Social & Environmental Report
2022

FEFISOL II

GLOSSARY

ACP African, Caribbean and Pacific group of states
AE Agricultural Entity
CCC Council Coffee Cocoa
CSAF Council on Smallholder Agricultural Finance
EIB European Investment Bank
FLO Fairtrade Labelling Organisation
FSI Fragile State Index
GDP Gross Domestic Product
GLP Gross Loan Portfolio
HDI Human Development Index
MFI Microfinance Institution
MIS Management Information Systems
MIV Microfinance Investment Vehicle
OSS Operational Self-Sufficiency
PAIF Private Asset Impact Fund
PAR Portfolio At Risk
30 30 days
PPI Progress out of Poverty Index
ROA Return On Asset
S&E Social & Environmental
SIDI Solidarité Internationale pour le Développement et l'Investissement
SME Small and Medium Enterprise
SPI4 Social Performance Index 4
SPM Social Performance Management
SSA Sub-Saharan Africa
TA Technical Assistance
WAEMU West African Economic and Monetary Union
WRI World Risk Index

Foreword

After two years of structuring and negotiation, the SIDI and Alterfin teams were delighted to announce the first closing of FEFISOL II in May 2022. Thanks to the renewed confidence of FEFISOL I shareholders and new investors, the Fund was able to start its financing activities in July 2022.

The launch of FEFISOL II marks a new stage in the SIDI - Alterfin partnership. The two investors have confirmed their desire to work hand in hand to promote the financial inclusion of the most vulnerable populations as well as more sustainable agriculture. Their long experience of social and responsible investment and their in-depth knowledge of the field will provide essential added value for the roll- out of FEFISOL II. SIDI celebrates its 40th anniversary in 2023 and Alterfin its 30th anniversary in 2024!

Eleven years after the launch of the first FEFISOL, the social mission of the founders and that of FEFISOL II remain central to sustainable development, in an environment made more complex by climate challenges, security tensions and demographic pressure.

In this respect, FEFISOL II's first year of activity was a challenging one: given the macroeconomic situation in some countries, the cost of currency hedging rose sharply, affecting the Fund's ability to systematically offer loans in local currency. This was a particular difficulty for the development of the microfinance portfolio, given the risk that exposure in hard currency would represent for this type of institution. Nevertheless, demand remains high in the countries where the Fund operates: in some post-COVID recovery contexts, institutions need liquidity to develop their portfolios and catch up with their development; in others, demand is driven by populations traditionally excluded from the financial systems who have no other access to formal financial services. This is particularly true for women in rural areas, for example, who represent the core target group of certain partner institutions that will be experiencing very strong growth by the end of 2022. In this respect, support for microfinance remains a priority for FEFISOL II, which will need to equip itself over the next few years to offer a range of services tailored to these institutions, which have a strong social and environmental impact.

Despite the Fund's difficulties in developing its microfinance portfolio, FEFISOL II has demonstrated its ability to meet demand from agricultural entities. At the end of March 2023, AEs accounted for 2 thirds of the Fund's clients and 64% of the volume of disbursements. These entities have a wide range of institutional profiles: large cooperative unions of cocoa producers, limited companies sourcing from producers of coffee, green vegetables, cashew nuts, etc. 83% of these agricultural entities are certified (either fair trade or organic, or both), testifying to their good agricultural practices and to their ability to offer a more remunerative price to small producers.

In its first year, FEFISOL II was able to finance 18 clients for a total disbursed amount of EUR 9.4M (for an outstanding portfolio at the end of March 2023 of EUR 7.4M, taking into account the repayment of certain credit lines for agricultural entities).
67% of the portfolio is dedicated to rural clients (MFIs with >50% of their clients in rural areas and agricultural entities). These institutions enable FEFISOL II to reach 1.2M final beneficiaries in 11 countries in sub-Saharan Africa. Of these beneficiaries, 51% are women. FEFISOL II is also committed to advancing women's empowerment, as demonstrated by its client's good results in the 2X Challenge.

Finally, the Fund's TA Facility also financed its first technical assistance projects for two agricultural entities. The first aimed to support and define the development strategy of a cashew nut production company in Tanzania, and the second to improve the productivity of a client company's soya producers in Togo.

This Social and Environmental Report reviews the main results of the year and aims to give readers a more qualitative appreciation of the performance of the Fund and its clients.

The second year should see the second closing of FEFISOL II, marking an important stage in the Fund's development. All the Fund's stakeholders, in particular the Founders and the Fund Manager, are very committed to achieving this objective.

We hope you enjoy reading this report,

Anne-Sophie Bougouin
& Jean-Marc Debricon

FEFISOL II's shareholders

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alterfin	bancaetica
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	European Investment Bank
	Crédit Coopératif
	Proparco Groupe AFD
	BIO Investing in a Sustainable Future
	SOS Faim more than food

FEFISOL II's organization

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01.

