The Grameen Crédit Agricole Foundation

10TH ANNIVERSARY

A UNIQUE FOUNDATION: 10 YEARS OF ACTIONS FOR INCLUSIVE FINANCE AND SOCIAL ENTREPRENEURSHIP

GRAMEEN CRÉDIT AGRICOLE
FOUNDATION

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A UNIQUE FOUNDATION: 10 YEARS DEDICATED TO INCLUSIVE FINANCE AND SOCIAL ENTREPRENEURSHIP

AFTER 10 YEARS, WHAT IMPACT ?

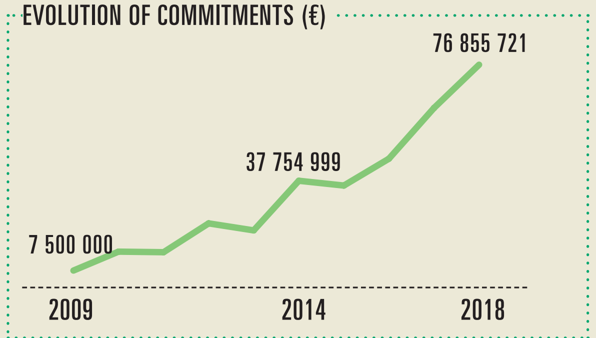
ACTIVITY SINCE INCEPTION

38 COUNTRIES of intervention

over **200 MILLION EUROS** granted

that is **4x** the initial **ENDOWMENT**

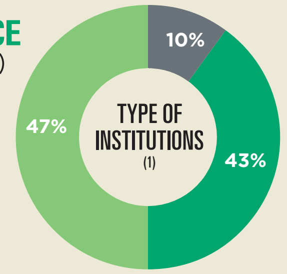
EVOLUTION OF COMMITMENTS (€)



INSTITUTIONS SUPPORTED

MICROFINANCE

87 MICROFINANCE institutions (MFIs)



- Tier 1: >$100M portfolio
- Tier 2: $10-100M portfolio
- Tier 3: <$100M portfolio

SOCIAL BUSINESS

15 SOCIAL BUSINESS COMPANIES in which the Foundation is a shareholder

BUSINESS SECTOR(2)

- 40% AGRIBUSINESS
- 33% FINANCIAL SERVICES
- 20% ESSENTIELS SERVICES (water and energy)
- 7% CULTURE & EDUCATION

SOCIAL IMPACT

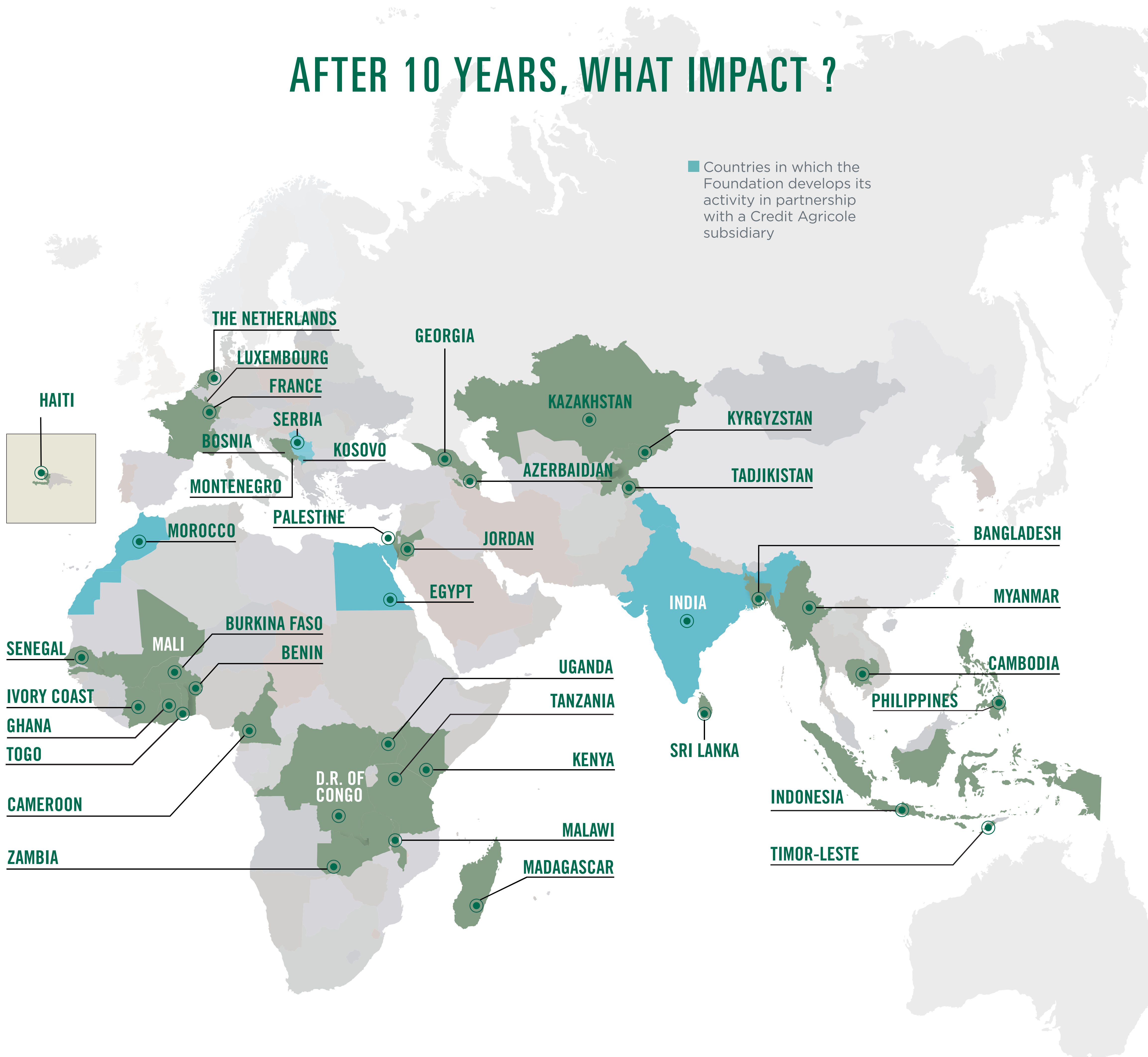
BENEFICIARIES(3)

760 000 (2010) → 3 977 000 (2018)

74% OF THE BENEFICIARIES LIVE IN RURAL AREAS (ON AVERAGE)

84% OF THE BENEFICIARIES ARE WOMEN (ON AVERAGE)

1 As of number of MFIs - 2 As of number of social business companies
3 Producers, processors, providers, employees and clients



An unprecedented alliance to fight poverty

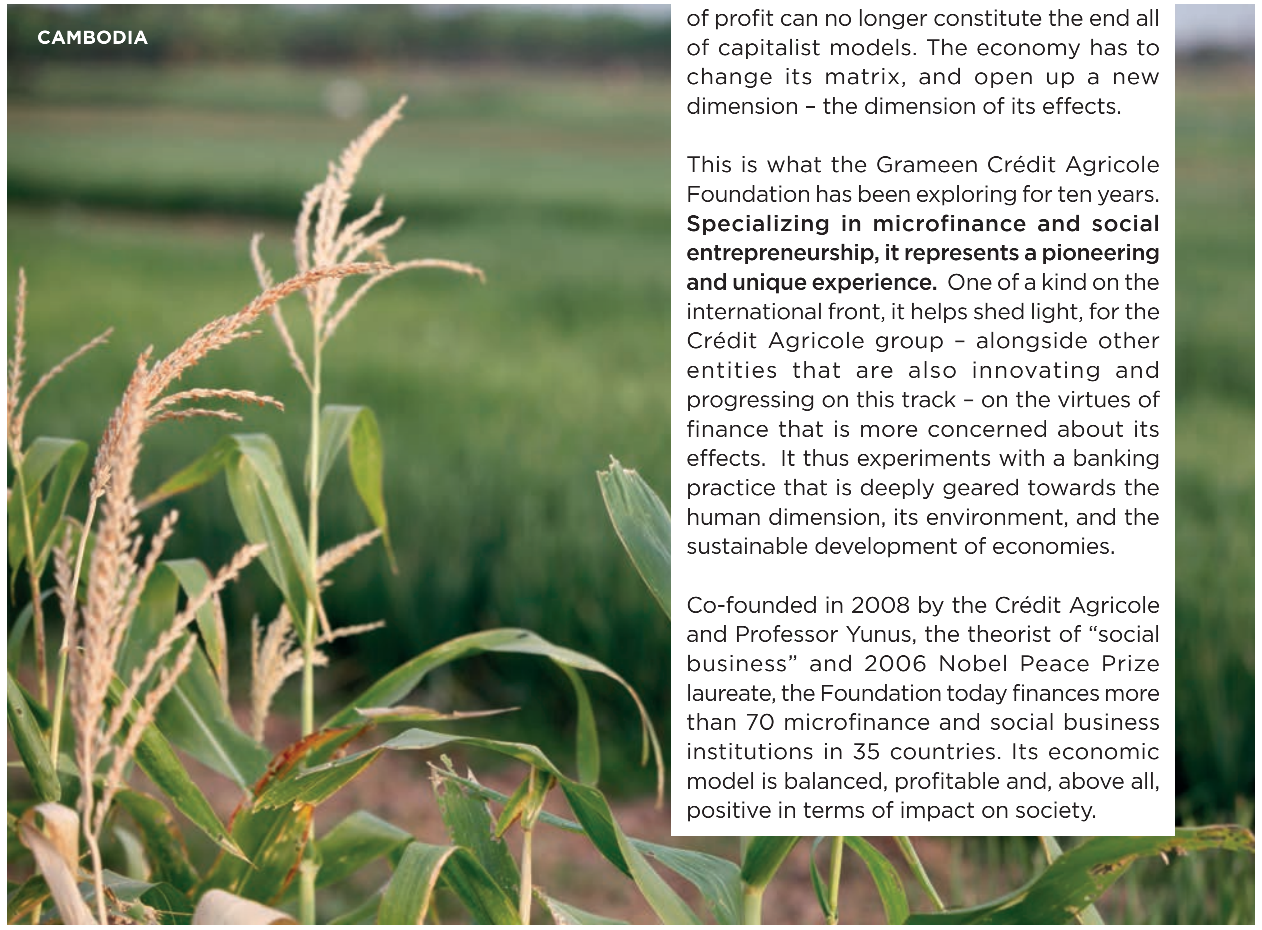
Crédit Agricole came into being from an idea of mutual assistance and cooperation, with a common determination to provide guidance and support for agriculture and economic development in the territories. That was more than 130 years ago, and the story has never been challenged. This first choice, a fertile ground for our mutualist roots, continues to guide our vision, namely that of having a useful and responsible role day after day to promote progress on all fronts.

The question of corporate responsibility and, by extension, that of the commitment of companies to the common good is in the spotlight. Each day brings a stream of discussions, points of view, contradictions and questions on this new convergence that emerges between the company and the common good.

Inequalities continue to widen inexorably, the dangers of climate change are becoming increasingly imminent, and tensions of all sorts keep growing. The confiscatory pursuit of profit can no longer constitute the end all of capitalist models. The economy has to change its matrix, and open up a new dimension – the dimension of its effects.

This is what the Grameen Crédit Agricole Foundation has been exploring for ten years. **Specializing in microfinance and social entrepreneurship, it represents a pioneering and unique experience.** One of a kind on the international front, it helps shed light, for the Crédit Agricole group – alongside other entities that are also innovating and progressing on this track – on the virtues of finance that is more concerned about its effects. It thus experiments with a banking practice that is deeply geared towards the human dimension, its environment, and the sustainable development of economies.

Co-founded in 2008 by the Crédit Agricole and Professor Yunus, the theorist of "social business" and 2006 Nobel Peace Prize laureate, the Foundation today finances more than 70 microfinance and social business institutions in 35 countries. Its economic model is balanced, profitable and, above all, positive in terms of impact on society.



Phillipe Lissac

By lending funds to local institutions which distribute them in the heart of their territories in the form of micro-credits for professional use, we promote the economic independence of individuals. We engage in microfinance for businesses and activities, most often in rural and agricultural settings. Our know-how has been bolstered over ten years: the Foundation has become a real expert in social performance and responsible investments.

When we take a close look, the resemblance between the Foundation's experience and that of a retail bank as we know it in Crédit Agricole is striking. Driven by a civic entrepreneurial spirit, the Regional Banks and their Local Banks act as territorial community links. They finance companies and projects, support initiative, promote growth, employment and innovation.

It is also the case for microfinance institutions which constitute the Foundation's portfolio. Each of our partners endeavours to improve the living conditions in their country, in their region and at their scale, by opening up access to financial services that promote the development of income generating activities. Women entrepreneurs and populations living in rural areas are in this respect the Foundation's priority targets, and have been since its inception.

