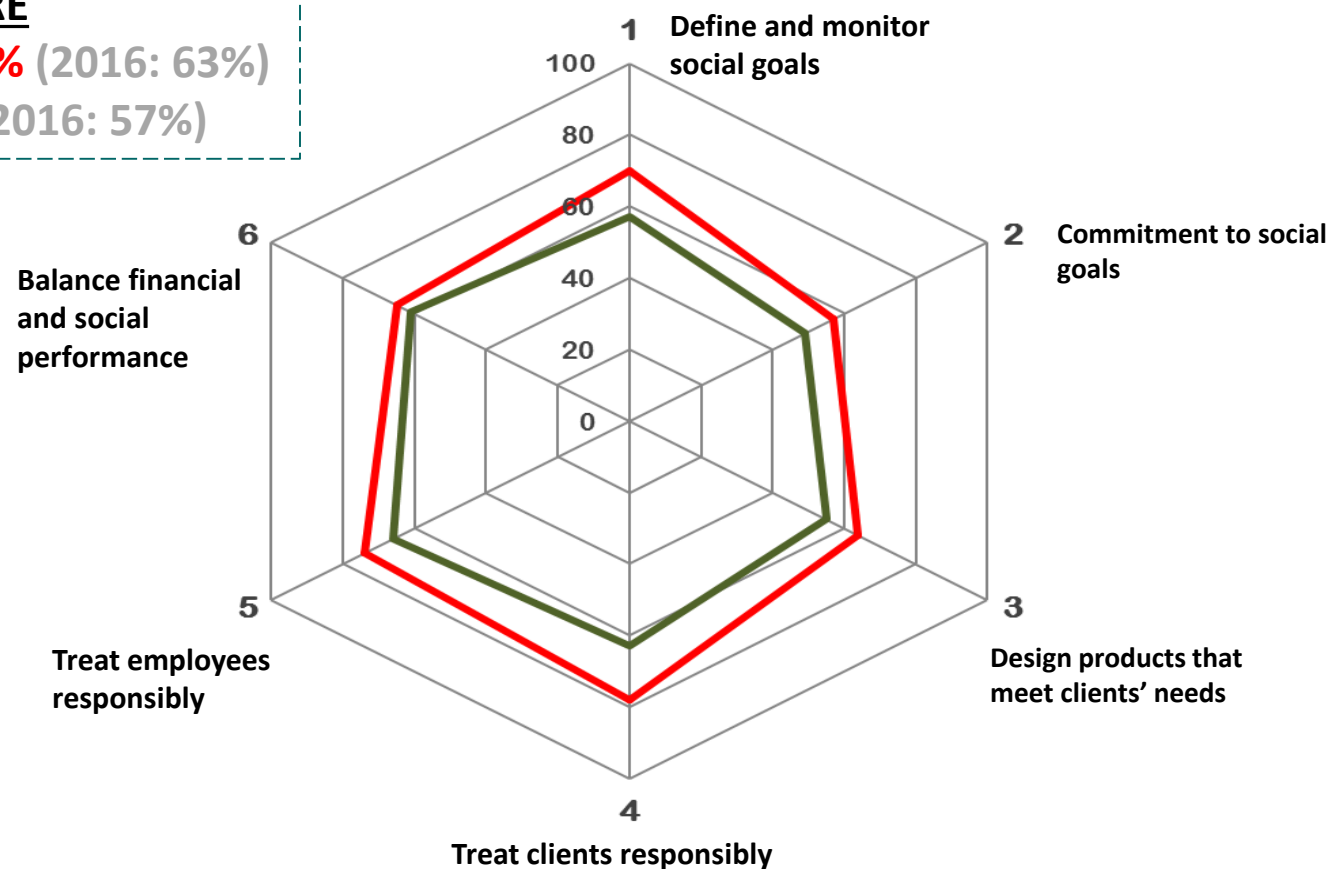
Our portfolio partners rank again above benchmark in all six dimensions and improved their global scoring (+ 6%)



Global SCORE

GCAMF PORTFOLIO : 69% (2016: 63%)

BENCHMARK : 58% (2016: 57%)



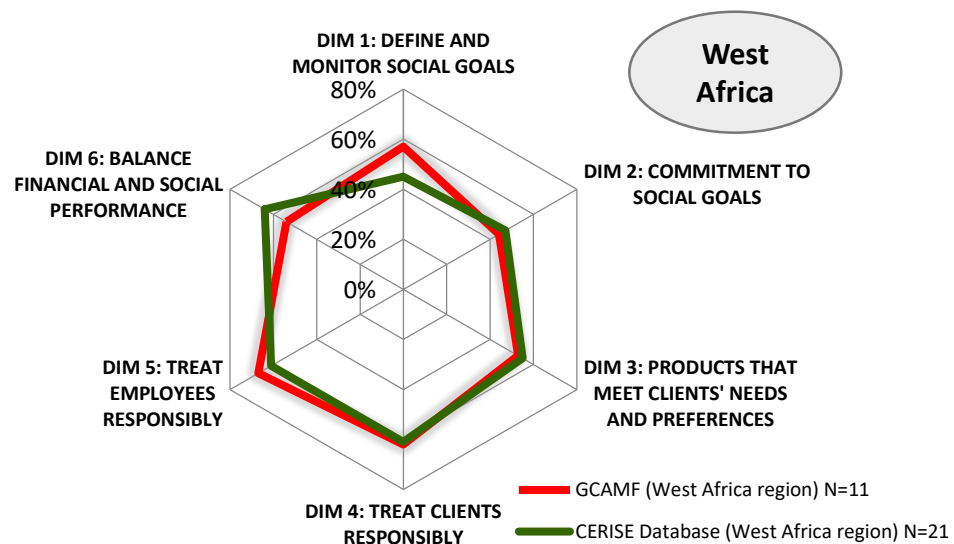
BENCHMARK:

* Only **highest quality audits** taken into account (by experienced auditors + 100% complete + include comments to justify scoring).

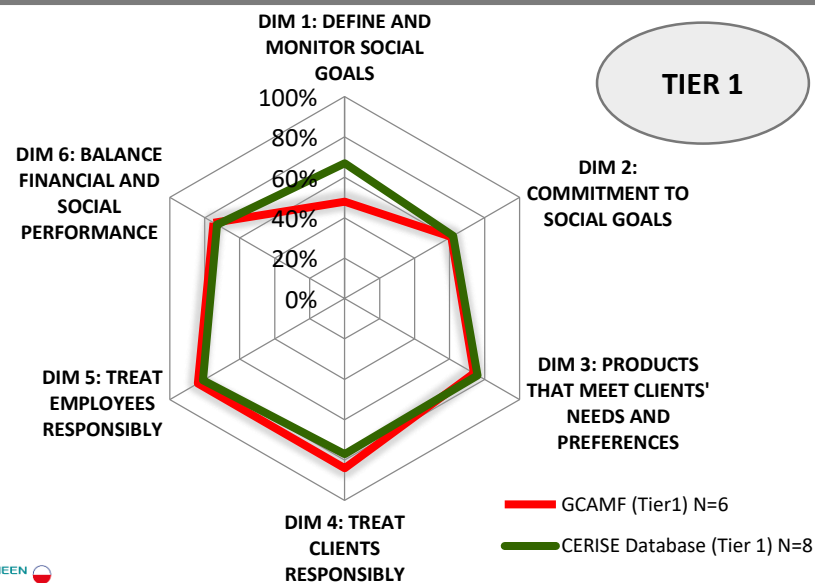
** Latin America and Europe audits excluded from the sample