Introduction

The mission of FEFISOL II is: 'Financing and strengthening African economic agents underserved by the mainstream banking sector, yet key players in the continent's economy, bringing services and markets to vulnerable and rural populations, as well as small enterprises, particularly those of the agricultural sector. By supporting the implementation of socially and environmentally suitable practices, the fund aims at improving living standards, reducing inequalities, and achieving sustainable development."
To achieve this mission, two main objectives have been established:

- **The financing and strengthening of African Microfinance Institutions (MFIs)** that contribute to the continent's socially sustainable economic growth, by providing a range of inclusive, client tailored, and responsible products adapted to the needs of both vulnerable populations and small enterprises; targeting in particular rural population and agricultural businesses, in order to reduce poverty and generate employment.

- **The financing and strengthening of African Agricultural Entities (AEs)**, engaged in the production and/or processing and sale of agricultural products, sourcing the majority of their raw materials from smallholder farmers, targeting the local, regional and international premium markets and committed to implementing sustainable agricultural practices, in order to strengthen agricultural value chains, create employment in rural areas, increase local value added and reduce vulnerability to climate change.

FEFISOL II is dedicated to financing African microfinance institutions (MFIs) with a strong rural outreach, as well as agricultural SMEs. Given the existing client base from FEFISOL I, the fund will target a larger portfolio both in value and in the number of active clients. It will provide debt instruments via a diversity of loan products to meet the needs of the target clients. FEFISOL II will be very ambitious in its objective to support the adoption of sustainable environmental practices by microfinance and agricultural SME clients. This will be achieved through client targeting, new financial incentives introduced in the debt instruments and a specially designed technical assistance component.

(1) Tier 1 : ROA>0 for 2 years and no ROA<-5% in the last 3 years + assets>50M USD + regulated or rated at least once in the last 2 years / Tier 2: ROA>0 for 1 out of 3 last years + others years>-5% or positive trend in ROA in last 2 years and >-5% + 5M < assets < 50M USD + audited financial statements for last 3 years / Tier 3: assets<5M USD

FEFISOL II at a glance

€ 9,485,395
TOTAL AMOUNT DISBURSED

€ 526,966
AVERAGE INVESTMENT DISBURSED

€ 7,423,604
TOTAL AMOUNT OUTSTANDING

100%
SHARE OF PORTFOLIO DISBURSED IN SSA

67%
SHARE OF PORTFOLIO DEDICATED TO CLIENTS WITH A RURAL FOCUS

11%
SHARE OF PORTFOLIO INVESTED IN LOCAL CURRENCIES

18
ACTIVE CLIENTS (MFIS / AE/ SME FINANCED)

6
NUMBER OF MFIS WITHIN THE CLIENTS

12
NUMBER OF AGRICULTURAL ENTITIES WITHIN THE CLIENTS

16
CLIENTS WITH AN OUTSTANDING

11
COUNTRIES OF INTERVENTION

02.

Targeting objectives

As explained in the introduction, FEFISOL II will target MFIs and agricultural entities located in Africa, particularly in Sub-Saharan Africa. FEFISOL II also seeks to reach the most vulnerable populations by financing institutions located in rural areas, in countries with low human development, or in countries highly vulnerable to climate change.

The table below presents the different objectives set by FEFISOL II in terms of targeting.

Gross Loan Portfolio (GLP)	**Between EUR 35 and EUR 45 million**
MFI clients financing agricultural production and/or the processing & sale of agricultural products and AE clients	**>65% of clients financed.** **>65% of GLP**
Local currency portfolio	**Between 70% and 80% of MFI GLP**
Africa	**100% of GLP**
Sub-Saharan Africa	**>75% of GLP**
ACP countries	**>75% of GLP**
North Africa	**≤25% of GLP**
WAEMU	**Between 30% and 40% of GLP**
Gross Loan Portfolio by target client	**100% of portfolio**
Rural portfolio	**>55%**
MFIs	**Between 70% and 80% of GLP**
Tier 2 and 3 MFIs (Microrate or best practices definition)	**At least 85% of MFI GLP**
Agricultural Entities	**Between 20% and 30% of GLP**
Number of MFIs financed through subordinated loans	**Between 4 and 10 MFIs** **≤ 15% of GLP**
Total number of countries of intervention (cumulated)	**Between 26 and 30**
Countries with low HDI and or high climate vulnerability	**Between 50% and 75% of GLP**
Total number of clients financed (cumulated)	**Between 100 and 130 clients**

It should be noted that these objectives will really start to apply from the third year of FEFISOL II, as the fund must first build and ramp up its client portfolio.

This first year of activity of the fund, which ended in March 2023, and which actually started in August 2022 with the first disbursement, allowed FEFISOL II to reach a total outstanding portfolio **of EUR 7.4 million**. The number of clients had risen to 18 by the end of March 2023.
Over the year, **EUR 9.5 million were disbursed** to respond to the needs of FEFISOL II's partner organizations.