Initial ties between the Foundation and the entities of the Crédit Agricole group have been forged successfully. A case in point are the recent partnerships set up with Crédit Agricole Franche-Comté, Crédit Agricole CIB, Pacifica, Amundi, CA Indosuez Wealth (Asset Management), CACEIS Bank Luxemburg Branch, or with International Retail Bank in Morocco, Egypt and Serbia. **And convergences continue to expand.**

Common challenges bring us together. In France and in Europe, retail banking is faced with rapid changes in what people expect. The employment market is fragmented and new forms of activities are emerging: individual entrepreneurship, social and solidarity-based projects, environmentally-committed companies, financing and investments with a social impact. The notions of community and solidarity are being reinvented as are the ways of working: there is a significant trend towards co-working spaces, fab labs, makerspaces and other third places for freelance activities. When the French are asked about how they want work, "being self-employed" or "having one's own company" top the replies . These are all situations where professional microfinance can provide solutions.

Further afield, the Foundation helps to design social business models where the individual is put back centre stage, while ensuring a fair distribution of profits between the stakeholders. **These new models beckon us to rethink who we are and how we should act to contribute for a type of growth in which everyone is able to find their place.**

In a Group where the mutualist and cooperative spirit nurtures corporate responsibility, microfinance sheds its share of illumination. A small light? Perhaps. High hopes? Certainly, because it opens up a concrete path to continue to put financial profitability in the service of the common good.

Today, 1.7 billion of adults do not have a bank account. With 135 million clients, microfinance institutions support the activity of small entrepreneurs, provide financial support to near a billion people and irrigate local economies. This number is nevertheless insufficient since the access to financial services remains a challenge of our times just as it was 10 years ago. Experience shows that, when respect and client protection are at its centre, microfinance is a formidable catalyser and vector of resilience for economic communities with low revenues. Digital finance open up perspectives that must be seized in order to accompany these small rural economies that need our solidarity-based professional commitment as well as that of all of our colleagues and partners, funders, and new actors, in a rough context. It is on this path that we will pursue and amplify our efforts during the coming years.

The Crédit Agricole and the Grameen Family, our founders, have always stepped forward and helped write the economic and social history of a better shared growth. The Foundation's anniversary reminds us with enthusiasm of the reasons for our commitment: not to fear any challenge, not to neglect any territory and never to abandon anyone along the way. ■

THE GRAMEEN CRÉDIT AGRICOLE FOUNDATION

VISIONFUND, MYANMAR

CHAPTER 1

THE FOUNDATION: A COMMITTED ACTOR

10 years later: the challenge is successfully met

UGAFODE, UGANDA

The Grameen Crédit Agricole Foundation is a multi-business operator whose mission is to contribute to the fight against poverty and to promote financial inclusion and social entrepreneurship.

The Foundation carries out four main activities:

SINCE 10 YEARS

€200 millions granted

38 countries of intervention since the Foundation was launched, with active financing in 35 countries today.

102 partners supported since the creation of the Foundation, 87 microfinance institutions and 15 social businesses

- **Funder**
The Foundation grants loans or guarantees to microfinance institutions (MFIs), social impact enterprises or conventional banks which contribute to the financing of microfinance institutions.

- **Investor**
The Foundation acquires equity stakes in social impact enterprises or social businesses essentially in the field of agri-food processing and financial services.

- **Technical assistance coordinator**
The Foundation coordinates technical assistance and support programmes to bolster the operations of partners that are guided by the Foundation.

- **Investment advisor**
The Foundation is also an investment fund advisor and helps investors embark on the development of microfinance or, more generally, inclusive finance.

Didier Gentilhomme

10 years, 10 milestones

2008. The alliance between a mutualist banking group, Crédit Agricole, and Nobel Peace Prize laureate Muhammad Yunus leads to the creation of the Foundation to take part in the fight against poverty in the world. The Crédit Agricole endows the Foundation with €50 million.

CA GRAMEEN

2010. First equity investment in a social business company - La Laiterie du Berger in Senegal - for an amount of XOF 200 million (€305,000).

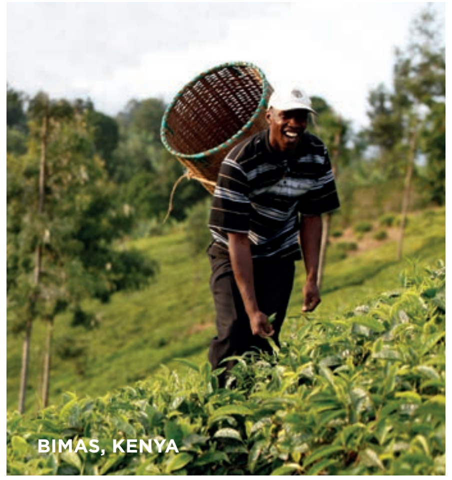

LAITERIE DU BERGER, SENEGAL

2008 **2010**

2009 **2013** **2016**


KRK, KOSOVO


ENCOT, KENYA


BIMAS, KENYA

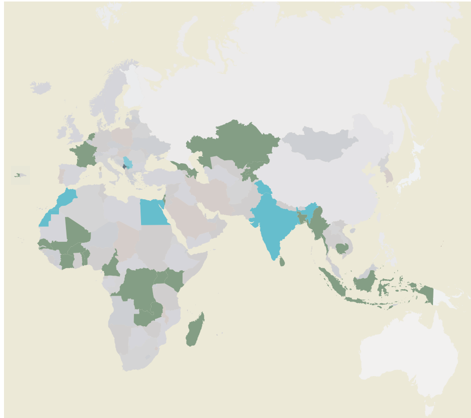
2009. The Foundation grants its first loan to KRK, a Kosovar microfinance institution, for an amount of €2 million.

2013. Establishment of the “African Facility,” a technical assistance programme to help small microfinance institutions in Africa, in cooperation with the Agence Française de Développement.

2016. Crédit Agricole CIB grants an initial loan of €10 million to the Foundation. This financing allows the Foundation to develop its activities and reinforce its relation with Group entities.

Phillipe Lissac - Didier Gentilhomme

2017. The Foundation steps up the investments with the Crédit Agricole group in Egypt, India, Morocco and Serbia. A securitization operation is launched in particular with CACIB in Ivory Coast, to finance individual solar home systems.



2018. Launch of the program “Solidarity Banker” alongside Crédit Agricole S.A. which allows Crédit Agricole group employees to engage in technical assistance missions in favour of organizations financed by the Foundation.

BANQUIER SOLIDAIRE

2018. The Foundation's funders now include: the Agence Française de Développement, Amundi, the European Investment Bank, Crédit Agricole Île-de-France and Crédit Agricole CIB. The financing they provide amounts to nearly €50 million.

AFD
Amundi ASSET MANAGEMENT
European Investment Bank The EU bank
Île de France
CRÉDIT AGRICOLE CORPORATE & INVESTMENT BANK

2017

2018

UNHCR The UN Refugee Agency
Sida


PROXIMITY, MYANMAR

2017. The Foundation is selected by the United Nations High Commissioner for Refugees (HCR) and the Swedish Cooperation (SIDA) to implement a program aimed at supporting entrepreneurship among refugees.

2018. Under the initiative of the Foundation and with the support of CA Indosuez Wealth (Asset Management) and CACEIS Bank Luxemburg Branch, an investment fund aimed at fostering inclusive finance in rural areas has been launched. 13 Regional Banks, Amundi and Crédit Agricole Insurances have subscribed.

Phillipe Lissac - Didier Gentilhomme

KEY FIGURES OF THE FOUNDATION'S ACTIVITIES

The Foundation has from the outset been committed to women, community-based - in particular rural - economies, and a responsible approach to finance. Its missions refer to the Sustainable Development Goals (SDGs) framework defined by the United Nations. They are intended to build a more sustainable world by 2030. The Foundation makes a concrete contribution to the achievement of 8 of the 17 SDGs.

1 NO POVERTY

The fight against poverty
100% of the Foundation's financing is earmarked for partners who contribute to the fight against poverty: 40% of the Foundation's outstanding loans are granted to the least developed countries.

8 DECENT WORK AND ECONOMIC GROWTH

Decent work and economic growth
The Foundation supports the creation and the development of income-generating activities by financing microfinance institutions and investing in social businesses.

2 NO HUNGER

Zero hunger
The Foundation contributes to food security by investing in local agricultural businesses, namely in the production of milk, rice, fresh fruits and vegetables.

12 RESPONSIBLE CONSUMPTION

Responsible consumption and production
The Foundation promotes sustainable methods of production and consumption by investing in companies oriented towards organic farming and other responsible practices.

5 GENDER EQUALITY

Gender equality
74% of the beneficiaries of the microfinance institutions financed by the Foundation are women.

13 CLIMATE ACTION

Climate action
With 77% of its final clients living in rural areas, the Foundation contributes to reinforce resilience of rural economies and thus helps them face climate change.

7 AFFORDABLE AND CLEAN ENERGY

Affordable and clean energy
The Foundation invests in social businesses that favour access to clean sources of energy and develops innovative partnerships with Crédit Agricole CIB.

17 PARTNERSHIPS FOR THE GOALS

Partnerships for meeting the goals
The Foundation develops cooperation ties with Crédit Agricole group entities and Regional Banks as well as with actors from the private, public and solidarity-based sectors.

Economic performance and social impact: our dual objective

The Foundation is a renowned player in inclusive finance, which reconciles financial balance and social impact. To that end, it pursues a rigorous investment policy that grants priority to both sustainability criteria and positive social externalities.

The Foundation integrates financial and social performance in the core of its investment processes. Before it grants a loan, the Foundation selects its candidate institutions according to standardized criteria and objectives stated in its investment policy, which is updated on a regular basis. In an initial stage, the Foundation's team identify partners who meet two sets of criteria: social performance and the search for financial balance. The Projects Committee then meets and decides on the financing and support of microfinance institutions (MFIs) and social businesses that comply with these criteria.

FINANCIAL CRITERIA: The preferred choice is for structures having already reached economic sustainability or expected to reach it in a near future. They must secure a portfolio with a less-than-5% default risk. Their operational self-sufficiency (OSS) rate must be over 100% and their return on assets (ROA) above 0%. The debt ratio is also taken into account.

The financial assessment is paired with a social performance audit. The Foundation compares and checks, among other things, the institution's profitability and interest rate to customers, return on equity and the sharing of the added value.

INVESTMENT PROCESS

1. Country macro-economic review
2. Benchmark and prospection
3. Negotiation of a term sheet
4. On-desk financial and social analysis
5. Operational committee before due diligence
6. Due diligence in the field
7. Operational committee after due diligence
8. Preparation of the investment proposal + risk opinion
9. Decisional Projects* Committee
10. Contractualization phase and finalization of hedge conditions
11. Disbursement after verification of conditions precedent
12. Monitoring of social and financial performance (quarterly monitoring)

* Composed of 3 board members and the Managing Director

SOCIAL CRITERIA: The Foundation uses the SPI4 rating to assess the social performance of its partners. Since 2016, the Foundation carries out a yearly benchmark on the social performance of its portfolio compared to the sector. The results obtained exceed those of the sector as a whole on every dimension of the universal standards of social performance management. This overall score has even gone up by 6 percentage points, from 63% in 2016 to 69% in 2017.

The Foundation pays special attention to good customer protection practices. In fact, the Foundation is particularly intent on preventing over-indebtedness of customers. The Foundation systematically verifies the average loan amounts and the interest rates charged by its partners to ensure that their customers meet our social criteria. The Foundation's partners are mainly intermediate-sized Tier 2 institutions (with a portfolio between \$10 and 100 million), and small Tier 3 institutions (with a portfolio of less than \$10 million), which currently represent around 90% of the institutions financed by the Foundation.

Certain MFIs are in vulnerable financial situations. The Foundation has adapted its commitment policy by combining its loans with the implementation of technical assistance programmes, so that they could be eligible for financing and support to develop their activities. With the backing of the Agence Française de Développement (AFD), the Foundation implemented the "Take-off facility for agricultural and rural microfinance in Africa," a programme to strengthen the operations of small MFIs, often working in landlocked regions in Africa (see box " The African Facility Program", p. 27).