Global benchmarks: **GCAMF database = 46; CERISE database = 135**

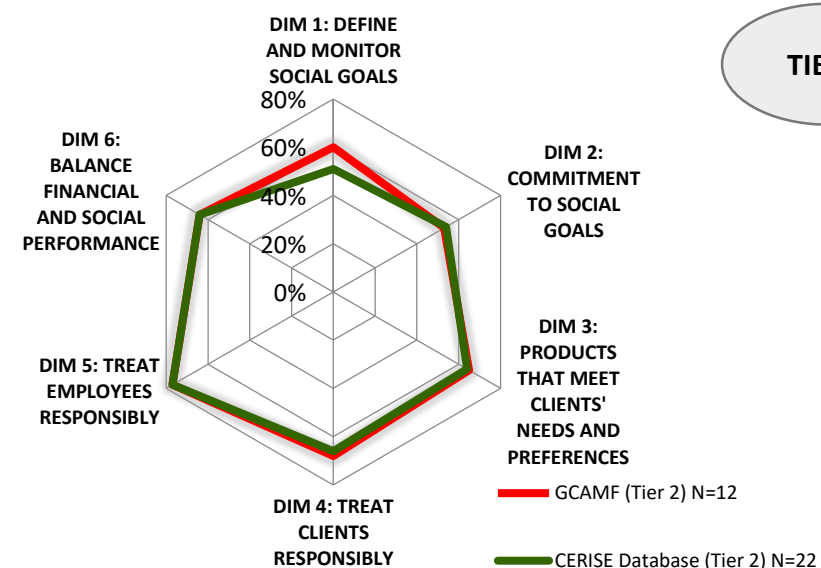
Reminder 2016 “areas for improvement”: West Africa, Social Goals in Tier 1 and Tier 2



GCAMF vs benchmark by region: West Africa



GCAMF vs benchmark by size: Tier 1- MFI –GLP>100M



GCAMF vs benchmark by size: Tier 2- MFI – 10M<GLP<100M

Areas for improvement

- Performance of Sub-Saharan Africa is due to East Africa.
- West Africa below benchmark for dimension 2 (governance), 3 (product adaption) and 6 (balancing financial and social objectives).
- Tier 2 partners’ social performance globally just at benchmark
- Tier 1 partners globally at or below benchmark
- Main area for improvement is defining and monitoring of Social Goals

Reminder 2016: Introduction of Social Performance Requirements for new Partners

Social Performance Management

- **Strengthen our partner selection** based on social performance through the implementation of social covenants and performance targets

Global Social Performance score (All six dimensions)

- TIER 1 > 50%
- TIER 2 > 45%
- TIER 3 > 40%

Client Protection score (dimension 4)

- TIER 1 > 70%
- TIER 2 > 60%
- TIER 3 > 50%

Prevention of over-indebtedness

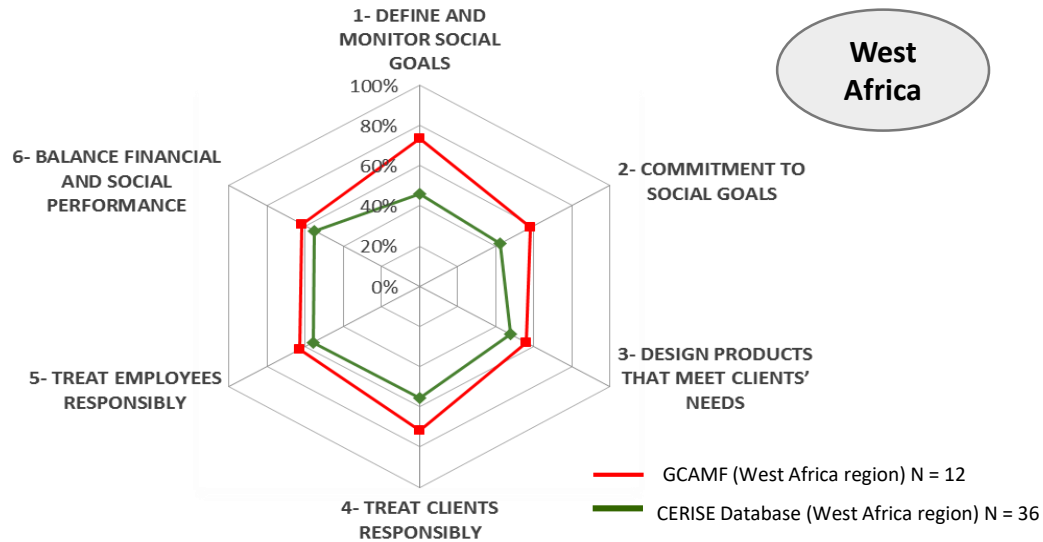
- TIER 1 > 70%
- TIER 2 > 50%
- TIER 3 > 50%

- **Monitor the poverty level** of our partners' clients and their social outcomes
- Offer **Technical Assistance** missions to reinforce social performance

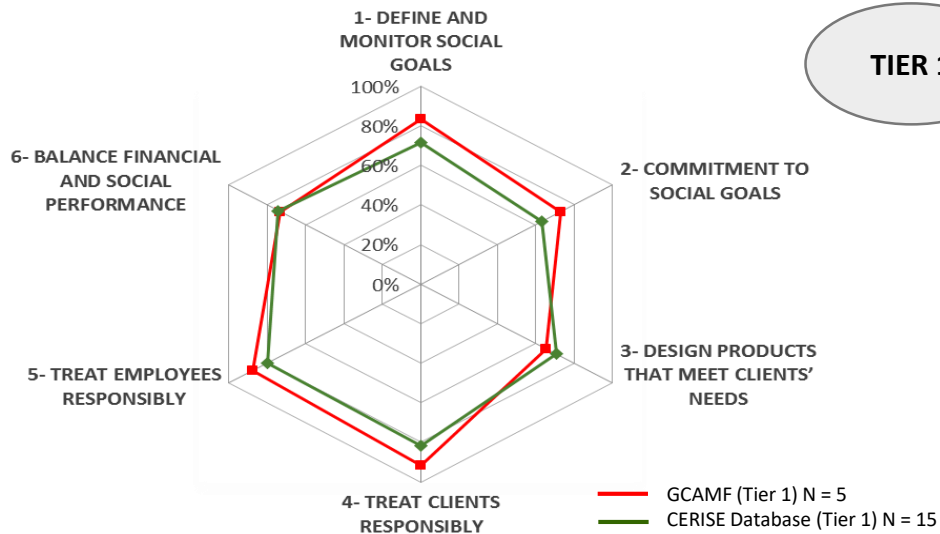
End clients focus

- Introduce specific **funding products for agriculture**
- Focus on **vulnerable clients**, such as **refugees** (project in partnership with the UNHCR)