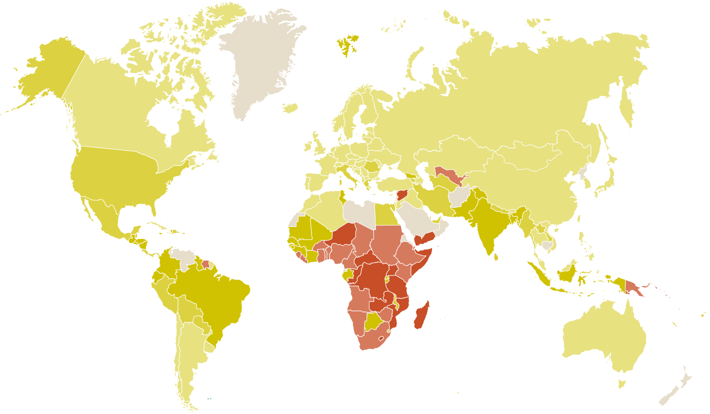
Reminder : FEFISOL II's additionality

FEFISOL II is a unique investment vehicle which differentiates itself from other funds through various characteristics :

- Its focus on Africa and more particularly on Sub-Saharan Africa.
- Its presence in countries with a particularly difficult context, be it in terms of human development, vulnerability to climate change, or general fragility.
- Its targeting of organizations whose clients or members are especially vulnerable, like people residing in rural areas and women.
- Its wide range of products and the fact that the financing terms are quite flexible in order to fit with the partners' needs.
- Its offer of technical assistance tailored to the partners' ambitions.

100% OF FINANCING DEDICATED TO SUB-SAHARAN AFRICA

Sub-Saharan Africa remains the poorest region in the world. In 2019, it concentrated 60% of the global poor living under the US$ 2.15 poverty line, and 35% of its population lived in a situation of extreme poverty [1].

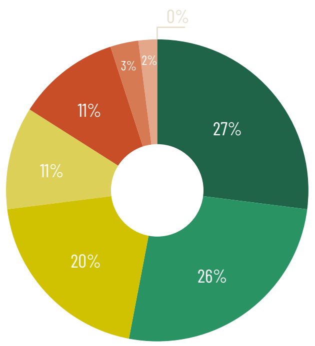


POVERTY RATE (%)
<1.0 | 1.0-3.0 | 3.1-15 | 15.1-40 | >40 | No data

Estimates show that extreme poverty is likely to become even more concentrated in Sub-Saharan countries in the coming years. Indeed, while other regions are likely to be able to reach the target of less than 3% of extreme poverty by 2030, for Sub-Saharan Africa to achieve this target, all countries would have to grow by 9% a year beginning in 2023, a growth rate which would be eight times higher than historical rates witnessed between 2010 and 2019 [2].

Sub-Saharan Africa was also highly impacted by the crises following the Covid-19 pandemic and the invasion of Ukraine by Russia, and the region is more likely to be exposed to the threats of climate change. Additionnally, despite the progress made by certain countries in reducing poverty, the high fertility rate in the region translates into relatively small income per capita increases.

Despite these high levels of poverty and vulnerability, Sub-Saharan Africa remains largely underserved by social investors.
In 2022, only 11% of the total outstanding portfolio of impact-funds was dedicated to Sub-Saharan Africa according to the 2022 PAIF report [3].



IMPACT FUNDS' PORTFLIO BREAKDOWN BY REGION [4]

Eastern Europe & Central Asia | East Asia & Pacific | Western Europe
Latin America & the Carabbean | Sub-Saharan Africa | North America
South Asia | Midle East & North Africa

The region is therefore suffering from a substantial financing gap. FEFISOL II's dedication to Africa, and in particular Sub-Saharan Africa, makes it a highly additional fund.

▶ FEFISOL II fulfilled its objectives in terms of geographical targeting for this first year of activity, since at the end of March 2023, the entire portfolio was invested in Sub-Saharan Africa.

West Africa is the region where the fund has so far been the most active, with 7 clients, 58% of the year's total disbursed amount and 48% of the outstanding portfolio at the end of March 2023.

The graph below presents FEFISOL II's countries of intervention according to the fund's exposure in these countries. The 3 countries in which the fund has the largest exposure are the Democratic Republic of Congo, the Ivory Coast, and Madagascar.

FEFISOL II'S COUNTRIES OF INTERVENTION ACCORDING TO THE FUND'S EXPOSURE IN THESE COUNTRIES

0 — 1,310,000

(1) Source: World Bank, Poverty and Inequality Platform, https://pip.worldbank.org
Note: The map shows each economy's poverty headcount rateat the US$2.15-a-day poverty line for 2019. Economies without survey data available in the Poverty and Inequality Platform are shown in gray.