ELIGIBILITY CRITERIA

Social mission
- Fight poverty and actively promote financial inclusion (prioritize women)
- Offer well-adapted financial and non-financial services
- Comply with responsible principles regarding client treatment, personal data protection, interest rates applied and prevention of over-indebtedness

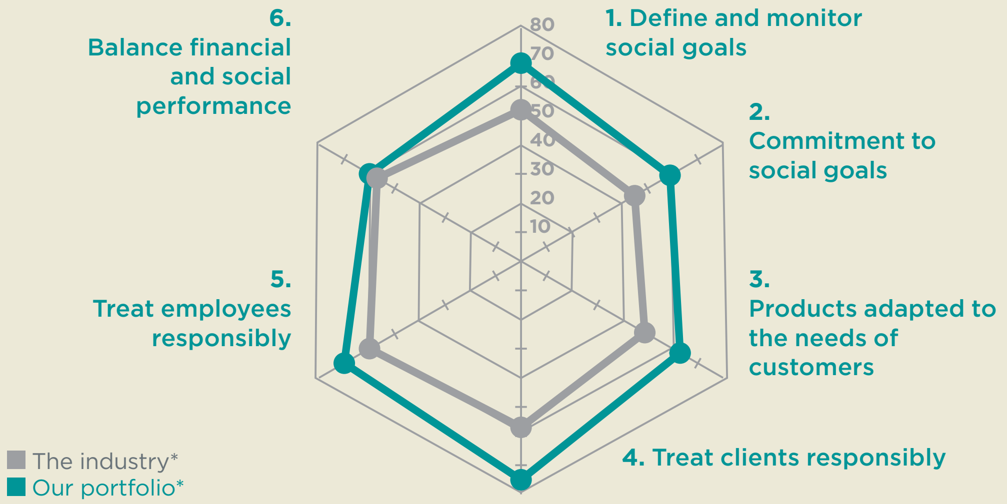
Geographical areas
- Sub-saharan Africa
- Middle East and North Africa
- South and South East Asia
- Central Asia and the Caucasus
- Eastern and Central Europe

Self-sustainable economic model
- Minimum of 2 years of existence with audited financial statements
- Portfolio amount above €650,000 with good portfolio quality
- Effective management information system (MIS)
- Appropriate internal control procedures
- Efficient governance

Financial ratios (standard approach)*
- Portfolio Risk PAR30 + r: < 5%
- Sustainability: OSS > 100 % or ROA > 0%
- Debt ratio: D/E < 5 or CAR according to regulation

** The Projects Committee can make exceptions to the standard ratios in the framework of specific projects*

UNIVERSAL SOCIAL PERFORMANCE STANDARDS



**SPI4-ALINUS score of 28 Tier 3 institutions of the Grameen Crédit Agricole Foundation compared with 79 institutions of the industry audited by CERISE (2017).*


UV+SOLAIRE, CAMBODIA

Phillipe Lissac

The Foundation and the social business

Theorised by Professor Yunus, social business, also referred to as social entrepreneurship, is an economic activity whose primary purpose is its social mission.

It is a renewed model of a company, where social utility is at the core of the business model, governance and operations. For social utility to be generated, it is imperative that the company creates lasting value. The financial performance and the viability of the business model are the prerequisite for the company's sustainability.

The Grameen Crédit Agricole Foundation has been promoting social business for the past 8 years, investing in companies with social impact in the fields of agri-business, financial services, access to water and energy, culture and education.

Based on this pioneering investor experience, the Foundation published in 2017 a White paper entitled « The path to entrepreneurship for the common good ». This work has allowed the Foundation to draw lessons from its experience and to make seven proposals to improve the chances of success of social impact enterprises

Today, new challenges

JUHUDI KILIMO, KENYA

Climate change, demographic growth, digital transformation... the challenges shaking the world of finance are plenty. There is an urgent need to mobilize resources, innovate with new means of action, and strengthen cooperation. This belief is at the heart of the actions pursued by the Grameen Crédit Agricole Foundation. It will continue to adapt to these new challenges by diversifying its expertise and boosting its modes of intervention. Three strategic issues will guide its action in the coming years.

The digital transformation

The rapid development of digital technologies is changing the customer's relationship with the Bank. The phenomenon is particularly blatant in emerging countries where the Foundation intervenes: equipment in mobile phone and internet devices is progressing faster there than in the rest of the world. It is also an asset allowing microfinance to lower its costs and broaden its distribution channels. The Foundation and the institutions it finances are digitizing their processes and seeking to put forward solutions, offers and services that are increasingly better suited to the needs of the clientele. New generation economic models are emerging. They are often daring and pragmatic initiatives that have a lot of potential for the future.

The green transition

The effects of climate change are already here. It is vital to rally each and everyone. As a financier of mostly rural institutions, the Foundation is at the forefront: the customers of its partners are already exposed to the agricultural risk and to the impact of climate change on their yield. This undermines the revenues of small producers. In the absence of guarantee mechanisms for their revenue or crops, these small farmers, whose acreage is generally between 1 and 2 hectares, are totally exposed to the effects of rising temperatures. The financing solutions developed by the Foundation promote the resilience of rural economies. Here once again, new procedures and practices are emerging which prefigure progresses in the Foundation's activities.

> **690 million**
>
> **mobile money accounts were registered between December 2012 and December 2017.**
>
> Source: 2017 State of the Industry Report on Mobile Money, GSMA

Didier Gentilhomme

The structuring of agriculture sector

Small-scale agriculture accounts for a vast majority of the agricultural production in our countries of intervention (this observation is perfectly valid in Africa, and slightly less so in Asia), but it remains beyond the reach of the financial and commercial flows that would enable small farmers to go beyond subsistence agriculture and improve their income. The challenge is to adapt the financing offer to move towards the structuring and integration of agricultural value chains. The Foundation will adapt its approach by favouring global financing solutions.

All these themes converge with the dynamics at work in the Crédit Agricole Group and which represent leverages to expand the impact of the Foundation in favour of a better shared economy. The next chapter identifies the similarities between microfinance institutions and retail banks.

DEVELOPMENT PLAN OF THE FOUNDATION 2019-2023

3 pillars of our strategic plan

- **Reinforce our expertise and offer in favour of the microfinance sector**
- **Strengthen resilience of local rural economies**
- **Promote social impact and its assessment alongside entities and clients of Crédit Agricole**

Partnerships, global approach, experience sharing

Success Factors

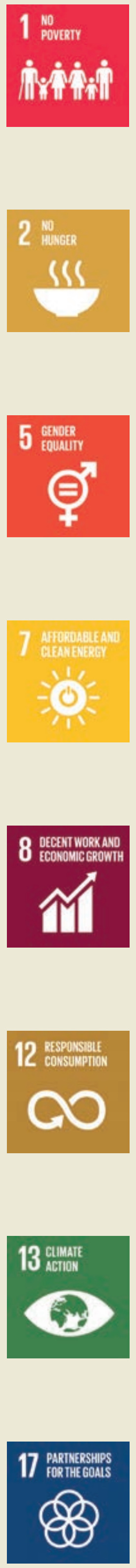
- Reinforce and diversify technical assistance programmes aimed at addressing the main challenges faced by MFI's (climate change, migrations, digitalisation, offer of services)
- Invest in enterprises with social impact located in rural areas - either directly through services provided by the Foundation itself or indirectly via dedicated funds
- Encourage Crédit Agricole's entities to get involved in the inclusive finance sector

Actions

- Develop a financial offer designed to strengthen the equity of microfinance institutions
- Contribute to the financing and strengthening of agriculture value chains
- Promote and facilitate access to agricultural micro-insurance services, considered as key to ensure client protection
- Develop an internal expertise in auditing and measuring social and environmental performance

GRAMEEN CRÉDIT AGRICOLE

FOUNDATION



2019-2023 STRATEGIC PILLARS

REINFORCE our expertise and offer in favour of the microfinance sector

STRENGTHEN resilience in local rural economies

PROMOTE social impact and its assessment alongside Crédit Agricole entities and clients

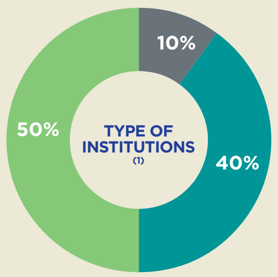
KEY OBJECTIVES

€200M OF FINANCING (loans and guarantees)

€125M ASSETS under management in 2023

40 COUNTRIES

100 MICROFINANCE INSTITUTIONS supported



50 SOLIDARITY BANKERS

Crédit Agricole employees who carry out **pro bono missions** in favour of the Foundation's partners

SOCIAL IMPACT

300 000 MICROCRÉDITS (2)

BENEFICIARIES (3)

75% LIVING IN RURAL AREAS

+80% WOMEN

1 In number of partners - 2 Calculated on the average loan granted by the Foundation's partners - 3 Producers, processors, suppliers, employees and clients

Phillipe Lissac

CHAPTER 2

SHARING PERSPECTIVES ON MICROFINANCE AND RETAIL BANKING

Microfinance: A lever for local economic development

ACAD, PALESTINE

The distribution of microcredits and the securitization of small-scale savings are powerful instruments for development and the fight against poverty. They enable people exluded from the banking sector to set up an income-generating and socially inclusive activity. Microfinance is part of the business lines of the banking sector.

Microfinance complements the traditional financial system to enable economic and social development for the entire population. It is a full-fledged compartment of the financial sector which opens access to financial services for the unbanked population. Being in line with the general framework of the financial sector, it is under the supervision of the monetary authorities, but is subjected to a particular support and regulation policy.
Microfinance has existed in different forms for a long time. Borrowing and lending mechanisms have existed for several millennia in Africa and Asia. But microfinance is also what France experimented when certain underfinanced professional sectors (farmers, craftsman, the maritime sector, etc.) led the public authorities to create specialized savings and loan institutions. Farmers did not have access to credit in the 19th Century France. In France, as in Germany, enlightened people created cooperative societies to finance agriculture, controlled by the farmers themselves. Crédit Agricole stemmed from this idea of mutual cooperation and solidarity. As with the origin of these sectoral institutions, microfinance was born from the need for solidarity to give excluded populations access to financing and savings solutions. "Modern" microfinance was probably launched in the mid-1970s in Asia and Latin America.

Phillipe Lissac

One of the representative examples is the Grameen Bank founded in Bangladesh in 1978 by Pr. Muhammad Yunus, which sought a concrete response to the economic crisis the country was going through. Determined to experiment practical solutions, he observed the production activities of a group of women who made bamboo stools. Without money to buy their raw materials, they borrowed from local merchants but were obliged to sell them their finished products at a price scarcely higher than the price of the raw materials. Pr. Yunus lent them the sum they needed, $27 without interest to help them get out of the endless indebtedness cycle. This is where the idea of the Grameen Bank (the "village bank") originated, by popularizing solidarity lending, a system where each member of a group or a community agrees to guarantee the loans of the others, so they can generate profit and reimburse them. In 2006, Pr. Yunus and the Grameen Bank were awarded the Nobel Peace Prize.

Inspired by this success, numerous microfinance institutions (MFIs) then emerged helped by donors who discovered in turn this new form of "micro-development." Most of them started their activities as non-governmental organizations (NGOs) and were financed by subsidies from public and private funds. Some of them became profitable and increased the number of their clients rapidly. They managed to show, on an international scale, that low-income people were solvent, even though they were unable to provide financial guarantees. Microfinance consequently proved viable from the economic point of view. Today, **the microfinance sector has 139 million beneficiaries with outstanding loans estimated at $114 billion[1].** The sector is growing every year: the loan portfolio grew by 16% and the total number of borrowers by 6% in one year. The 100 largest institutions concentrates the majority of the loan portfolio. At the end of 2017, they accounted for 76% of the overall market with a $87 billion loan portfolio and 108 million borrowers.

Certain MFIs have in recent years positioned themselves on the growing digital finance market. A survey conducted by MIX[2] in 2017 shows that 61% of the MFIs interviewed already deploy alternative distribution channels to reach clients, whether by using cash dispensers, itinerant staff or mobile banking services. 40% of all MFIs have already developed digital finance services (electronic portfolio, remote payments, etc.) and 20% are in the experimental phase.[3]

And yet, **1.7 billion adults are still unbanked and the MFIs will have to continue to adapt and innovate to meet the challenges of financial inclusion.** Formal, traditional and established companies that provide gainful employment are not going to be able to absorb the demographic explosion of emerging countries in particular on the African continent. Microfinance, as well as other forms of promotion of entrepreneurship, will have to play a powerful inclusive role in economic development and social progress, by stimulating the local economy, facilitating a fairer sharing of the benefits of economic growth and promoting job creation.

(1) The calculations are based on data supplied by providers of financial services of the MIX Market network for 2017 (Microfinance Barometer 2018). - (2) MIX Market is a non-profit organisation which acts as an information provider for businesses in the microfinance sector http://www.themix.org/mixmarket. - (3) Microfinance Barometer 2018, Convergences. - (4) Global Findex 2017.

Ella Assoukou owns a clothing and shoe shop in Benin. With two other local small shopkeepers and collateral security, she took out an initial loan of CFA 200,000, i.e. ca. €3,000 from Alidé, a partner of the Foundation, to finance the purchase of her shop's stock. The loan enabled her to develop her business and secure a better future for her family.