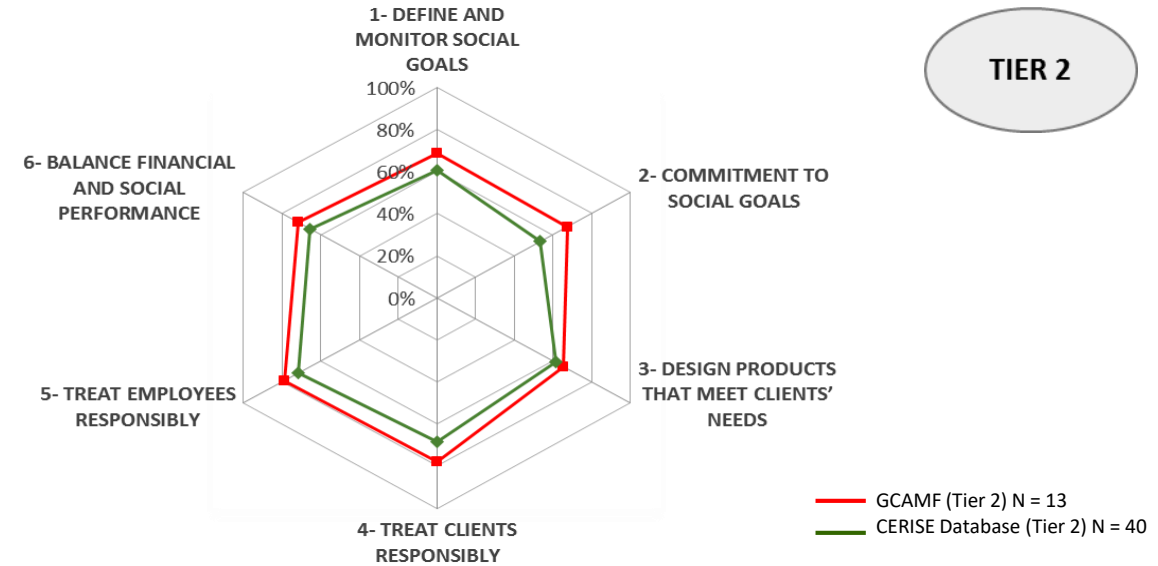
Achievements in 2017



GCAMF vs benchmark by region: West Africa



GCAMF vs benchmark by size: Tier 1- MFI-GLP>100M



GCAMF vs benchmark by size: Tier 2- MFI – 10M<GLP<100M

Details of achievements

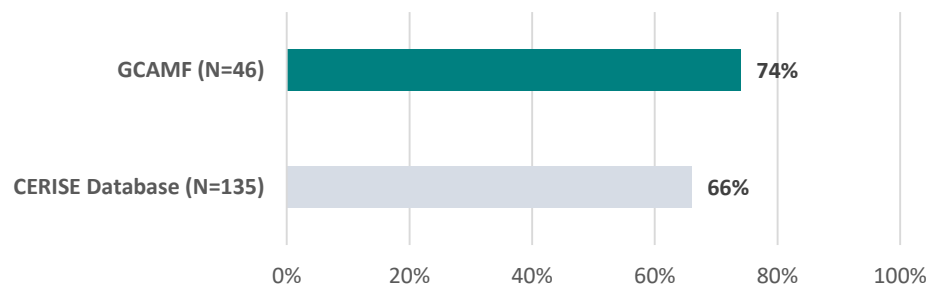
- **Global:** from average to underperformance in 2016 for West Africa and Tier 2 and Tier 1 we achieved over performance in all areas in 2017 (only exception Products Design for Tier 1)
- Strongest performance: client protection (D4) but also social targeting (D1) and commitment (D2)
- **West Africa:** focused partner selection allowed to achieve a portfolio performance above benchmark across all 6 dimensions
- **Tier 1:** New Tier 1 partners selected in 2017 based on their definition and monitoring of clearly stated social goals allowed to reverse the performance of this group from clearly below to above average

Focus 1: Dimension 5 Treat Employees Responsibly

Rationale: How employees are treated by the financial institution has a huge impact on how those employees treat the institution's clients. Dimension 5 focuses on how an institution can create a fair, safe, and supportive working environment and ensures that employees are protected, trained, and motivated

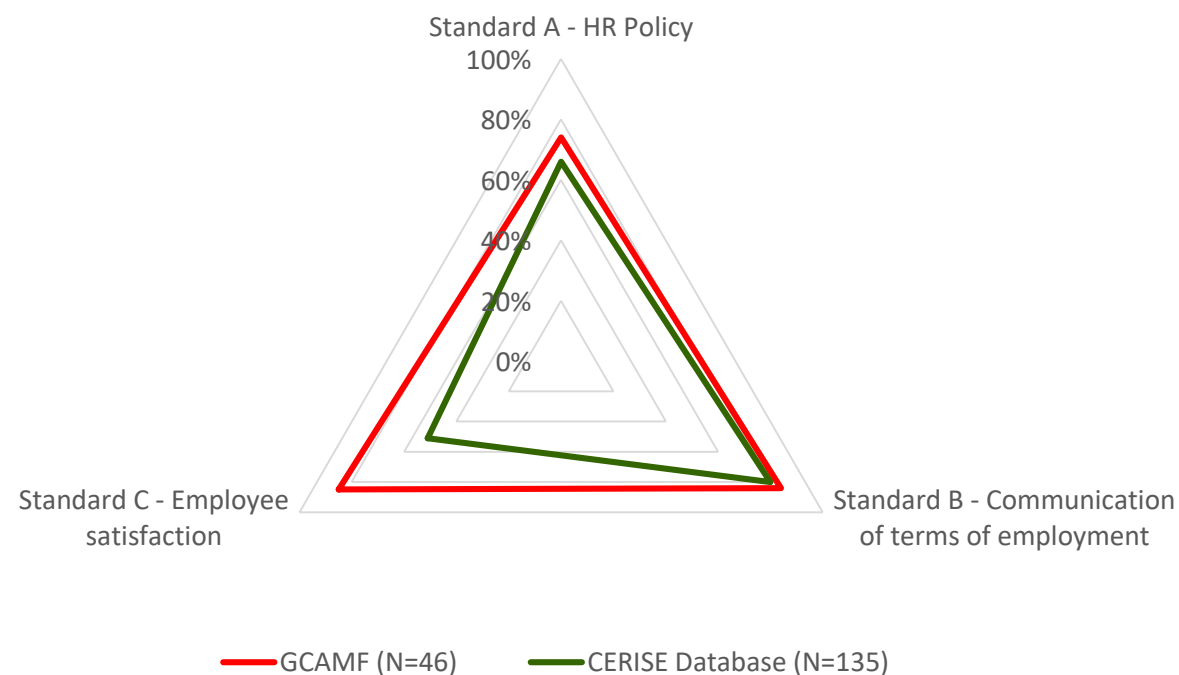
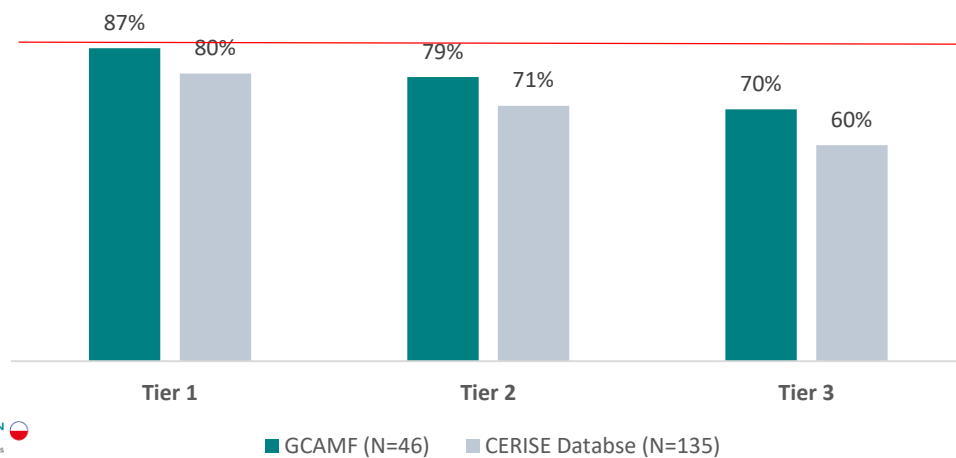