(2) Poverty and Shared Prosperity Report – 2022 – World Bank

(3) The PAIF report is an annual report published by Tameo, which surveys investment vehicles which are focused on emerging and frontier markets, and which have a development impact bias. SIDI participates in this survey by reporting each year to Tameo on a certain number of indicators.

(4) Source : PAIF report 2022

FOCUS

Country Profile - Democratic Republic of Congo

▶ GEOGRAPHICAL LOCATION

The Democratic Republic of Congo (DRC) is a country located in Central Africa, in the Great Lakes region. Being very vast, the DRC shares its borders with 9 countries and is characterized by a hot and humid climate, with high rainfall. It is the second largest country in Africa, covering an area of 2.3 million km^2.

▶ POLITICAL SITUATION

In 1960, the DRC became independent from Belgium, and has subsequently experienced a variety of political regimes, several coups and attempted coups d'états, and two wars (1996-1997 and 1998-2003). The DRC saw its first peaceful transition of power in January 2019, when F. Tshisekedi was elected president, succeeding J. Kabila, who had ruled the country for 18 years. Despite efforts to prevent conflict and stabilize the country, pockets of insecurity persist, particularly in the eastern region. The DRC is in the process of finalizing the voter registration phase for future general elections scheduled for late 2023, but the security situation has seriously deteriorated in some provinces.

▶ SOCIO-ECONOMIC SITUATION

The DRC is considered one of the world's most underdeveloped states, as evidenced by its Human Development Index rank (179th out of 191), and in 2022, 62% of the population lived on less than $2.15/day. Nevertheless, the country possesses vast natural resources potential, and the mining sector remains the driving force behind the Congolese economy. For example, Congo is the world's fifth largest producer of copper and the world's first largest producer of cobalt. In addition, the country is home to other minerals such as gold, zinc, lithium and coltan, spread over two key regions: ex-Katanga and Kivu. The agricultural sector is also very promising. Of the country's seventy-five million hectares of arable land, only ten million are used to grow crops such as coffee, tea, oilseeds, and manioc. Peasant agriculture employs 70% of the working population, demonstrating the importance of this sector in the DRC.

▶ FEFISOL II IN DRC

The Congolese coffee industry is developing, with particular emphasis on certified, (organic and fair trade) specialty coffee. Much of the production is carried out by small producers, grouped together in cooperatives. This is the path chosen by MUUNGANO, a green coffee cooperative supported by FEFISOL:

- ▶ **Category:** Coffee cooperative
- ▶ **Number of members:** 4,200
- ▶ **Justification for FEFISOL funding:**
  - > High resilience despite crises and threats in the region (Kivu)
  - > Strong social and environmental commitment
  - > High quality market (green Arabica and gourmet coffee)

▶ FINANCIAL INCLUSION

Around 26% of the working population has a bank account, while 35% of unbanked adults consider the distance separating them from financial institutions and services to be a major obstacle. This is where FEFISOL comes in, financing three microfinance institutions:

GUILGUAL (TIER 2)	HEKIMA (TIER 3)	PAIDEK (TIER 3)
Number of active borrowers		
9,889	10,347	4,152
Average outstanding loans per active borrower (€)		
1,303.3	552.5	1,356.61
Justification for FEFISOL II funding		
> Hybrid positioning: rural / agricultural & micro (group &individual) / TPME > Hybrid and stable profitability > Strong development potential in the rural sector > High sensitivity to social and environmental performance	> Sustainable profitability in a complicated environment > Financing primarly of business women & group microcredit schemes > Long-term development in small towns > Strong focus on social & environmental performance	> Attractive positioning ("moderate poor" to "unbanked middle classes") > Major mirofinance player in the region > Active in rural areas > Group lending (≈42% of the portfolio)

PRIORITY TO VULNERABLE COUNTRIES

FEFISOL II is a fund which aims at improving the living conditions of the most vulnerable populations. Within this framework, the fund has set the objective of investing the majority of its portfolio in countries with low human development and high vulnerability to climate change. To assess this, the fund uses two key indices:

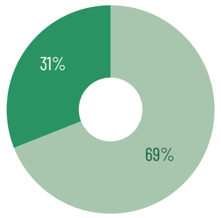
The Human Development Index, or HDI, an index calculated annually by the United Nations Development Programme (UNDP) to assess the level of development of countries based not strictly on economic data, but on the quality of life of their citizens. The HDI takes into account three factors:

- The life expectancy at birth, which is significant when assessing the future living conditions of individuals (food, housing, drinking water etc)
- The level of education, which determines the individual's professional and social autonomy.
- And the gross national income per capita, which reveals the standard of living of individuals and therefore their access to culture, goods and services, transport etc.