Khader Salahat lives in Bethlehem, where he produces handicrafts from olive wood. Thanks to an initial loan of $3000 granted by FATEN, a partner of the Foundation in Palestine, he was able to invest in his trade and to get reintegrated in the business market. His activity guarantees a source of stable income, which is essential for improving his and his family's living conditions.

At the centre, there are entrepreneurs

Chandralatha, Khader Salahat, Damayanthi, and Ella Assoukou have several points in common. They are entrepreneurs first and foremost. They are established in Benin, Sri Lanka or Palestine. But these small entrepreneurs do not have access to the traditional banking sector which considers that this segment of clients, with irregular income and insufficient guarantees, is too risky. They tend to live in areas not served by conventional banking networks (rural areas, low density urban areas, etc.). Their income stems mostly from the informal sector, and is therefore not very traceable or predictable, and far from the increasingly more stringent compliance standards required by conventional banks.

MFIs have therefore developed to meet the financial needs of these entrepreneurs. In order to manage the risks involved in their credit operations, MFIs have put in place particular methodologies based on the client relationship and knowledge of the micro-economic context. They have developed a client assessment capacity based on figures but also on information from the local context. A microcredit officer spends a lot of time in the field with the clients, and analyses their experience and payment capacity thanks to his/her knowledge of the field and the clients' entourage.

To help clients better manage the financing of their business activities, mainly clients who do not have sufficient experience or training, certain institutions have put in place services to guide and support their "first financial steps". They provide short training courses for borrowers under

Phillipe Lissac

Chandralatha grows tea leaves which she markets in the village of Rerukana in Sri Lanka. Since 2011, she has been a client of LOMC, a partner of the Foundation, which granted her an initial loan of Rs 100,000, equivalent to €500. Chandralatha renews and increases her credit regularly, and can thus invest more in her production and in developing her business.

Damayanthi lives in Negombo, Sri Lanka. She has received 4 loans from VisionFund Lanka, a partner of the Foundation, for equivalent amounts in local currency of €75, €250, €380 and €600. She now has 5 boats and employs several people. The growth of the amount is indicative of the trust that the MFI places in its client.

programmes that have proven their efficacy (financial education, stock and order management).

The client support services, with financial education at the forefront[5], are characteristic of the model of the more socially responsible MFIs. They underlie the implementation of their social mission because they reduce the borrowers' vulnerability. These services also help to improve the quality of the loan portfolio (better financial education and business guidance improve the reimbursement capacity of the borrowers) and to build customers loyalty. A recent MIX study shows that MFIs that provide financial services improve their credit risk significantly and reduce the cost for managing borrowers who have benefited from it.[6]

(5) Financial education is defined as training clients in financial planning, budget management, savings loans, investment decisions, and understanding interest rates. - (6) "Where good intentions meet good practices", MIX Market, 2016

Phillipe Lissac

A growing sector

"Modern" microfinance henceforth encompasses a whole range of quality financial products and services, made accessible to low-income population: micro-insurance (agricultural, non-life insurance), varied savings and loans products adapted to the activities of clients (housing, renewable energy, storage, SMEs loans, etc.), money transfers, digital accounts. Non-financial services have also been diversified. They complement financial services because they ensure good clients use.

Microfinance is today probably considered as the most successful and structured impact investment sector, i.e. investment that targets social as well as financial return. Nevertheless, microfinance is still a young market for investors, because the first private investment funds in microfinance were launched in the 1990s. There were 10 in 1998, 47 in 2005 and more than 100 today.

It has gone from a niche investment to an investment opportunity integrated in the conventional financial market, offering a new paradigm to investors: measured and legible risk, low volatility, positive social impact and contribution to sustainable development, while guaranteeing a stable return on investment (about 3,3% on the last decade and 1.6% today). Like microfinance institutions (MFIs) which have broadened their offer apace with their growth, these microfinance investment vehicles have extended their products to MFIs: starting with a simple short-term loan, they now offer short-, medium- and long-term financing financing possibilities in the form of debt, equity convertible or non-convertible bonds. Nevertheless, in spite of rapid growth, investment in financial inclusion today represents only a very small part (less than 1%) of the overall investment universe.

This development has not been linear and microfinance has gone through several growth crises. In 2008 and 2010, there was a succession of repayment crises in India, Pakistan, Morocco, Bosnia and Nicaragua. These crises underlined the dangers of microfinance when it is not guided by the client's needs and capacities. However, they contributed to restore the sector and led to two types of significant progress: the acceleration of the sector's regulation and the consideration of social performance.

THE HISTORY OF MICROFINANCE*

1895	Creation of the Bank Rayat Indonesia (BRI)
1969	First cooperative of the Confederation of Financial Institutions (CIF) (Togo)
1976	First loan by M. Yunus (Bangla-desh)
1983	Formalization of the Grameen Bank, BRI village units
1989	Launch of the Grameen Bank Replication Programme by Grameen Trust
1992	Conversion of PRODEM into a bank (Bolivia)
1993	First PARMEC law for West Africa cooperatives
1995	Creation of CGAP (Consultative Group to Assist the Poor)
1997	First Micro-crédit Summit
1999	"No Pago Movimiento" in Bolivia
2002	First social audit tool (CERISE SPI), creation of the Microfinance Information eXchange (MIX)
2005	Internationale micro-credit year, creation of the SPTF, first social ratings
2006	Nobel Peace Price awarded to M. Yunus
2007	Compartamos' IPO*
2009	Repayment crises (Morocco, Nicaragua, Pakistan, Bosnia)
2009	Launch of the Smart Campaign for client protection
2010	Micro-finance crisis in Andhra Pradesh, India
2011	Principles for Investors in Inclusive Finance (PIIF)
2012	Universal Standards for Social Performance Management (USSPM), Global Appeal for Responsible Microfinance
2013	First MFIs certified by the Smart Campaign (Bosnia and India)

*CERISE for the Microfinance Barometer 2013

UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT

Social performance: a key dimension of the sector

The definition of "responsible microfinance" was drawn by new regulation mechanisms and a standardized framework which objectively structured notions such as client protection. client protection. Nevertheless, there are still wide margins of progress, bearing in mind that in certain countries, the microfinance sector is still regulated by standards that are not adapted, as the regulation is inspired too narrowly from the very financial, but not so social banking sector.

In recent years, the microfinance sector has established standards for measuring social performance(7) known as the **Universal social performance standards**. They were fixed by the Social Performance Task Force (SPTF), an international association composed mainly of practitioners representing the sector. The SPTF was headed by the Grameen Crédit Agricole Foundation from 2016 to 2018. Thanks to objective indicators, it is thus possible to measure the social performance of an MFI and to assess the implementation of concrete actions intended to strengthen the organization's processes and social strategies.

As part of these works, CERISE, a NGO member of the SPTF put in place SPI-4. an assessment tool based on established standards. This tool is used to measure and compare social performance indicators of MFIs. This standardized notation method is an opportunity for every institution to measure and to improve its social performance level towards more ambitious social goals.

In parallel, microfinance is henceforth vigilant about the prevention of money laundering and terrorist financing risks (AML-CFT). The FATF(8) has thus developed AML-CFT instructions since 2011 adapted specifically to inclusive finance. Investors are increasingly more demanding on this front and are implementing monitoring measures adapted to the sector's maturity and institutions in order to prevent risks without hamper their development.

(7)Social performance is different from impact. Social performance is the effective implementation of the social mission of an institution in accordance with its social values (SPTF's definition). - (8) FATF (Financial Action Task Force) is an intergovernmental organization geared to anti-money laundering and the combatting of terrorism.

The microfinance institution: a versatile actor

KOMIDA, INDONESIA

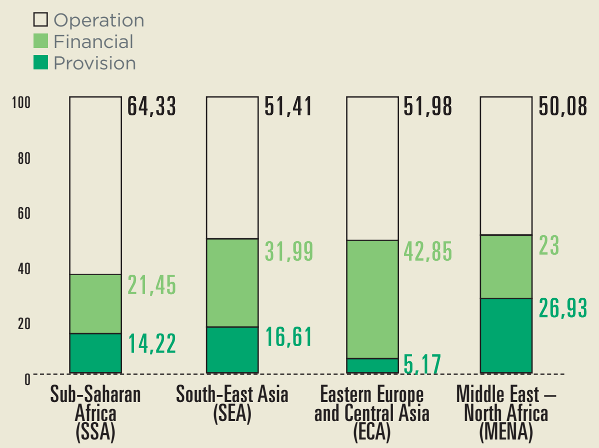
Didier Gentilhomme

Between frugality and the optimization of costs

The economic models developed by microfinance are characterised by innovative and frugal processes,[9] focused on the client's needs (provision of financial and, where required, non-financial services), in a community approach so as to manage the counterparty risk in a fine manner, by optimizing the available resources, in particular the workforce). Microfinance institutions (MFIs) therefore provide financial solutions adapted to the specific features of the clientele and the local context, which may prove costly to implement nonetheless. **Ethics and the quest for impact push the sector to optimize its operating costs.**

There are three types of expenses in an MFI: financial expenses (linked to the refinancing of the activity); the operating expenses (linked to running the institution) and the provisions for risks (essentially credit risk). The cost analysis of the Foundation's partners shows a certain homogeneity in the operating cost structure (50% to 60% of the expenses). Conversely, the financial expenses range largely. They represent 5% of expenses in Eastern Europe and Central Asia against 27% in the Middle East and North Africa.

COST STRUCTURE - PARTNER MFIS OF THE FOUNDATION (%)



(9)The concept of frugal innovation was developed by the economist Navi Radjou and refers to an innovative production model, known as frugal, which enables a sector of the economy to develop its supply of products and services despite a context of limited resources, to reach the least favoured groups on the market.

The operating expenses are driven by variable factors according to the countries and MFIs, such as:

- **The credit methodology**
A group methodology is often less costly than an individual credit methodology because the group participates in the selection of borrowers and the monitoring of loans

- **The size of the loan**
The lower the loan amount, the higher the relative share of the costs

- **The cost of non-financial services,**
often linked to the needs of the clients of MFIs

- **The (rural or urban) intervention zone,**
the population density and related infrastructures make access to rural clients relatively costly; security conditions of the area may also entail additional expenses to ensure the security of the operations

- **The salary levels,**
vary widely from one country to another, but their weight is sizeable in this very labour-intensive model.

- **The level of digitization,**
makes it possible to diminish the costs for the MFIs

The cost of refinancing also varies from one MFI to the other, mainly in accordance with their financial structure, their access to local or international financing (with or without currency hedge, the cost of which is often volatile and contributes to increasing the ...

RENACA, BENIN

Phillipe Lissac

Risk management: a strong pillar of the Foundation

In its microfinance operations, the Foundation faces several types of risks, the main ones being the currency risk, the exchange rate risk and the counterparty risk. The Foundation tries to protect its partners by adapting the structure and nature of its financing in accordance with their activity.

The MFIs with which the Foundation works grant loans almost systematically in local currency.
Consequently, **nearly 94% of the Foundation's loans are also granted in local currency** to avoid exposing its partners to foreign exchange risk. **The Foundation also lends at a fixed rate over periods of 3 years on average.** Loans for longer periods are nonetheless possible, and can go up to 5 years, for instance. Financing at a fixed rate makes it possible to avoid the frequent fluctuations of the rate curve. The Foundation also adapts the deferred (or grace) periods to the financial structure of its partners while trying to avoid the cashflow tensions due to reimbursement periods which could be too short. **The counterparty risk is monitored rigorously through a set of key indicators** that the Foundation requires of its partners on a quarterly and at times monthly basis. All the Foundation's loans follow a rigorous due diligence process, punctuated by multiple analyses, validated during the successive committees.

cost of credit) and the possibility they have to provide and reuse local savings, generally those of the borrowers. There are wide differences in access to funding, depending on the MFI's size and area of operations, regardless of their financial structure. There are three types of MFIs: "Tier 3" MFIs (whose financing portfolio is less than $10 million); "Tier 2" MFIs (whose financing portfolio is between $10 and $100 million); and "Tier 1" MFIs (above $100 million). "Tier 3" institutions have more difficulties getting refinanced because of risk and size, which is less the case for "Tier 2" and even less so for "Tier 1" MFIs. In addition to the size, the cost of access to financing is generally linked to the region because certain countries are more widely supported by international donors or by development banks. It is therefore easier to obtain funding in areas or developing countries that have been declared as priority sectors by bi- or multi-lateral development institutions.

Investors or donors by and large grant loans in hard currencies (dollars and more rarely, euros). When an MFI cannot get financing locally, which is very often the case, this type of financing forces the MFI to hedge against FX risks locally by an ad hoc mechanism. Given the weakness and volatility of local currencies, these mechanisms are very burdensome. Furthermore, the Institution has to add the cost of the currency hedge to the cost of liquidity in hard currency. The Foundation has opted to propose its financing almost exclusively in local currency. The rare exceptions are loans granted in dollars in geographic areas where the dollar is an extensively used currency. In the Foundation's portfolio, the interest rates are the highest in Sub-Saharan Africa (excluding the CFA Franc zone), mainly because of the volatility of currencies which has a strong impact on these economies.