Dimension 5 – Treat employees Responsibly



Outperformance especially in Employee satisfaction: 34% above benchmark

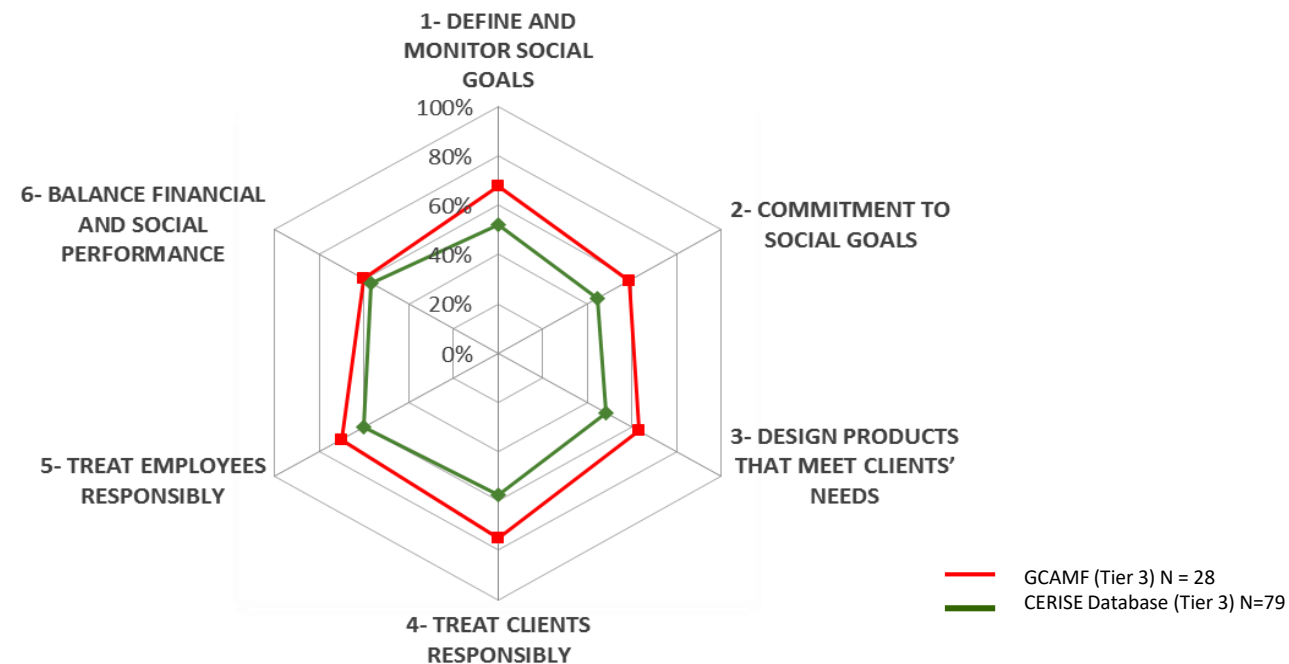
Dimension 5 by Tier



Focus 2: Social Performance Tier 3

GCAMF defines a Tier 3 institution as an MFI whose GLP < 10 k EUR

SPI4-ALINUS average score by dimension		
	GCAMF portfolio Tier 3	CERISE database Tier 3
Number of audits	28	79
DIM 1: DEFINE AND MONITOR SOCIAL GOALS	68%	52%
DIM 2: COMMITMENT TO SOCIAL GOALS	59%	45%
DIM 3: PRODUCTS THAT MEET CLIENTS' NEEDS & PREFERENCES	63%	49%
DIM 4: TREAT CLIENTS RESPONSIBLY	75%	57%
DIM 5: TREAT EMPLOYEES RESPONSIBLY	70%	60%
DIM 6: BALANCE FINANCIAL AND SOCIAL PERFORMANCE	60%	57%
Total	66%	53%

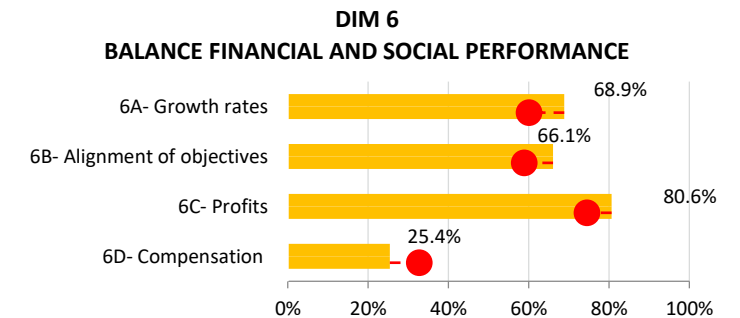
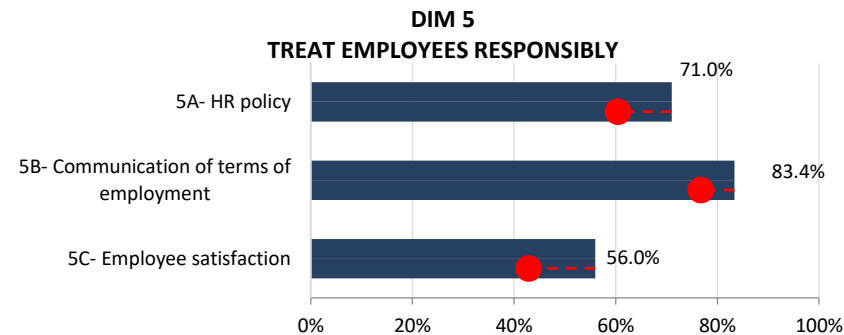
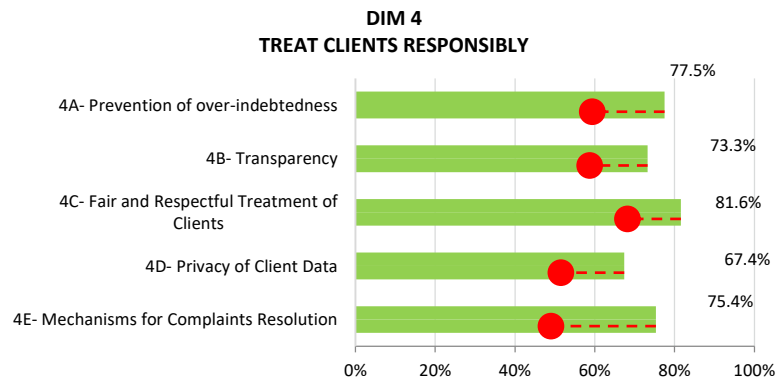
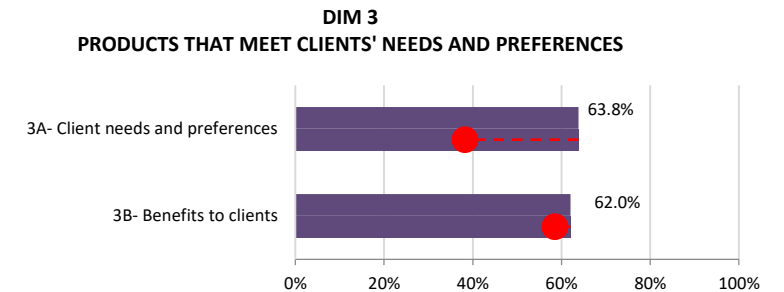
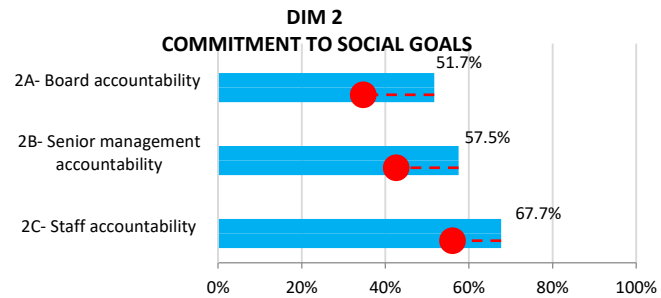
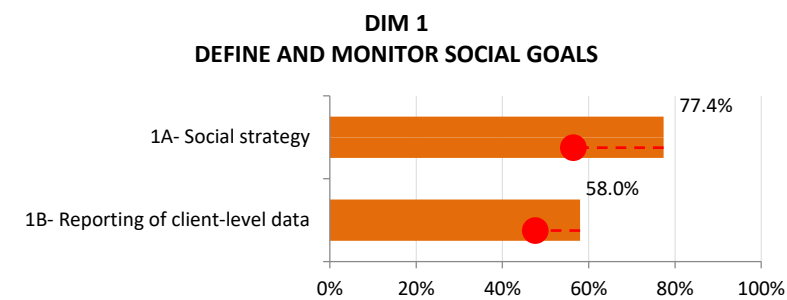