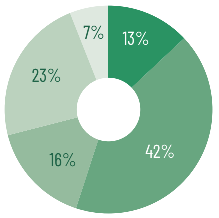
An example of a low-HDI country is Madagascar, where FEFISOL II so far has one investment of EUR 1 million (14% of its portfolio). Madagascar ranks 168th out of 190 countries in 2021. Despite its considerable natural resources, Madagascar has one of the highest poverty rates in the world, with 79% of the island's inhabitants living below the poverty line[1].

The World Risk Index, or WRI, calculated since 2011 by the Bochum University in Germany. This index considers the countries' exposure to extreme natural events and calculates their capacity to respond to these events. The idea is that the probability of a natural shock occurring is not the only factor of vulnerability, societal elements also need to be considered. Each country can directly or indirectly implement strategies aiming at mitigating the impact of natural disasters, thus reducing their vulnerability level.
Tanzania is an example of a country with a very high WRI (16.38). Climate change is indeed already causing severe hardships for the population, with droughts and extreme rainfall events happening more and more frequently, along with increased temperatures. The dependence of a large part of the population on rainfed agriculture is also a threat to their well-being on the long term as these extreme weather events are impacting the sector severely. FEFISOL II finances one agricultural entity in Tanzania, in the cashew nuts value chain, for a total outstanding portfolio of EUR 500,000.

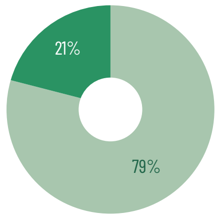
▶ At end-March 2023, **69% of FEFISOL II's portfolio was invested in countries with low HDI levels** (countries where the HDI is inferior to 0.55), and **36% was invested in countries with a high or very high vulnerability level towards climate change** (countries where the WRI is superior to 5.87).



OUTSTANDING PORTFOLIO BREAKDOWN BY LEVEL OF HDI
- Low
- Medium



OUTSTANDING PORTFOLIO BREAKDOWN BY LEVEL OF WRI
- High
- Low
- Medium
- Very high
- Very low



OUTSTANDING PORTFOLIO BREAKDOWN BY LEVEL OF FRAGILE STATE INDEX
- Fragile
- Very fragile

Additionally, all countries where FEFISOL II operates are considered to be "fragile" or "very fragile", according to the Fund For Peace's Fragile States Index[2]. This means that they are all considered as being at risk of conflict or collapse, because of their vulnerability to certain pressures, and their incapacity to manage these pressures.

Burkina Faso for instance, where FEFISOL II finances one agricultural SME, has a Fragile States Index of 94, which places it in the "alert" category, or "very fragile". The country has gone down in the ranking in the past few years, mostly because of the challenges it has been facing in terms of security and political instability. Indeed, the activity of terrorist jihadist armed groups affiliated with Al-Qaida and ISIS has been growing for the past 8 years in the country, fostering more than 10 000 casualties and 2 million displaced citizens. These armed groups now control 40% of the country, and the inability of the government to deal with this problem has led to a series of coups, fostering even more instability[3].
This situation has led to the increase of the FSI score, particularly in the "state legitimacy" and "human rights" fields.

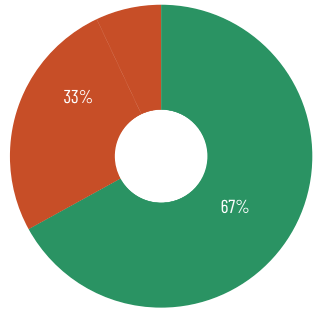
FOCUSING ON RURAL AREAS

The objective that was set by FEFISOL II in terms of rural portfolio is even more ambitious than the one set by FEFISOL I. Indeed, the fund aims at investing at least 55% of its portfolio in rural areas, whereas its predecessor's goal was to achieve 50% of its portfolio.

This focus on rural areas is set on the observation that the rural populations tend to be the ones most affected by poverty, especially in FEFISOL II's region of intervention, Sub-Saharan Africa. Globally, roughly 70% of the world's poor live in rural areas. In Sub-Saharan Africa however, this proportion goes up to 82%[4]. Seven out of the 10 countries with the most people living in poverty in rural areas are in this region. Poverty is not only more prevalent in rural areas, but it is also worsened by a lack of access to basic services, quality infrastructure and social protection.

MFIs have a particularly important role to play in rural areas, as financial inclusion is even more of a challenge in these zones than it is in the cities. Indeed, the Global Findex Report of 2021 showed that in Sub-Saharan Africa, 62% of unbanked adults resided in rural areas. In general, only 60% of the rural population in developing countries have an account with a financial institution[5]. Improving the access to finance in rural areas is also key because it can contribute to the development of the agricultural sector, which employs a large majority of the rural populations of developing countries. Indeed, providing financial services to farmers is likely to increase their productivity, thus fostering an increase in production, which can allow them to meet the food needs of these growing populations.