" Peer microcredit combines preliminary training, financial education and advice and support for granting credits. Thanks to the group joint liability, women who have neither financial means nor guarantees, manage to see their business initiatives through. My institution, Graine, promotes women empowerment, contributes to securing the cardinal value of solidarity and restores their dignity"

ÉLÉONORE M.-C. COMPAORÉ-GYEBRÉ,
General Manager of Graine, MFI which specifically targets women, partner of the Foundation in Burkina Faso since 2012

In the West African Economic and Monetary Union (UEMOA), the Foundation lends in CFA Francs without currency hedge mechanism at the expense of the MFIs, which explains in essence the difference in the structure of expenses. Furthermore, the Foundation's partners in West Africa are often cooperatives, with access to the savings of members, which enables them to refinance their activities at an affordable cost.

Women and rural communities: priority economic stakeholders

Accessing financial services enables women to gain greater economic autonomy and more weight in the household budget choices. This financial independence often leads to increased expenses allocated to

Didier Gentilhomme

education, health and food.[10] The virtuous circle is at the heart of the action. **The majority of microfinance institutions highlight the importance of financing female enterpreneurs in priority.[11]** The Grameen Crédit Agricole Foundation adopted a strong positioning in promoting female entrepreneurship from the outset by financing institutions committed to the financial inclusion of women: 74% of partner institutions's active clients are women.

In rural economies, access to basic services, employment, education and financial services is more difficult. With **62% of borrowers worldwide living in rural areas,[12]** MFIs contribute to the economic development of rural populations. Supporting the financing of rural economies is a priority at the Foundation, with 77% of the clients of the partner institutions living in rural areas. By reinforcing the impact of rural microfinance, the Foundation helps to strengthen the resilience of rural economies where extreme poverty is widespread.

Cambodia

Specific financial products for the rural world

LOLC, a partner of the Foundation in Cambodia, provides financial and non-financial services to help its 200,000 rural clients become more resistant to shocks. It develops specific financial products to improve the living conditions of poor Cambodians living in rural areas. The portfolio of loans dedicated to access to water and sanitation (ca. $4 million) has thus enabled 6,000 clients to build toilets and improve their living conditions.

**LOLC,
partner since 2010**

African Facility Programme

COOPEC SIFA, TOGO

The first phase of the "Take-off facility for agricultural and rural microfinance in Africa" developed with the AFD was carried out between 2013 and 2016 and allowed to reinforce 16 microfinance institutions in Africa, and support them on the path to achieving operational self-sufficiency and financial sustainability.

The second phase of the programme, between 2017 and 2020, will enable to finance and provide technical assistance to more than twenty microfinance institutions. The new financing of the AFD has 3 components: a €6 million credit to develop the Facility's loan activity; a €2.2 million subsidy to contribute to funding technical assistance; and an ARIZ portfolio guarantee to cover 50% of the loans granted to MFIs in Sub-Saharan Africa. Since the signing of the second phase in March 2017, 12 technical assistance protocols have already been signed and 61 technical assistance assignments have been carried out or are in progress. The assignments are aimed at consolidating the risk profile of the partner institutions through different themes such as drafting a business plan, managing risks and improving the information system. The missions will also pertain to measuring and managing social performance, agricultural financing and green microfinance.

(10) Increasing gender equality through financial inclusion, GIIN. (11) Microfinance Barometer 2018, Convergences. (12) Ibid.

RENACA, BENIN

Retail banking and microfinance institutions: elements of comparison

The financing of entrepreneurship is probably the greatest similarity between a retail bank and a microfinance institution (MFI). And yet, the amounts granted vary widely: the average loan granted by an MFI is €765 and its maturity generally less than one year. This small amount shows the extent to which institutions have to be vigilant on their operating ratio, namely taking into account the cost of processing a loan. Keeping such expenses under control is difficult, particularly when the client base is weak, which is often the case with Tier 3 institutions.

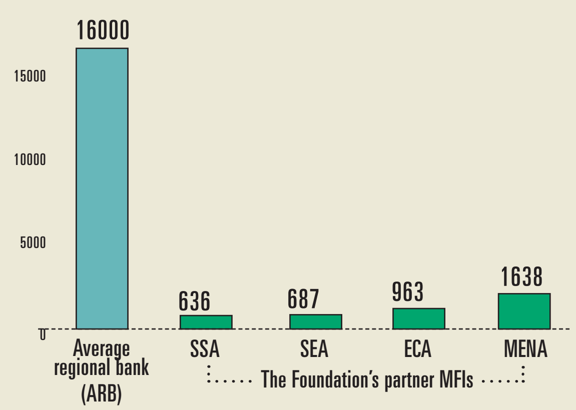
Financing is not the only point in common between retail banking and the MFIs. There are other analogies: clients of MFIs generally have a designated account manager and the client recommendation index is an indicator found among some of our partners.

Furthermore, just like in retail banking in France, financing by the MFIs is based on the borrower's repayment capacity and not on the value of their assets.

To provide greater insight into how an MFI operates, this booklet has attempted to compare the figures of the Foundation's partner institutions against the same indicators of an average (small-sized) regional retail bank. This "average regional bank" does not exist in reality. It is the result of calculations based on the figures provided by French regional establishments which made it possible to paint an average profile. This exercise obviously has shortcomings, but the approach makes it possible to identify some interesting analogies.

Phillipe Lissac

AVERAGE LOAN AMOUNTS OF THE FOUNDATION'S PARTNER MFIS
(in €)



Loans

The average loan of the Foundation's partners is €765 (compared with €16,000 for an average regional bank). The average term of loans is 6 months. Loans for one year are rare, and those beyond that maturity quite exceptional.

Generally speaking, loan amounts are higher for partners in the Middle East and North Africa, as well as in Eastern Europe because of a higher maturity level of the microfinance sector in those countries. The different loan methodologies and the standard of living of the populations also explain the difference between these amounts. Some MFIs, for example authorize only one active loan per family. Others refrain from exceeding a certain – generally low – threshold, so as to be sure to reach people with very low income.

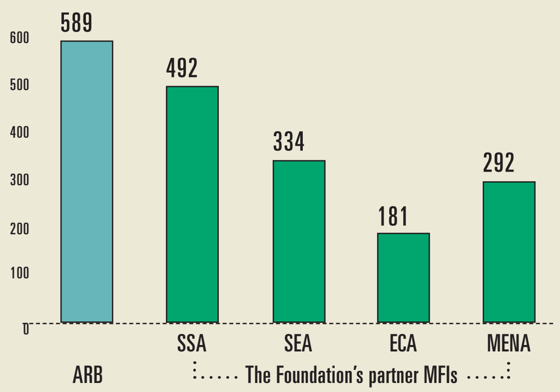
Commercial organization

The commercial organization of an MFI is generally quite similar to that of a retail bank. The MFI has a network of branches where account managers each manage a portfolio of clients. In addition to diversifying the offer of financial products, and the boom in managing of savings, the branches of the institutions' networks are organized like traditional bank branches: a waiting area with commercial campaigns and flyers on display, a transactional area for payments in cash (quite protected), and an advice area (more confidential). Nevertheless, a particular feature of MFIs persists by comparison with retail banking: many operations, including transactions, are always carried out in the field, as close to the clients as possible.

Each account manager has his own portfolio. The number of clients per account manager varies on average from 181 (Central Asia and Europe) to 492 (Sub-Saharan Africa). It is lower than the average size of the portfolio of the average regional bank. The Foundation's MFIs are established primarily in rural areas, and it is consequently more difficult to densify the portfolios handled by account managers. Furthermore, this difference attests to the low automation of tasks and the greater time devoted to clients who renew their loans every year or twice a year. In fact, the average term of a loan (a few months), requires the account manager to renew loans very frequently to offset the amortization of the portfolio.

The ratio of the number of clients per portfolio is key to the performance of the operating ratio and therefore the economic balance of an MFI. An MFI account manager can be estimated to have to manage a portfolio of a minimum size of 250 to 300 clients . Below that number, the commercial performance is not optimal.

STAFF EFFICIENCY OF THE FOUNDATION'S PARTNER MFIS
(Number of customers per adviser)

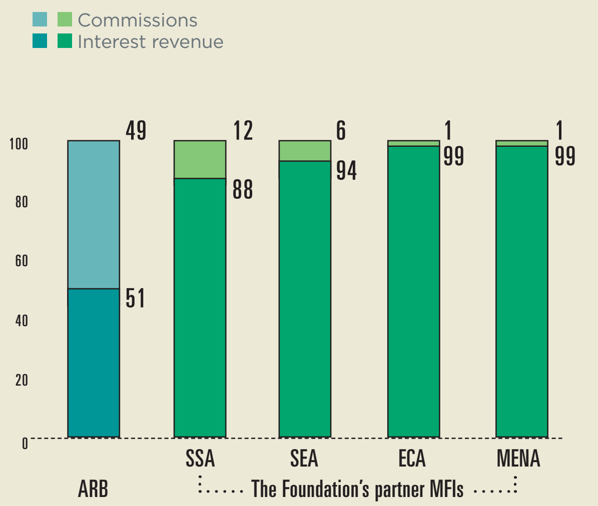


Diversification of products and revenues

An MFI has revenues almost exclusively linked to credit. Commissions, where they exist, are for the most part linked to the financing activity. The range of products of an MFI is often reduced to one type of financing, with a few variables on maturity and grace period, and one or two savings products (at sight or term deposits). It is one of the major differences compared to the extended range of products offered by retail banks, which rely to a lesser extent onthe financing activity. To improve the profitability per client, MFIs try to increase their range of products. This is what retail banks have already achieved, but it is possible only if permitted by regulation. Consequently, the revenues of MFIs are essentially drawn by the net financing margin: revenues from interest on loans accounting for 87% to 99% of the revenues of MFIs – far more than the 51% mark of the average regional bank.

Microfinance is often known for high interest rates. In 2017, the average global effective interest rate amounted to 25% (down for a number of years, as it was 28% at the end of 2015). It remains significantly higher than the rates charged by the conventional banking sector in the same given country.[13] Interest rates actually reflect the high cost of microfinance operations: they moreover have to cover costs that are specific to this sector.

STRUCTURE OF REVENUES OF THE FOUNDATION'S PARTNER MFIS (in %)



The cost factor which weighs more in the fixing rates, consists of the operating costs. More than 60% of the cost of the credit is allocated to covering operational expenses. A sizeable part of the expenses is for instance linked to the travelling required to meet and train the client, and disburse the funds (which is carried out in most cases in cash, hand to hand, under the supervision of witnesses). Travel is also necessary to monitor the client and ascertain the quality of his activity. The improvement of the operational processes brought about by digitization should help reduce this high level of expenses. The professionalization of the teams, rationalization of the processes, and implementation of an effective information and management system should also make it possible to reduce these charges and therefore the interest rates.

The cost of refinancing has a varying impact on the interest rate depending on the chosen or possible financing methods. Using savings makes it possible to reduce the cost of resources, but depends on national regulations. Collecting savings also makes it possible to strengthen the financial independence of the institution and secure the loyalty of the client, thereby reducing the final cost for its client. The MFI must also anticipate inflation, which frequently oscillates between 5% and 10% in developing countries.

Since 2009, the quality of financing portfolios in the microfinance sector has improved, while the cost of risk has been brought well under control. The level of provisioning by investment funds specialized in microfinance worldwide is 2% and the

(13) Ibid


CHAMROEUN, CAMBODIA

write-off ratio below 1%. This observation may appear counter-intuitive for those who associate the financing of excluded persons with high risk. In reality, when an institution manages its growth properly (double digit growth of the credit portfolio is quite "conventional" in the microfinance sector) and does not adopt aggressive policies, the counterparty risk is an element that can be brought under control. This rate has gone through upheavals at times but essentially because of the political crises in certain countries (in Nicaragua and in India in 2010) or the significant devaluation which had a devastating impact on MFIs which had incurred debt in dollars (Azerbaijan in 2015). [14] The write off ratio at the Grameen Crédit Agricole Foundation in the last 10 years is 0.54%.

Finally, the MFI makes a margin. It is then a matter of ensuring that the profit generated is used to capitalize the MFI and to invest for the future. This is a point analysed minutely by the Foundation during its due-diligence exercises among its partners.

In view of these elements, the interest rates in the microfinance sector are higher than in the conventional banking sector. Certain regulations impose caps on interest rates. This is the case in West Africa (UEMOA zone), where the interest rates charged to clients cannot exceed 24%. This is also the case in Cambodia, where the interest rates are capped at 18%. The MFIs must therefore develop other margin factors and see to the quality of the portfolio and the operating efficiency first and foremost.