Details of performance

- Tier 3 main focus of the Foundation activity. The careful selection of socially oriented and responsible partners has allowed to achieve this strong over performance of our portfolio
- Strongest areas of improvement from 2017: Confirmation of high client centricity: adaptation of products and services and client protection
- Dimension 6 on growth rates, compensation and profit share most challenging for small MFIs

Focus 2: Social Performance Tier 3

Tier 3 – GCAF and Benchmark Results by Standard



Full line = GCA score

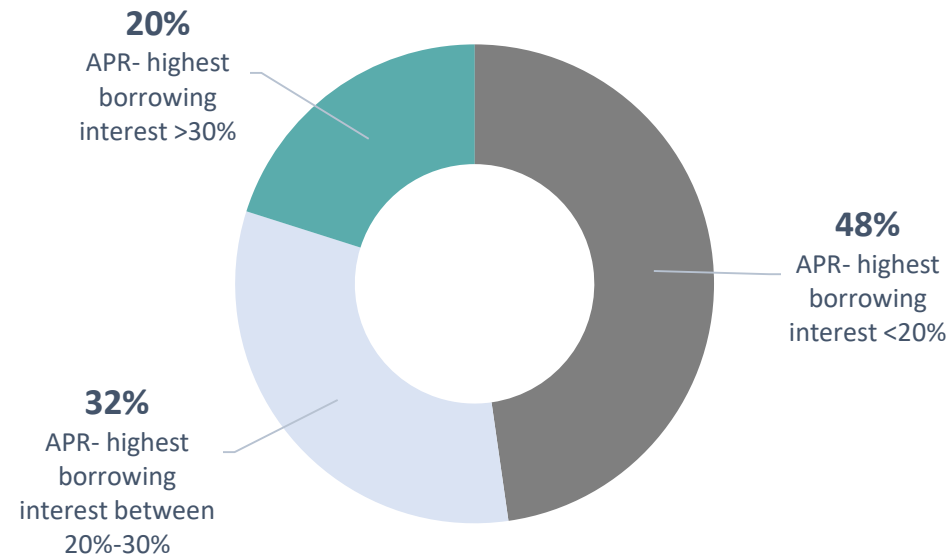
● Red dot = Cerise benchmark

Responsible Pricing – where do we stand in 2017 ?



Our objectives	Our achievements
Reduce interest rates charged to end clients	<ul style="list-style-type: none"> Interest level to end clients is a social selection criteria in all investment decisions
Prioritize MFIs who work on lowering interest rates to their clients	<ul style="list-style-type: none"> 48% of our partners have a difference between interest rate charged and cost of funding below 20% (+9 pp vs. 2016). 32% of our partners with a gap between 20% and 30% (stable vs. 2016) We substantially reduced the proportion of partners with a differential of >30% (-11 pp). Moreover we systematically ask for mitigating aspects.

APR – Highest borrowing rate



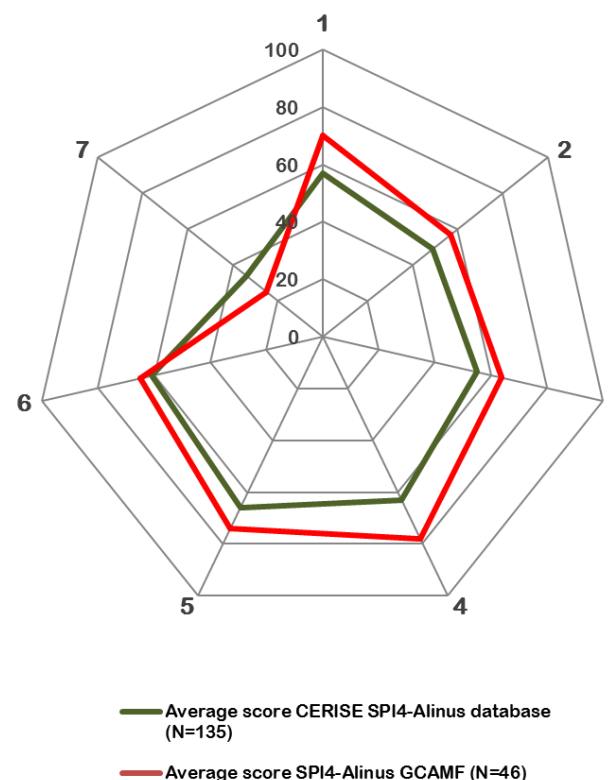
Highest over-performance – our key strengths in 2017

- 5 out of our partners' 10 strongest indicators in **Dimension 4 (Treat clients responsibly / client protection)**
- Strongest indicator: **managing of complaints** (+32 pp above benchmark)
- We significantly outperform the benchmark when it comes to **ensure that our partners have measurable indicators for each social goal** (+27 pp)
- Our partners have **boards strongly committed to Social Performance**, taking corrective actions when social targets are not met (+27pp).

Areas for further improvement

Green Index (Dim 7) : environmental performance in Microfinance

Green Index	Average score Cerise-SPI4 database (N=135)	Average score GCAMF (N=46)
7B- Managing internal environmental risks	48%	35%
7C- Managing external environmental risks	28%	19%
7D- The provider fosters green opportunities	22%	21%



The use of Green Index is mandatory for all social audits conducted by the Foundation

Comments and rationale

- Green Index is the only dimension where our portfolio underperforms the benchmark in 2017

Rationale:

- Green Index is still an optional dimension for the SPI Evaluation
- Therefore, institutions reporting on it are generally good « green performers ».
- Hence, the average of the benchmark is higher.

First analysis:

- Organizations who evaluate their environmental practices present higher SPI scores than their non reporting peers