▶ As of the end of March 2023, **67% of FEFISOL II's portfolio was dedicated to rural organizations** (meaning either agricultural entities or MFIs which have at least 50% of their clients residing in rural areas).



OUTSTANDING PORTFOLIO BREAKDOWN BY SECTOR
- Rural
- Urban

(1) World Bank 2023

(2) The Fragile States Index is an annual ranking of 178 countries based on the different pressures they face that impact their level of fragility. The Index is calculated by the Fund for Peace and looks at various indicators related to state cohesion, economic situation, political situation and social pressures.

(3) Human Rights Watch, 2023

(4) FAO, 2020

(5) Alliance for Financial Inclusion, May 2022

03.

Profile of FEFISOL II's clients

Since its inception, **FEFISOL II has financed 18 clients, located in 11 different countries** in Sub-Saharan Africa. 16 of them were still in the portfolio at the end of March 2023: some agricultural entities have already reimbursed their credit lines as these facilities are often shorter than a fiscal year (see section on loan maturity).

PORTFOLIO - MICROFINANCE

Financial inclusion has progressed substantially in Sub-Saharan Africa in the last few years, driven notably by the launch and growth of mobile money. Indeed, according to data from 2021, the percentage of adults with an account amounted to 55% in Africa, an increase from 34% in 2014[1]. Although the share of adults with an account at a formal financial institution barely budged, the share with a mobile money account almost doubled, to reach 33%[2] in 2021. This makes Sub-Saharan Africa the most advanced in terms of digital finance in the world, as mobile money penetration is below 10% in every other region of the world.

Despite these improvements, the share of adults holding an account remains very low compared to other regions of the world like South Asia (70%), or Europe and Central Asia (81%)[3].

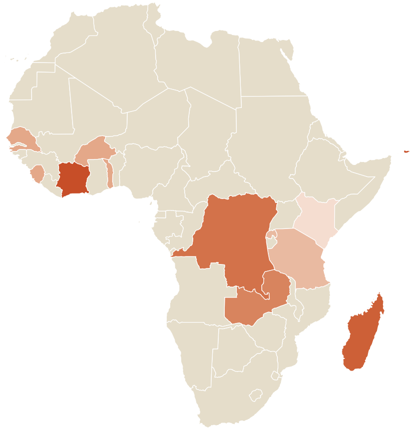
Additionally, and although microfinance institutions have proven to be a good solution to increase financial inclusion, Sub-Saharan Africa only benefited from 7% of the funds dedicated to microfinance[3] in 2021, which is even less than in 2020. This could still be due to the difficult macroeconomic context of many African countries, which scares away the investors from developing their activity in this region.

▶ In this context, FEFISOL II's dedication to the microfinance sector in Sub-Saharan Africa is particularly important. At the end of March 2023, **microfinance represented 46% of FEFISOL II's total portfolio, and a third of the total number of clients.**

While FEFISOL II has a strong focus on microfinance (MFIs should represent at least 70% of the portfolio), the first year of activity has been challenging in terms of MFI financing: hedging costs have increased a lot and some MFIs have seen their risk profile deteriorate following the sanitary crisis and the war in Ukraine. Priority has thus been given to financing agricultural entities with a strong social and environmental added value, eligible to FEFISOL II's financing.

FEFISOL II operates exclusively in countries that are poorly served by the financial and technical offer of the majority of MIVs. Among the ten countries in which MIVs provide the most financing to microfinance institutions, none of them are located on the African continent, making the rationale behind the fund's action all the more legitimate.

▶ Out of the 11 countries where FEFISOL II had operations in 2022-2023, 5 of them were countries where more than half of the population does not have an account at a formal financial institution or with a mobile money-service provider: Zambia, Madagascar, the DRC, Sierra Leone and Burkina Faso.



% OF FINANCIAL INCLUSION

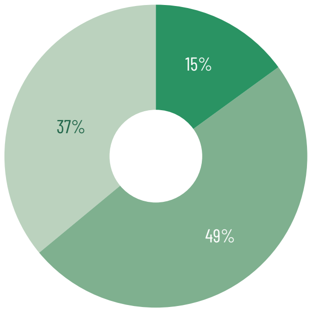
80% — 17%

Profile of the MFIs financed by FEFISOL II

In accordance with its mission, FEFISOL II set an ambitious objective regarding its clients of the microfinance sector: at least 85% of the microfinance portfolio has to be dedicated to Tier 2 and Tier 3 MFIs. MFIs can indeed be categorized into different tiers according to the size of their assets: Tier 1 for MFIs with assets over EUR 5 million, Tier 2 for MFIs with assets between EUR 5 million and EUR 5 million, and Tier 3 for MFIs with assets under EUR 5 million. This is because these institutions are often considered riskier and thus suffer from lack of financing. In some cases, these MFIs have also been known to target the more vulnerable, isolated populations, who in many cases don't have access to another source of financing. According to the EIB, more than 60% of borrowers from small institutions live in rural areas, and 70% of them are women[4].