The interest rates charged by the Foundation's partner institutions to their clients are scrupulously in line with national regulations: in the regions where the Foundation intervenes, they vary on average between 24.35% and 33.21%.

Protecting clients requires full transparency on interest rates. It is necessary to make sure that the information is transmitted in a clear and accessible language for the client, which means that the loan officer has to be sufficiently trained to explain it, and that the client has to be made sufficiently aware through financial education to understand it. The client protection standards used by the Foundation to select its partners endeavour to build a transparent microfinance market. The Foundation was the first institution to disclose publicly, in 2017, on its 2016 results, a detailed analysis on the social performance of its partners compared to the international benchmark, by geographic area and globally. The scores on each of the criteria were higher than the benchmark.

Profitability

The share of operating expenses in the microfinance sector is largely impacted by the size and term of the loans. More specifically, institutions have to renew their loan portfolio frequently as maturities rarely exceed one year. Furthermore, the lower the

Phillipe Lissac

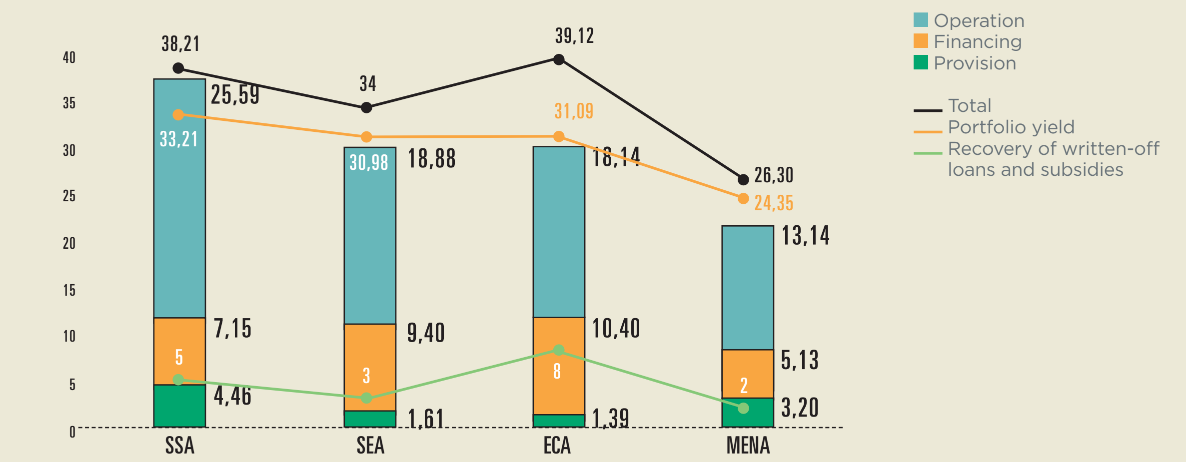
(14) SSymbiotics CGAP 2017

loan amount, the less profitable it is: a €100 loan requires as much effort, travel and work as a loan of several thousand euros. Small institutions can therefore develop their efficiency by increasing the size of their portfolio. Nevertheless, economies of scale diminish once the portfolio exceeds €5 million, which leads the institutions to find other means to improve their efficiency and profitability. High operating expenses constitute a serious disadvantage for MFIs, particularly on competitive markets.

The table below on the average profitability of the Foundation's partners and the average structure of their costs provides a good illustration of this observation. Thus, in Sub-Saharan Africa, represented in the portfolio mostly by small MFIs, the operating expenses represent more than 25% of the average portfolio, whereas in the Middle East and North Africa (MENA) it is ca. 13%, i.e. nearly twice as low. It is also worth noting that the average profitability of the Foundation's partners is still low in Sub-Saharan Africa. Some MFIs are still in a consolidation phase, not yet financially balanced, and are recapitalized regularly by their shareholders.
This profitability is growing but the size of the institutions hinders their ability to attain their economic balance rapidly. The balance of African partners is secured thanks to the recovery of written-off loans (which offsets the high provisioning rate in part) and to subsidies.

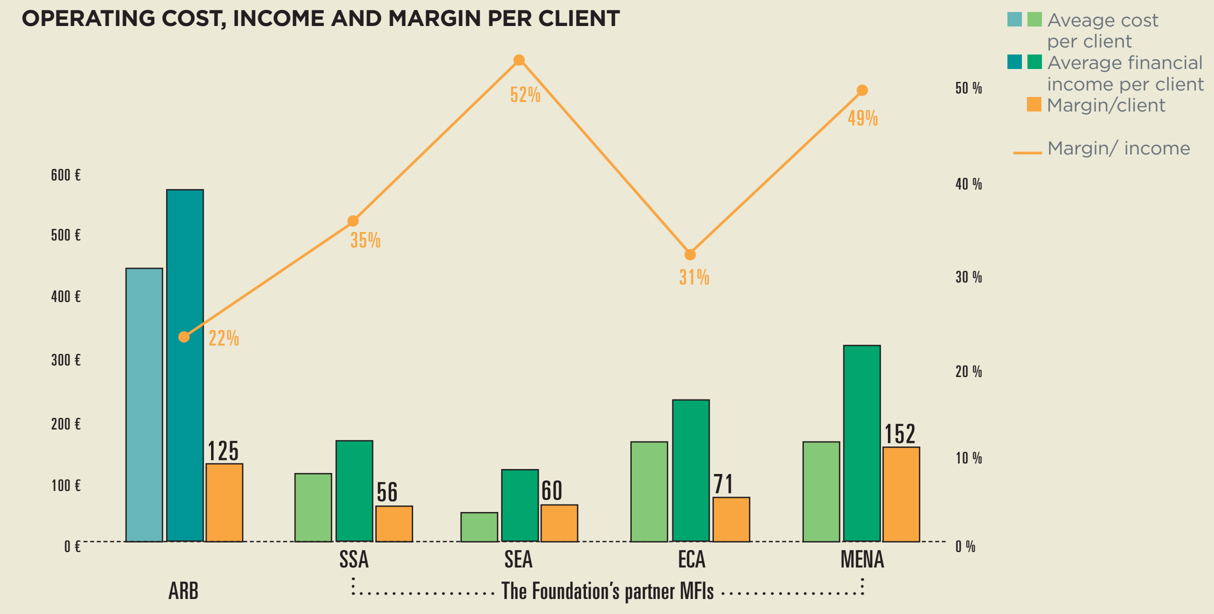
The table below shows the operating cost, the financial income and the margin per client of the Foundation's partners and an "average French regional bank." The processing cost is understood as the sum of the operating costs. The financial income is the total of revenues generated from operations with the clients; the margin is the difference. The costs per client differ from one MFI to another and vary threefold, from €57 in South-East Asia to €158 in MENA, Central Europe and Central Asia. The effects of scale play a significant role in the

PROFITABILITY OF THE FOUNDATION'S PARTNER MFIS (in %)



(15) MicroRate, Technical guide, 2014

OPERATING COST, INCOME AND MARGIN PER CLIENT



Asian regions, with a more mature and more favourable regulatory context. It enables the MFIs to develop and grow. Although there are sizeable differences from one region to the other, they are far lower than the cost of processing a client by a retail bank.

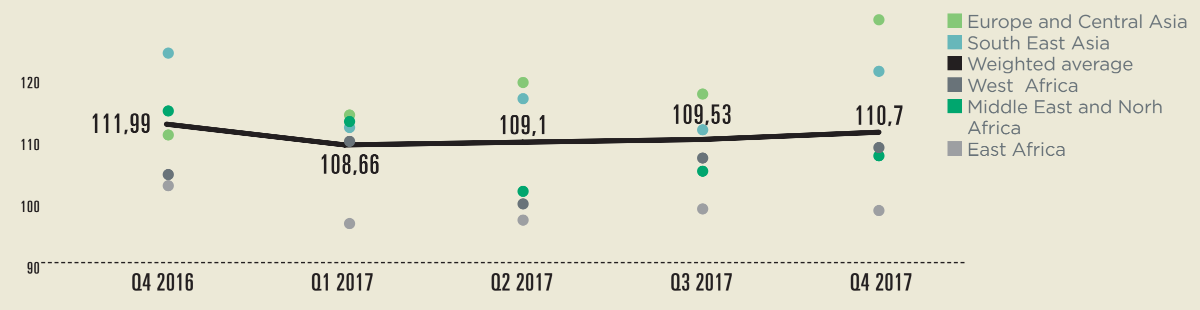
The Middle East is a rather particular case. In Jordan and Palestine, two countries where partner MFIs are present, the margin is relatively higher than in the majority of other countries, although interest rates are not necessarily higher than in African countries. In fact, the low operating costs and the quality of the MFIs' portfolio enable them to achieve higher margins. Lower refinancing costs also contribute, because these areas are preferred by international organizations who often offer low-interest loans. The regulations in these countries limit the ability of foreign shareholders to invest in the equity of these MFIs. The margin generated by their microfinance activity is therefore essential to strengthen the equity of these MFIs.

The margin per client appears positive, on average, for the Foundation's partners. Overall, their operations are economically balanced. This observation applies on average, since there are particular cases where the context is difficult and constraining. Although microfinance is an economically viable sector, the fact remains that it has certain vulnerabilities that are inherent to its nature. Nevertheless, by comparing the margin to the income, the "profitability" ratio turns out to be highly positive, far more in fact than the figures in retail banking.

OPERATING RATIO / OPERATIONAL SELF-SUFFICIENCY

The banking sector and the microfinance sector use two equivalent ratios to assess the operating efficiency. Just as the banking sector uses the operating ratio (expenses divided by income), microfinance uses a specific ratio: operational self-sufficiency (OSS). This ratio is calculated by dividing all the revenues from activities (linked to proceeds from loans in the case of MFIs) by the expenditures (operating, financial and provision). It therefore shows how an MFI covers its costs with its revenues. The minimum OSS to reach equilibrium is 100%. **The operational self-sufficiency of the Foundation's partner MFIs is 110% on average,** which is a good guarantee for balance and sustainability. The Foundation's eligibility criterion is an OSS of 100%. Exemptions may exist for specific projects,

OPERATIONAL SELF-SUFFICIENCY OF THE FOUNDATION'S PARTNER MFIS (in %)

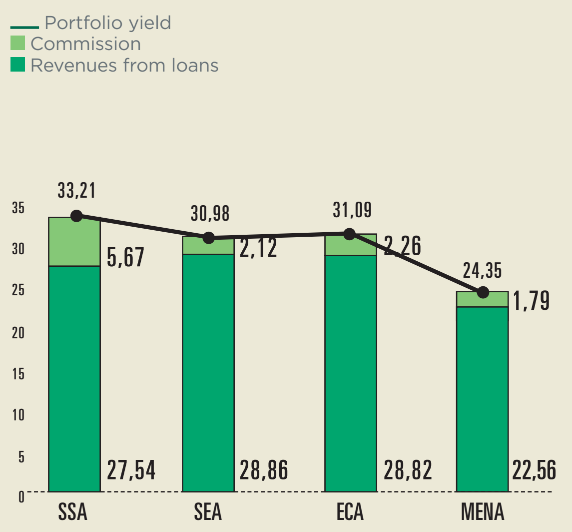


...

but they must be backed by the shareholders' commitment to recapitalize on the institution.

The OSS is one of the indicators the Foundation's investment managers watch most closely, because because it enables them to understand, follow and check the progression in the operational performance of the MFI. This rate varies according to the regions: in more mature and more competitive markets, the MFIs are forced to improve their efficiency and to offer more competitive products, which is reflected in the slightly higher OSS. This is the result of matching industry and need. Furthermore,

PROFITABILITY OF THE PORTFOLIO OF THE FOUNDATION'S PARTNER MFIS (in %)



the degree of digitization of the loan processes is globally correlated to the performance of the operating ratio: in general, with same quality of management, profitability increases as the size of the institution grows, the organization is rationalized, and the digitization process progresses.