SOCIAL MISSION

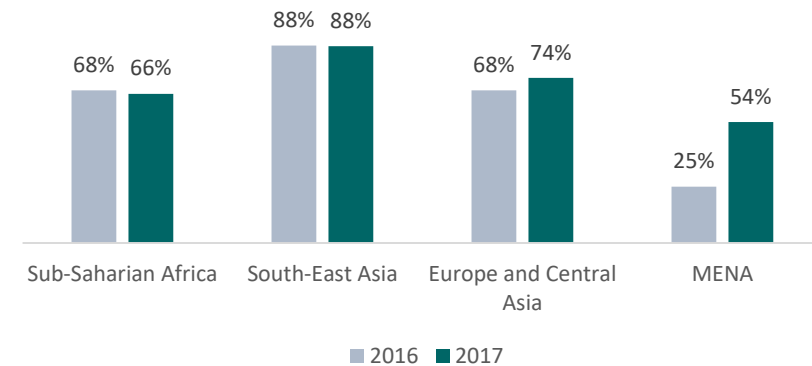
Achievements in 2014-2018 Strategy

People: rural populations, women and low income customers

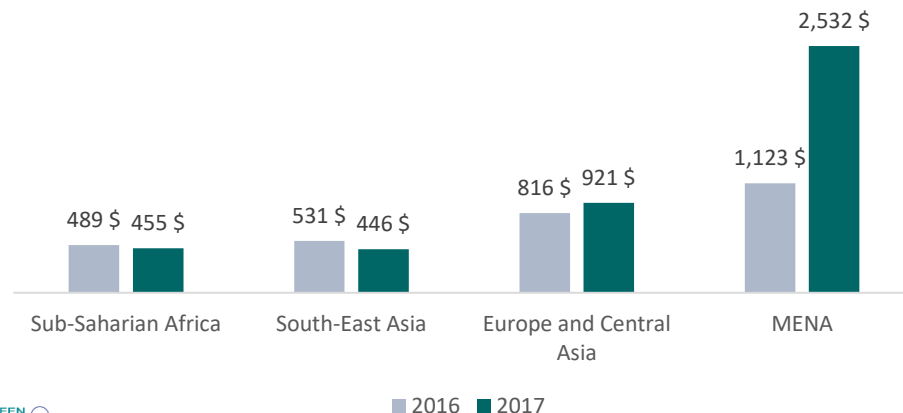
2016 – 2017

Our objectives	Our achievements
Prioritize MFIs targeting poor and vulnerable clients	<ul style="list-style-type: none"> GCAMF continues to target poor and vulnerable clients as a priority Greater proportion of rural clients reached in MENA and ECA Average loan balance 548 €; increase in MENA but reduction in target regions Africa and SEA
Focus on women and rural populations	76% of women clients in 2017

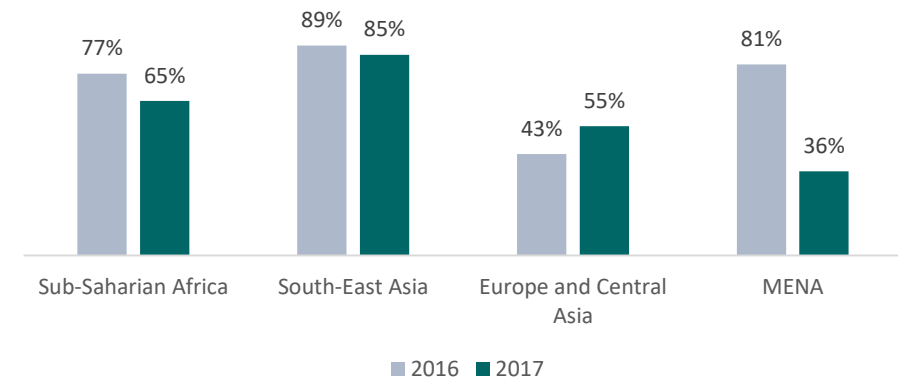
Proportion of rural clients by area
(% of active borrowers)



Average loan balance of MFI partners by region
(in EUR)



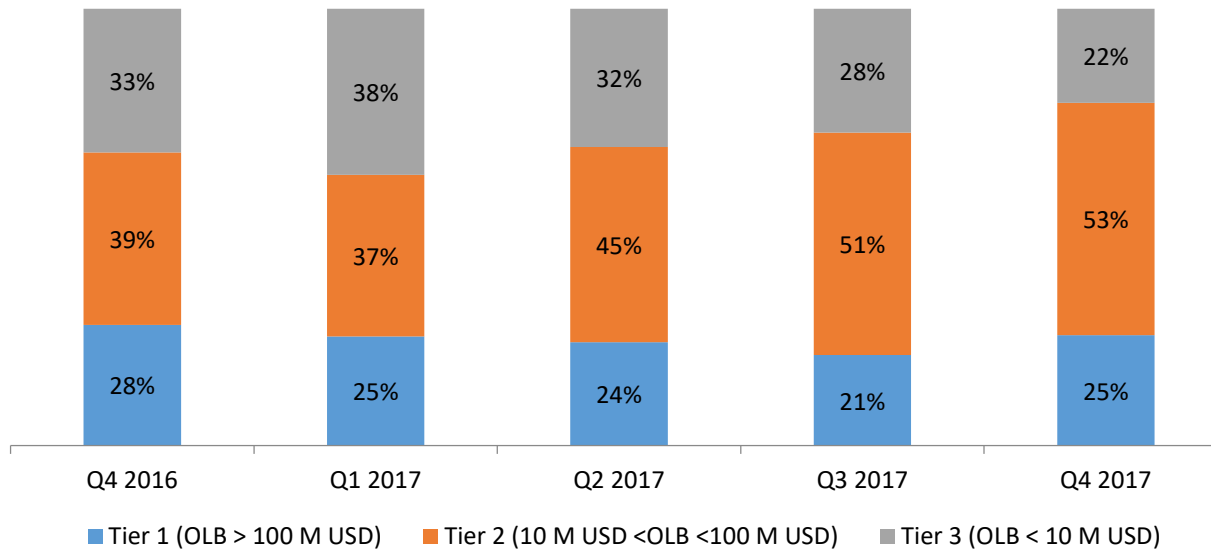
Proportion of women clients by area
(% of active borrowers)



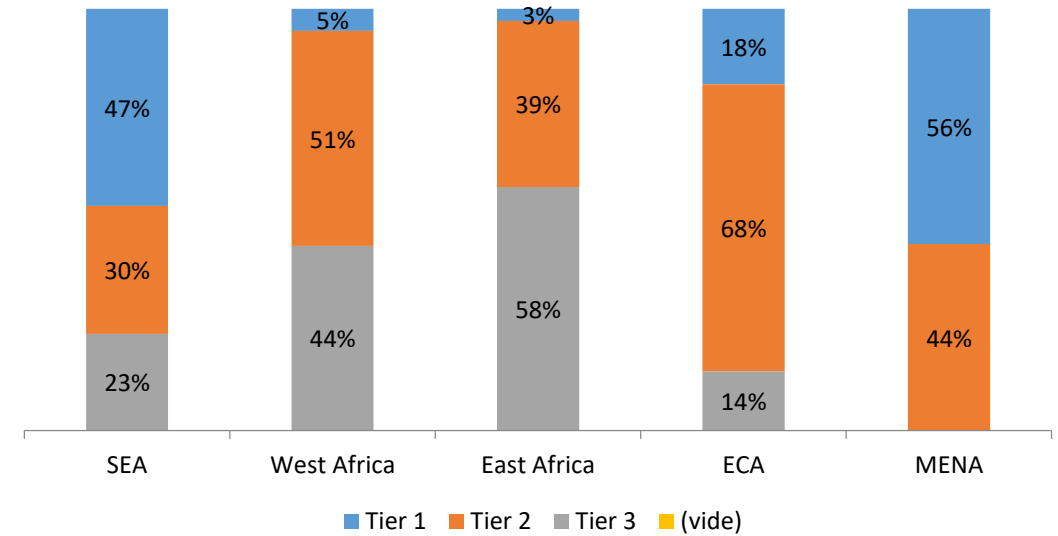
Partners : MFI with limited access to funding (Tier 3)

2016 – 2017

Evolution of portfolio by size of MFI
(% of commitments)



Portfolio by size and region
(% of commitments)