▶ At the end of March 2023, **85% of FEFISOL II's outstanding portfolio in microfinance was dedicated to these small institutions,** and the fund only had one Tier 1 MFI within its portfolio.

The presence of larger MFIs in FEFISOL II's portfolio is also important, as it will allow the fund to balance its portfolio, and to reach out to a large number of beneficiaries, therefore ensuring a quantitative impact, as well as the qualitative impact created by the financing of smaller MFIs. Indeed, according to Atlas[5], large MFIs in Sub-Saharan Africa have an average outreach of approximately 80 000 borrowers, whereas smaller institutions reach on average 24 000 clients.



OUTSTANDING MICROFINANCE PORTFOLIO BREAKDOWN PER TIER

- MFI Tier 1
- MFI Tier 2
- MFI Tier 3

With assets of just over 3 million euros, MLF Zambia is a Tier 3 microfinance institution with a strong social mission. It targets exclusively women living in poor and rural communities where access to financial services is almost non-existent. The MFI offers them specific loans to develop their business activities, as well as savings, and also provides them with financial education and business trainings. In addition to its mission, MLF Zambia has placed its social and environmental performance management as one of its strategic objectives for the years to come.

(1) IFC – *Digital access: the future of financial inclusion in Africa*, 2018

(2) Global Findex Report 2021

(3) Global Findex Report 2021

(4) *La finance en Afrique: Naviguer en eaux troubles* La Banque Européenne d'Investissement - 2022

(5) Atlas is a platform created by the rating agency MFR which centralizes data from MFIs all over the world (financial indicators, activity data, indicators on S&E performance etc...). FEFISOL II suscribed to Atlas in 2022, meaning the fund now shares its clients' data with the platform, allowing for an easier reporting process, as well as providing it with an access to benchmarks.

PORTFOLIO – AGRICULTURAL ENTITIES

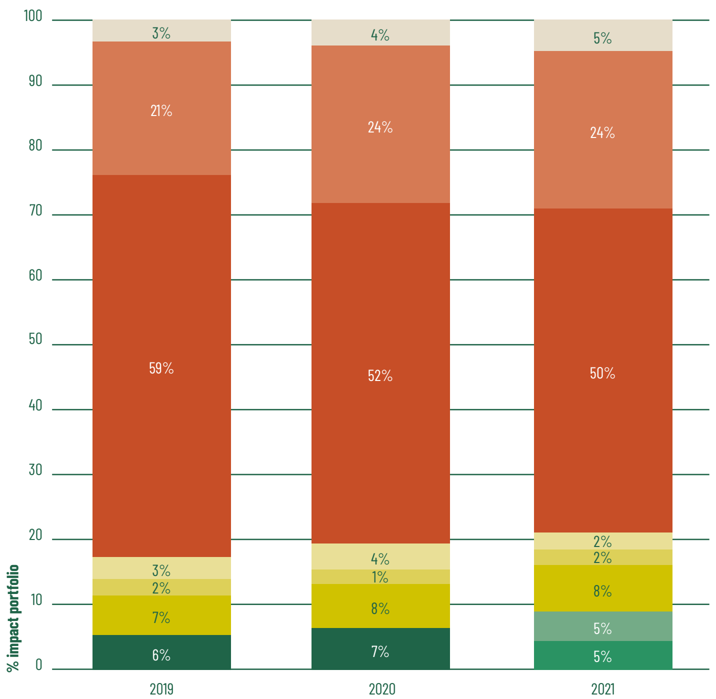
Financing agriculture is both a challenge and a crucial lever of development in developing countries, where it represents a source of livelihood for 86% of rural people[1]. This is even more striking in Sub-Saharan Africa, which is the region with the highest concentration of people whose livelihood depends on agriculture. Despite the importance of this sector in the region, producers' organizations and agricultural SMEs still face a significant financing gap. The Malabo Declaration of 2014, which stated that each country in the African Union had to spend at least 10% of their annual budget on agriculture, has not been respected by the majority of the countries. In fact, in the past few years, the total amount of money spent on agriculture has plummeted, with over two-thirds of African countries spending under 5% of their budget on the sector[2]. Moreover, the credit that does flow to the agriculture sector in developing countries is largely provided to big commercial farms and industrial processors, resulting in a substantial financing gap for agricultural SMEs.

In this context, the activity of funds like FEFISOL II has become even more important.
According to the latest statistics, the current articulated demand of agricultural SMEs in Africa is estimated at USD 90 billion, 83% of which is not met[3]. The agricultural sector lacks public funding, and is also still relatively underserved by commercial banks, and by social impact lenders and funds. Indeed, according to the latest PAIF report, only 9% of all the impact funds surveyed had a core focus on food and agriculture, and this sector represented only 8% of the total impact portfolio of the impact funds in 2022.