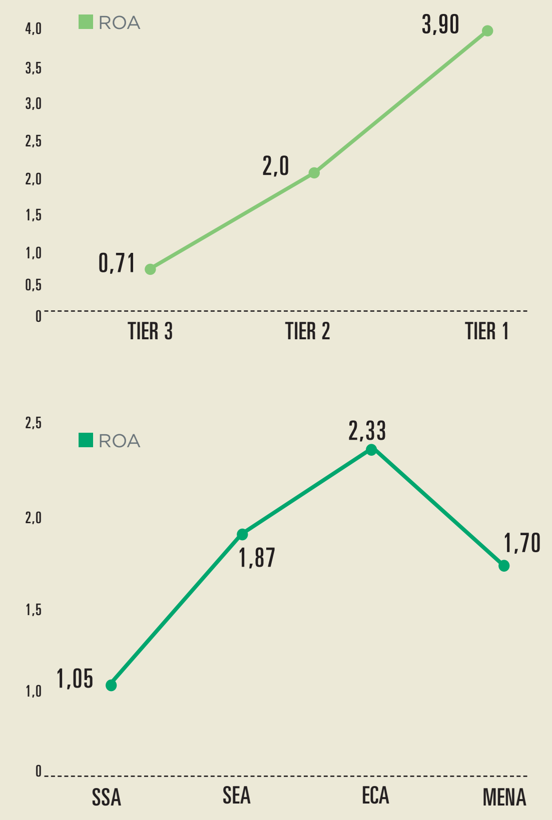
RETURN ON ASSETS

The return on assets (ROA) of the MFIs is high, from 1% to 2% depending on the regions. The variations of the ROA are based mainly on two criteria: the geographic area of operations and the size. The ROA may vary from 4% for the larger MFIs to 0.7% for the small partner institutions of the Foundation, because they provide small loans and are mainly active in rural, often isolated and vulnerable areas.

The profitability of an MFI may therefore be very high. This indicator is linked to the operational performance (with limited resources) and portfolio quality. This reflects also the ability of the MFIs to maximize their market potential (low market saturation and little competition), but this profitability remains high even in more mature and more competitive markets such as South-East Asia.

The higher profitability is not achieved to the detriment of the social missions of the MFIs: with rigorous management, it is altogether possible to reconcile profitability and social performance. Faced with complex

PROFITABILITY PER CUSTOMER CATEGORY AND GEOGRAPHIC AREA OF THE FOUNDATION'S PARTNER (in %)



markets, the institutions in the Foundation's portfolio turn their social mission into a an asset to control their market.

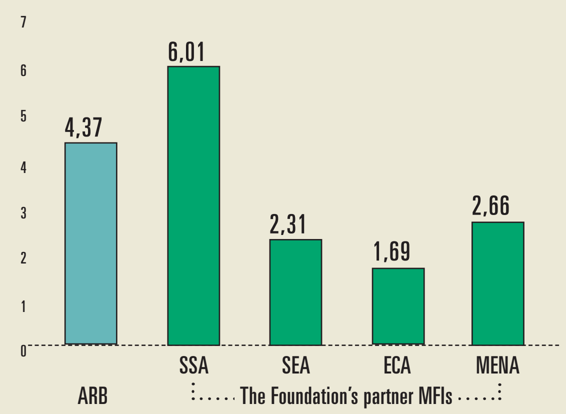
Counterparty risk

PAR 30 represents a percentage of the portfolio at risk, i.e. loans overdue by thirty days. These overdue loans are generally reimbursed subsequently, within 60 days, but PAR 30 is an advanced indicator of the risk and quality of a debt portfolio used extensively in microfinance. (The ratio used by the average regional bank is similar to PAR 30: it also measures the share of the portfolio which is not reimbursed in 30 days).

The Foundation's partner institutions have high reimbursement rates: only 3.17% of the portfolio on average has a reimbursement delay of 30 or more days. The rate may be higher in very particular situations often linked to the national or political context: this is the case in the Democratic Republic of Congo, Uganda and Cameroon, where the PAR 30 hovers around 8% as a result of economic and security problems. The high reimbursement rates reflect the efficiency of the selection upstream, the monitoring, and the guidance and support services downstream.

The PAR 30 ratio is systematically included in the covenants for loans granted by the Foundation. It varies from 1.69% in our South-East Asia partners (the lowest ratio) to 6.01% for those operating in Sub-Saharan Africa. The ratio by an average French regional bank is within the same range as the MFIs in the Foundation's portfolio.

INDICATOR OF COUNTERPARTY RISK (in %)



Converging challenges for microfinance and banking

MUSONI, KENYA

Just like retail banks, microfinance institutions (MFIs) provide financial solutions, but are by nature geared to low-income segments of the population. They carry out their activity by trying to bring their costs and risks under control, while seeking to generate a positive and resilient financial result to make their mission sustainable. This search for profitability is a means to the mission of promoting social inclusion through finance through finance: it is the raison d'être of the responsible MFI supported by the Grameen Crédit Agricole Foundation.

In a changing world, MFIs are faced with daunting challenges as that led them to transform themselves. A study conducted among the Foundation's partners has shown that the **digital transition, agricultural finance and climate change resilience are at the heart of their strategy and development.** The MFIs share these stakes with retail banking because, they challenge them by their intensity and transcend all populations, territories and generations.

When digital technology transforms the financial world

New technologies offer digital financial services that help improve the financial institutions' operational efficiency and increase the scope of their services. The dissemination of financial services by these new technologies is a pillar of the current financial acceleration. The potential is significant: of the 1.7 billion unbanked adults, one billion have a mobile telephone and 480 million have access to Internet.[16] Mobile money accounts have taken root in certain areas: in Sub-Saharan Africa where more than 10% of adults have a mobile account (up to 30% in Senegal and 40% in Gabon), in Bangladesh, the Islamic Republic of Iran, Mongolia and Paraguay, where the proportion of adults with a mobile money account has reached 20% or more.[17]

The stakeholders of the sector are increasingly more aware of the opportunities and risks entailed by digitization. The Foundation's partner MFIs are intensifying initiatives launched to expand the use of digital tools in their processes. The analysis of the partnerts institutions shows that the progress observed in the digitization field is strongly promoted by investors, microfinance networks and technical assistance programmes for MFIs.

Digitization and the arrival of new competitors, in particular mobile operators who are looking to conquer the market by offering new services based on digital technologies, are challenges shared by the traditional banking sector and microfinance. To become more competitive, institutions are looking to lower their operating costs by digitizing processes as much as they can and by developing new distribution channels. Their transformation is nonetheless slowed down by their lack of resources.

...

Kazakhstan

Digital payment brings remote clients closer

KMF is an institution operating in extremely remote areas of Kazakhstan. To serve its clients better and to improve its performance, KMF developed a software for tablets which communicates remotely with the central banking system to enable loan officers managers, recovery and internal control teams to programme the work schedule, record and approve applications for loans, monitor and recover delinquent loans. The software can be used on and off-line so that managers can monitor the activities in the field almost in real time in spite of the distance.

KMF, partner since 2017

Ivory Coast

Cocoa farmers take advantage of digital technologies

Advans Ivory Coast is a member institution of Advans, an international microfinance network. The MFI provides a digital savings and payment solution: transfer services between mobile wallets and the bank which enable producer cooperatives to make digital payments for their farmers' harvests. Furthermore, since 2017, it has also provided modest digital school loans, based on an algorithm that reflects the cash situation of farmers. With this range of services, Advans addresses the traceability and security problems faced by cooperatives to pay cocoa farmers as well as the low school enrolment due to the farmers' unstable income.

Advans Ivory Coast, partner since 2017

(16) Data from the Global Findex 2017.

Karel Prinsloo/CAPA Pictures

(17) Ibid

To guarantee their place on the market in the face of new entrants, the institutions reinforce their actions to build client loyalty by diversifying their offer beyond credit. This approach can be observed increasingly among the Foundation's partners who are putting in place new financial and non-financial services. These services vary from conducting satisfaction surveys to financial products diversification to meet new needs such as energy access and housing loans as well as schooling savings deposits. AMK, for example, is a partner institution of the Foundation which serves primarily rural clients all across Cambodia. Thanks to satisfaction studies conducted regularly among its clients, AMK has been able to understand the profile of its clientele and to adapt its offer of services to respond better to the needs of the local market. Today, beyond personal or group loans, MFI provides services that are increasingly close to those of a conventional retail bank: collecting savings, salary transfers, health and accident micro-insurance, funds transfer and mobile banking operations. Furthermore, MFIs are increasingly bolstering their partnerships with other stakeholders who provide additional services to better support its clients.

Investing in the ecological transition

Global warming is one of the main causes of soil deterioration, deforestation, and lack of water and food which, according the latest studies published, can cause some 400,000 deaths every year on the African continent alone. In regions like Sub-Saharan Africa, where more than 65% of the 750 million inhabitants work in agriculture, the crisis caused by global warming has already taken root.[18] By reducing agricultural productivity and the quality of foodstuffs, climate change could cause in the next 30 years an increase in mortality, substantially lower life expectancy, massive migrations, strong social tensions and political destabilisation on a continental scale.

Kenya

Agricultural micro-insurance, a promising solution

ACRE Africa is a social business, in which the Foundation is a shareholder, which provides agricultural micro-insurance products in Kenya. On the one hand, MFIs borrowers are protected against bad harvest risks by remaining solvent with their agricultural loans secured. On the other, the MFIs improve their risk management and can lend at a lower cost. In spite of its importance, the agricultural micro-insurance sector remains underdeveloped in several regions because of the additional costs this type of service entails for small farmers. To make it easier for farmers to access agricultural micro-insurance services, ACRE offer an entire range of products via mobile banking. It also innovates by proposing an index-based insurance service combining meteorological, satellite and agronomic data to model yields remotely.

ACRE Africa, partner since 2014

Small farmers, who are the traditional clients of microfinance, are particularly concerned by climate change. Already weakened by the size of their farms (80% of small farmers have a farm smaller than 2 hectares) and their low level of integration in agricultural subsectors (only 7% of small farmers are integrated in commercial value chains), climate change brings an additional risk to bear on them.

MFIs have several levers to tackle this ecological crisis: granting loans that are better adapted to the crop cycle proposing crop insurance and promoting new cultural practices that encourage resilience and adaptation to climate change (choice in inputs, irrigation, farming methods). Experiments are also being developed thanks to the boom in new technologies that offer better opportunities at low cost

(18)According to the recent GEO-6 regional report for Africa presented in June 2017 by the Institut de la Francophonie pour le Développement Durable and UN Environment.

Karel Prinsloo/CAPA Pictures

to reach remote clients, to offer appropriate services and to strengthen their capacities.

To assess and support better the development of this type of offer, the Foundation inserts an ecological measurement indicator, the Green Index, in its due diligence exercises and investment projects. This indicator is used to analyse how the institution adapts and takes account of these challenges. The Foundation supports also ACRE Africa in Kenya (see box), a social business that offers agricultural micro-insurance products intended essentially for small farmers, who are often clients of MFIs, and thus generates a favourable impact for the stability of the entire sector.

In addition to the agricultural offers to tackle climate change, new opportunities are opening up around the energy transition. The Foundation has thus contributed, alongside Crédit Agricole CIB, to the financing of ZECI, a project to fight energy insecurity in Ivory Coast, where nearly 60% of the population living in rural areas has no access to electricity. ZECI, a company co-founded by EDF and Off-Grid Electric (OGE), sells quality solar kits to low income people, under lease-purchase contracts for a 3-year term. The Foundation was asked by Crédit Agricole CIB to intervene in guaranteeing a line of credit granted to ZECI and to participate in the monitoring of the social and environmental performance of the project. It is a fine example of synergies to be developed between microfinance and banking in order to meet the challenges of the ecological transition.

Financing rural economies

In direct contact with small farmers, rural MFIs are bolstering the development of the agricultural sector. In addition to climate change challenges, **MFIs have to adapt, innovate and position themselves with an ad-hoc offer for small farmers.**

Proximity Finance is an MFI based in Myanmar, which has developed an integrated approach to meet these complex challenges. A partner institution of the Foundation, it was created in 2010 by Proximity Designs, an NGO which has historically focused on agricultural sector issues. Most clients of Proximity Finance are small farmers who account for 92% of its portfolio. Alongside the network of entities and experts associated with Proximity Designs, Proximity Finance is adapting its development strategy to make it easier for

Ivory Coast

Innovative financing for energy access

ZECI, a company founded by EDF and Off Grid Electric (one of the leaders in off grid electricity in Africa), offers home solar kits that can be used to operate various devices (lamps, telephone chargers, radio, television). Depending on their needs and incomes, the clients make mobile payments to use the kits and become the owners after 3 years. Created in 2016, ZECI reached the 10,000 client mark in 2017 and is aiming at 35,000 clients in 2018. The Grameen Crédit Agricole Foundation supports this project, in close cooperation with the securitization team of Crédit Agricole CIB.

ZECI, partner since 2018

its customers to access services proposed by other branches of the Proximity network. Thus, the MFI guarantees its clients in rural areas access to research and advice services for agricultural production and irrigation. In this way, it helps bolster the local agricultural sector by offering financial products, but also advice and support services provided through intra-network partnerships.