Our objectives

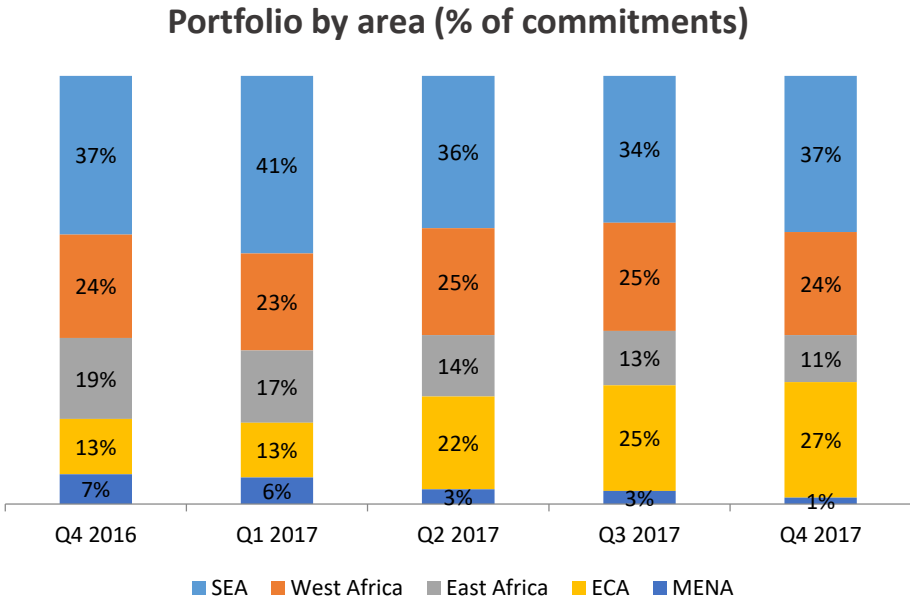
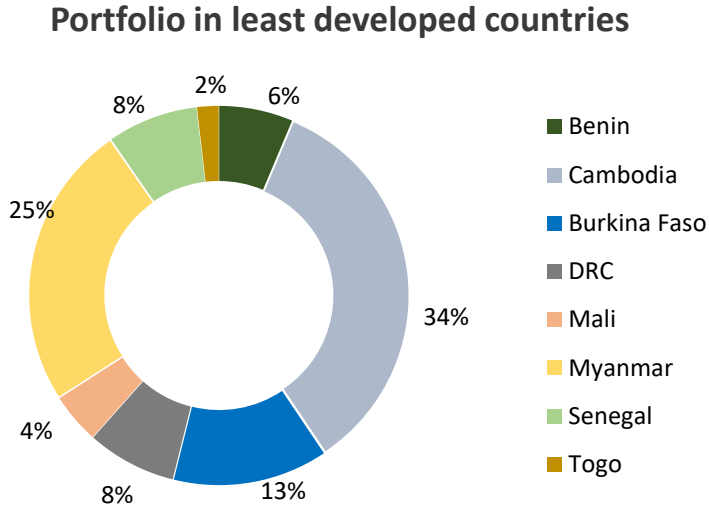
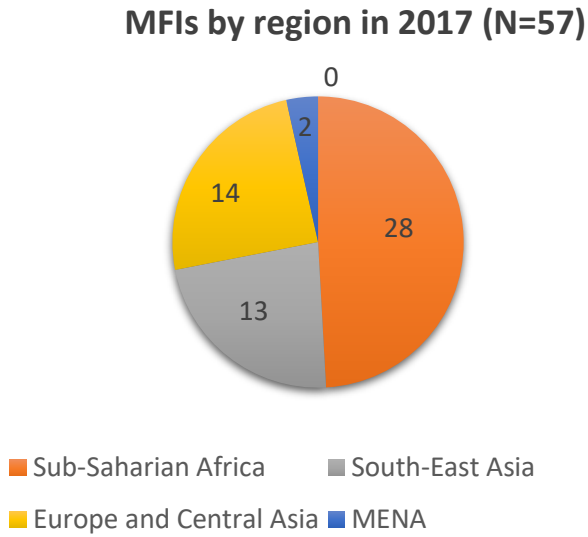
Focus our funding on Tier 3 institutions

Our results

- **Tier 3 institutions represent 22% of our commitments** as of Q4 2017. Proportion is gradually decreasing throughout the year 2017, to the benefit of Tier 2.
- Tier 1 stable in % of total commitments.
- **Highest proportion of Tier 3 partners in East Africa (58%) and West Africa (44%)**

Countries: poorest countries with priority Sub-Saharan Africa

2016 – 2017

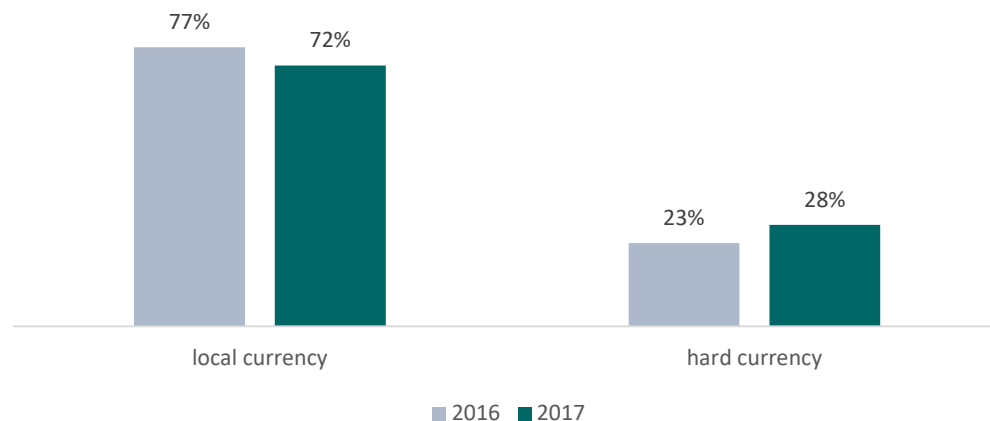


Our objectives	Our results
Focus: Sub-Saharan Africa (SSA)	<ul style="list-style-type: none"> Half of our partners are Sub-Saharan Africa MFIs West Africa represents 24% of our portfolio in 2017 and is particularly stable. However, proportion of East and West Africa in total commitments – 8%
Focus: Poorest countries	<ul style="list-style-type: none"> LDC represent 35% of total commitments (vs 48% in 2016)

Products : Local currency with limited access to funding

2016 – 2017

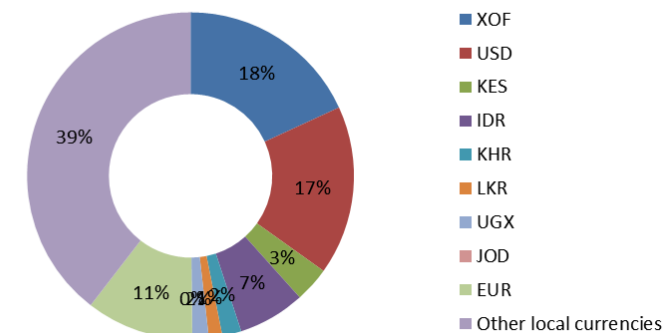
Local currency funding



Our objectives	Our results
Responsible product offer to our investees	<ul style="list-style-type: none"> 72% of our funding is provided in local currencies Increase of loans in USD due to development of operations in “dollarized countries” (Cambodia, Palestine, Georgia)

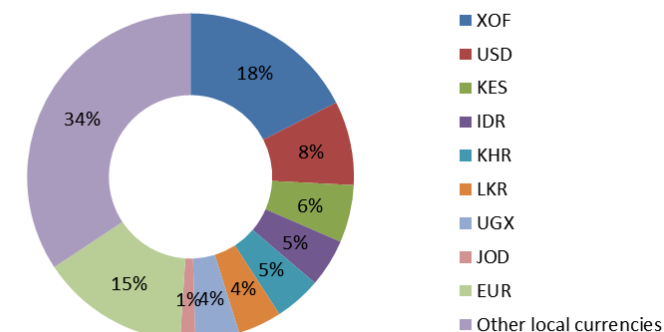
Commitments per currency

2017

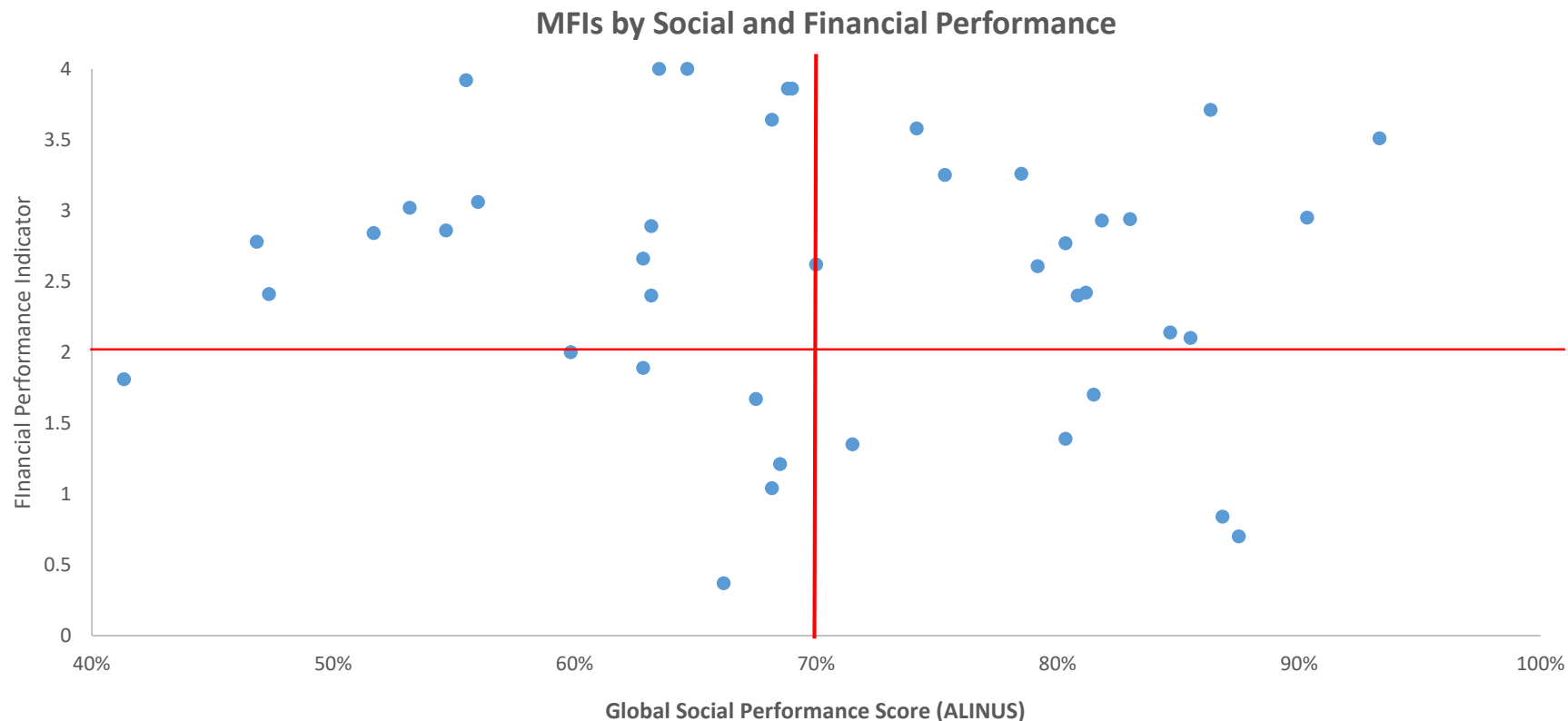


Commitments per currency

2016



Achieving the Social Mission while managing our risk carefully

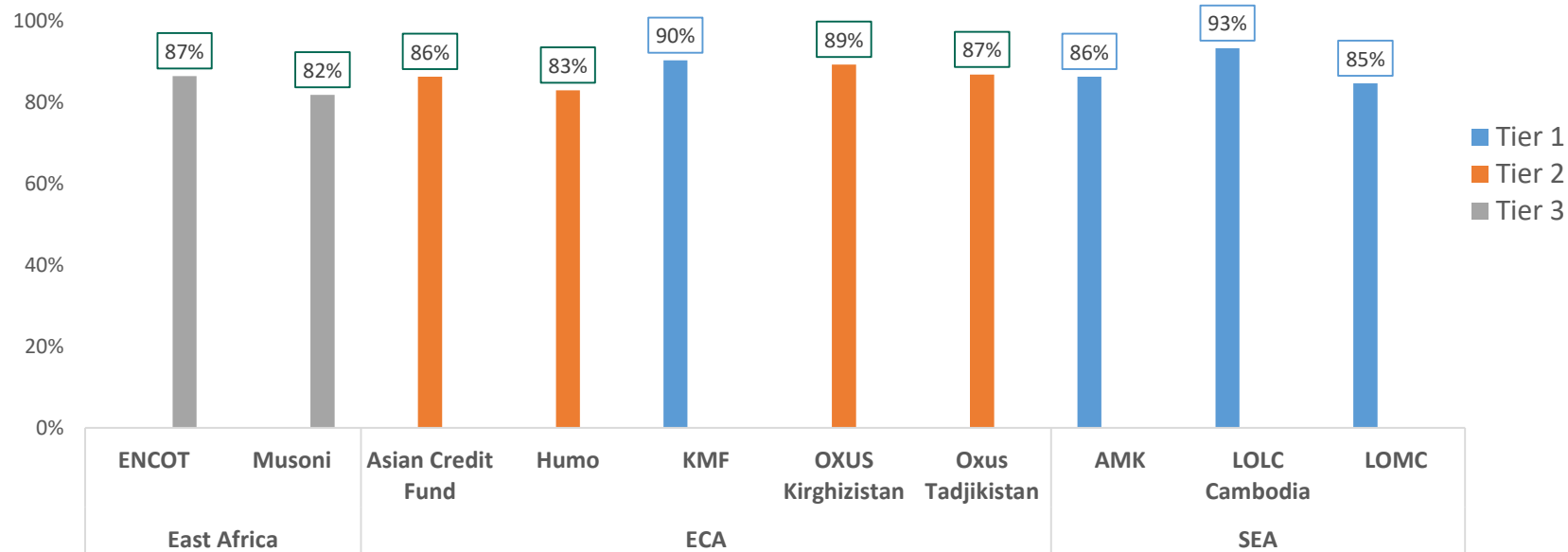


Does Social Performance come at a cost to financial performance ?

- Our believe is that good social performance management will have a positive outcome on financial stability and crisis resistance – but empercal evidence is yet to be developed
- Current analysis can only look at static statistical observation: the majority of our partners have above average FPI and high SP, and high SP scores do not indicate lower FP.
- We will monitor the evolution of FP over time in relation to SPI to provide better evidence.

Our partners – TOP Performers in SPM

10 top ALINUS positions by regions and by Tiers



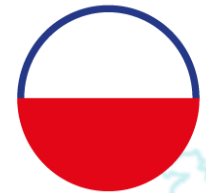
MFI	FPI 2017	Performance compared to average (2/4)
ENCOT	2,5	ABOVE
Musoni	2,9	ABOVE
Asian Credit Fund	3,7	ABOVE
Humo	2,9	ABOVE
KMF	2,9	ABOVE
Oxus Kirghizistan	3	ABOVE
Oxus Tadjikistan	0,8	BELOW
AMK	3,4	ABOVE
LOLC Cambodia	3,5	ABOVE
LOMC	1	BELOW

Who are our top SPM performers ?

- No MFIs from West Africa and MENA in top 10 SPM performers
- 2 Tier 3 in East Africa are among best performers against 4 Tier 2 and 4 Tier 1
- 8 out of 10 of the top performers have above average financial performance



FONDATION GRAMEEN
CRÉDIT AGRICOLE



Microfinance & Social Business

An engaged actor for a shared economy