A microfinance investment vehicle for The Crédit Agricole Group

In order to bolster its support for rural microfinance, the Foundation launched in partnership with CA Indosuez Wealth (Asset Management) and CACEIS Bank Luxembourg Branch, the Fund for Inclusive Finance in Rural Areas (FIR), a social impact investment fund which enables Crédit Agricole's entities and Regional Banks to invest in the financingrural MFIs. The first fundraising drive, which ended on 28 September 2018, confirmed the participation of 13 Regional Banks (Alsace-Vosges, Centre-est, Centre-France, Champagne-Bourgogne, Franche-Comté, Ille-et-Vilaine, Languedoc, Loire-Haute Loire, Martinique-Guyane, Normandie-Seine, Réunion, Savoie and Sud Rhône Alpes) – representing 1/3 of the the Group's Regional Banks – and Amundi for an amount close to €6 million. It is a unique project in the history of the Group and the Foundation. It will help multiply their impact for inclusive financing and will show the potential for action between microfinance and banking to strengthen the financing of rural economies.

Mali

Microfinance favours rural development

Kafo Jiginew

Often cited as an example of rural and agricultural financing, Kafo Jiginew is a cooperative network of Malian savings and loans banks which primarily targets vulnerable rural groups. It combines financial support with training programmes to bolster their clients' agricultural skills. Alongside public institutions and backed by the Malian government's will to accelerate the modernization and competitiveness of the agricultural sector, Kafo Jiginew supports the development of the local agricultural economy by participating directly in the payment for cotton and cereal productions. It also develops products according to the specific needs of customers so that they can launch an income-generating activity.

Kafo Jiginew, partner since 2018

CONCLUSION

Microfinance, an inspiration to be shared

While banks engage in an agility-based economy, microfinance explores the frugal economy. Far from being opposites, the two approaches are complementary. It is interesting to note that in terms of credit, the frugal economy manages to generate a particularly attractive return per client, at a comparable controlled risk. Nevertheless, that is not its only asset. It is also and above all a wonderful human and economic adventure.

Because microfinance is by its very essence a finance of entrepreneurship. A socially just entrepreneurship supported by responsible finance. By supporting projects and entrepreneurs, whether individuals or grouped in small communities, microfinance helps give everyone a chance to create his/her own value –a value for oneself and for the others. Let us make no mistake: at issue is profit. But a profit that is better shared and better balanced among all.

Microfinance is also a finance of the community. It is carried out at the heart of territories, in contact with people, and provides a useful answer to their day-to-day problems. Accessible to a great number of people it is inclusive by nature. This is what has forged its success in just a few decades.

Today, microfinance has become a branch in the tree of the global banking industry. And it is already quite robust: professionalized and standardized, it is on a profitability track by capitalizing on its fairness and responsibility features. But 1.7 billion adults still do not have access to basic banking services: there is still a lot of work to be done.

The Grameen Crédit Agricole Foundation in the last 10 years established its economic model on a simple principle: lend funds

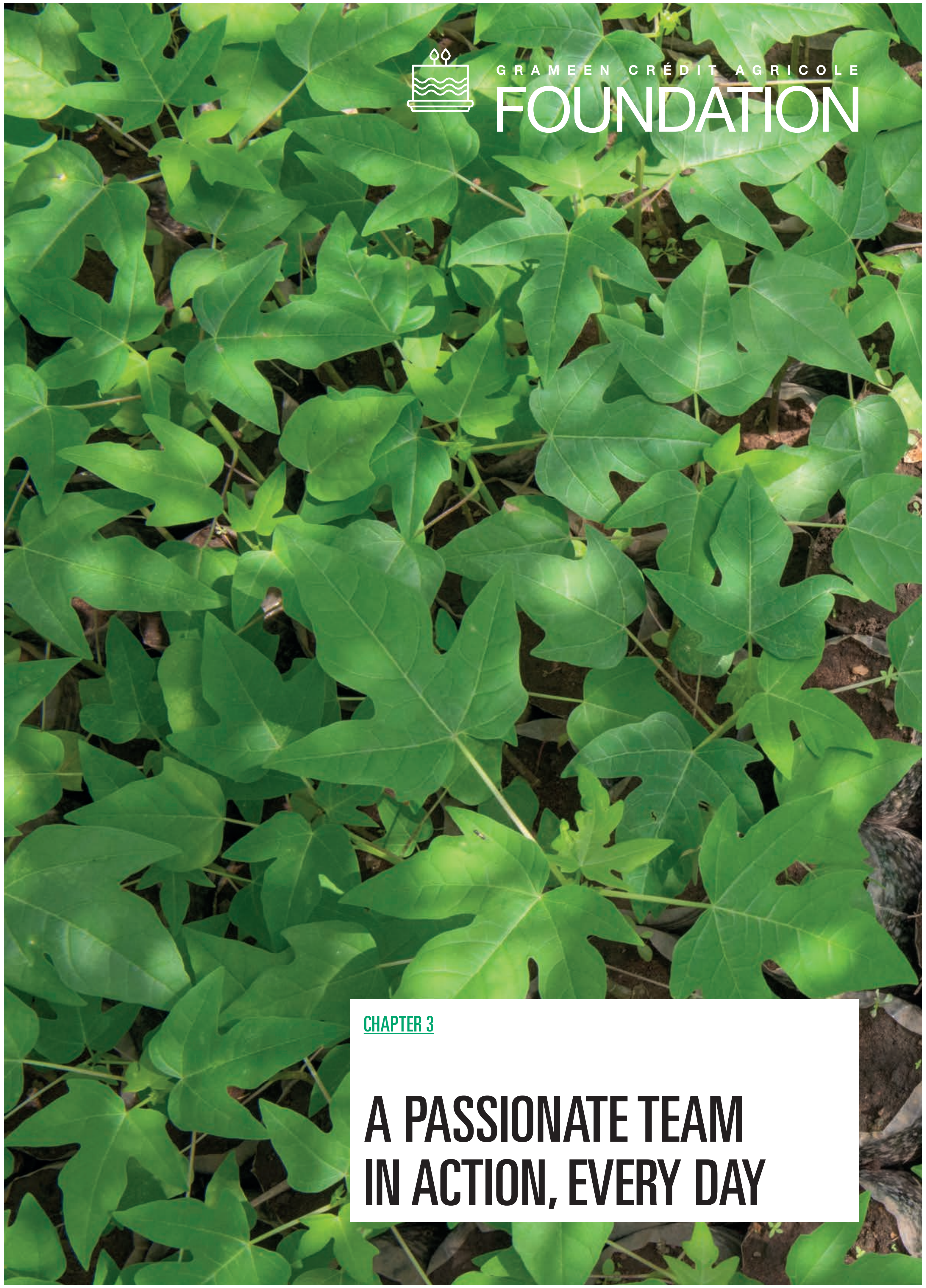
FMCC, KYRGYZSTAN

...

to microfinance institutions which distribute them to clients in the form of microloans for professional use. To that end, it has developed extensive expertise in terms of financial diagnosis, monitoring and supporting partners as well as analysing their social performance. The excellence of its portfolio is recognized and its skills are now extending to many aspects of the social and solidarity-based economy.

On its scale and alongside other committed stakeholders, the Foundation helps the microfinance and responsible investment sectors make progress. It has responded to the mission defined by its founders. With €200 million granted, a presence in 38 countries, and a network of 100 partners since its inception, the Foundation represents a specialization hub for the Crédit Agricole Group, unique in its kind in the inclusive finance sector in emerging countries. Drawing on the strength of its experience, the Foundation continues to develop close and promising partnerships with Crédit Agricole entities.

The Foundation is celebrating its 10th anniversary and we are proud of the work of all our employees, directors, partners and stakeholders who have helped make its project a success. Nevertheless, our greatest source of pride is to support our partners and to accompany those who on an every-day basis work to improve the living conditions of the most vulnerable people. The world needs the daring of these women and men acting for the common good. Supporting their commitment is an immense honour. ■



CHAPTER 3

A PASSIONATE TEAM IN ACTION, EVERY DAY

A PASSIONATE TEAM IN ACTION, EVERY DAY

The Foundation's employees have chosen photos and quotes that inspire them. These images and thoughts illustrate the meaning we give to our action. They also characterize the spirit that drives the Foundation's collective action.

1 - CAMBODIA

"We shall never know all the good that a simple smile can do."
MOTHER TERESA
■MARIA FRANCO

2 - VIETNAM

"Happiness is the way of travel not a destination."
ALFRED D. SOUZA
■DAVID CAMARA

3 - BENIN

"The heaviest burden is to exist without living."
VICTOR HUGO
■CAROLINA HERRERA

4 - MYANMAR

"We must always know the limits of what is possible — not in order to stop but so that we can try the impossible under optimal conditions."
ROMAIN GARY
■GABRIELLE FERHAT

5 - CAMBODIA

"Grant to us the serenity of mind to accept that which cannot be changed, courage to change that which can be changed, and wisdom to know one from the other."
MARCUS AURELIUS
■JURGEN HAMMER

6 - KENYA

"No pessimist ever discovered the secret of the stars, or sailed to an uncharted land, or opened a new doorway for the human spirit."
HELEN KELLER
■PIERRE CASAL RIBEIRO

7 - PALESTINE

"To love is to act."
VICTOR HUGO
■ERIC CAMPOS

1 Philippe Lissac - 2 David Camara - 3 Philippe Lissac

4 Gabrielle Ferhat - 5 Philipe Lissac - 6 Pierre Casal Ribeiro - 7 Eric Campos

"The solutions of tomorrow are in the utopias of today."
PIERRE RABHI
■ CLARA COHADE

8 - BENIN

"What counts in life is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the life we lead."
NELSON MANDELA
■ JEANNE DE GUILLEBON

9 - CAMBODIA

10 - KAZAKHSTAN

"It is not enough to wonder: what planet we will leave to our children? We must also ask: what children will we leave to our planet?"
PIERRE RABHI
■ CLAIRE LECOCQ

11 - KENYA

"You must never be fearful about what you are doing when it is right."
ROSA PARKS
■ VIOLETTE CUBIER

12- KENYA

"Honesty, sincerity, simplicity, humility, pure generosity, absence of vanity, readiness to serve others – qualities which are within easy reach of every soul – are the foundation of one's spiritual life."
NELSON MANDELA
■ EL HADJI DIOP

"It is only up to you to create a better wold for all those who live in it."

NELSON MANDELA

■ **HÉLÈNE SANANIKONE**

13 - SENEGAL

"No one can go back, but everyone can go forward. And tomorrow, when the sun rises, all you have to say to yourself is: I am going to think of this day as the first day of my life"

PAULO COELHO

■ **EDOUARD SERS**

14 - DEMOCRATIC REPUBLIC OF CONGO

15 - MADAGASCAR

"Be the change you want to see in the world."

GANDHI

■ **LAURENT CHAUVET**

16 - UGANDA

"One of the most profound ways of knowing is revealed by the way we respond to what we see."

CLARICE LISPECTOR

■ **KILLIAN GRIPPON**

17 - CAMBODIA

"Live as if you were to die tomorrow. Learn as if you were to live forever."

GANDHI

■ **ALEXIA JAUNET**

"Poverty is not necessary."
MUHAMMAD YUNUS
■ CAROLINE BRANDT


18 - SENEGAL


19 - EGYPT

"Whatever you are,
be a good one."
ABRAHAM LINCOLN
■ KATHRIN GERNER


20 - CAMBODIA

"It is high time that the ideal of success should be replaced by the ideal of service."
ALBERT EINSTEIN
■ HÉLÈNE KERAUDREN BAUBE

21 - KENYA

"The man who moves mountains begins by carrying away small stones."
CONFUCIUS
■ PASCAL WEBANCK

22 - CAMEROON

"Hope is the thing with feathers that perches in the soul, and sings the tunes without the words, and never stops at all and sweetest in the gale is heard."

EMILY DICKINSON

■ CÉLINE HYON-NAUDIN

23 - BENIN

"People are the only wealth."

JEAN BODIN

■ VINCENT CAILLAUX

24 - MYANMAR

"Elegance is the result of regularity and grace."

VOLTAIRE

■ MANUELA RIVIERE

25 - CAMBODIA

"If you are different from me, my brother, far from damaging me, you enrich me."

ANTOINE DE SAINT-EXUPÉRY

■ PHILIPPE GUICHANDUT

26 - BENIN

"It's always the right time to do the right thing."

MARTIN LUTHER KING

■ JULIE SERRET

THE FOUNDATION'S BOARD 2018

The Foundation's Chairman

Jean-Marie Sander

Qualified personalities

HRH Grand Duchess of Luxembourg

Soukeyna Ndiaye Bâ

Agnès Pannier-Runacher
(resigned in October 2018, after her nomination as Secretary of State to the Minister of Economy and Finance)

Jean-Michel Severino

Representing the Crédit Agricole Group

Raphaël Appert

Jérôme Brunel

Bernard Lepot
Projects Committee's Chairman

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Representing the Grameen Trust

Pr Muhammad Yunus

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Photo credit Agnès Pannier-Runacher: Marc Bertrand

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