Financial institutions are sometimes reluctant to accept the risks inherent to the agricultural sector, such as production risks linked to natural hazards, the farmers' weak ability to provide collateral, and the volatility of prices. Transaction costs are also higher in rural areas, due to an often weak infrastructure and a dispersed population. Finally, the size of these agricultural entities has an impact on their ability to receive financing. Indeed, a lot of agri-SMEs have funding needs which are below the minimums that can be provided by private investors, but which exceed the financing which MFIs would be able to offer. Simultaneously, enhancing the availability of financial resources for smallholder farmers and agri-SMEs holds the promise of enhancing livelihoods, bolstering food security, addressing the impacts of climate change, and fostering economic prospects for women, youth, and other disadvantaged populations[4].

However, overall there has been an improvement in the financing of agriculture. Indeed, in 2021, USD 756 million were disbursed by CSAF[5] members, and they reached in total 641 businesses around the world. Lending thus grew by 35% compared to 2020, and has more than doubled since 2013, reflecting an increase in the size of the agricultural financing sector. Sub-Saharan Africa has benefited from this growth, as the region for instance received 270M$ in 2021, i.e 36% of total disbursements, distributed among 299 clients.

▶ The fact that FEFISOL II dedicated more than half of its portfolio to agricultural entities is another proof of its additionality. Indeed, at the end of March 2023, **the agricultural sector represented 54% of FEFISOL II's portfolio, and two-thirds of the total number of clients.**



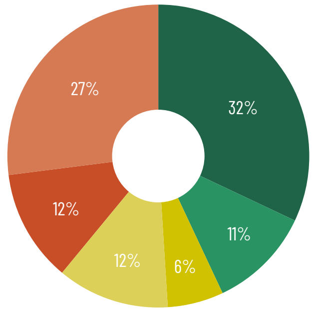
IMPACT FUNDS' PORTFOLIO BREAKDOWN BY SECTOR

- Other
- SME development
- Microfinance
- Housing, water & communities
- Health & education
- Food & agriculture
- Renewable energyand energy efficiency
- Climate & biodiversity
- Climate & energy

Source: PAIF Report 2022

Profile of agricultural entities financed by FEFISOL II

In terms of value chains, as demonstrated in the graph below, the most important one in FEFISOL II's portfolio is cocoa, which represents 32% of the portfolio at the end of March, and nuts, accounting for 27% of the portfolio. If we look at the year's disbursements, the focus on the cocoa value chain is even more obvious, as the latter represents 52% of FEFISOL II's disbursements in 2022-2023. This is similar to what we can observe in the portfolios of other CSAF members. Indeed, in 2021, 39% of the portfolio of CSAF members going to Sub-Saharan Africa was invested in the cocoa value chain.



OUTSTANDING PORTFOLIO BREAKDOWN BY AGRICULTURAL SECTOR

- Cocoa
- Coffee
- Fruits & vegetable
- Grains & cereals
- Honey
- Nuts

COCOA IN THE IVORY COAST

FEFISOL II's clients in the cocoa value chain are all situated in the Ivory Coast, which accounts for around 42% of the world's cocoa exports. International prices fluctuations for this particular product are therefore highly determined by the Ivory Coast, as well as by Ghana, with 20% of the world's cocoa exports. Cocoa prices have been quite stable since 2018, thanks to a relatively stable balance between supply and demand. Even the global increase in commodity prices in 2022 did not seem to affect cocoa. The revenues of cocoa farmers in the Ivory Coast are therefore stable, and they benefit from a fixed price mechanism put in place by the CCC (Council Coffee Cocoa) in 2012, which ensures that the farmers are paid fairly for their production. However, half the cocoa beans harvested in the country are exported unprocessed, which represents a loss of earnings for the value chain, as the creation of added value occurs mainly at the end of the chain.
Investing in local cooperatives and SMEs engaged in the processing and transformation of cocoa is therefore crucial.
One of the main risks associated with this sector is deforestation, as cocoa requires a lot of soil fertility, and therefore grows very well on recently cleared forest land, which represents an incentive to engage in deforestation practices. The Ivory Coast's Forest cover decreased from 16 million hectares in the beginning of the 20th century, to less than 3 million today. To counter the risk of investing in organizations which may engage in such practices, FEFISOL II uses a thorough social and environmental risks analysis tool, which is described in the next section. Furthermore, the fund seeks to target clients which have a strong commitment towards environmental sustainability. For instance, they engage in geolocating their farmers' parcels to ensure that none are operating in protected and classified forests, they distribute shadow trees to contribute to reforestation...

(1) IFC – Investment in Agriculture

(2) Oxfam, 2022

(3) *The state of the agri-SME sector: Bridging the finance gap* – ISF Advisors

(4) IGC, Evidence Review for Agricultural SME Finance

(5) The CSAF (Council on Smallholder Agricultural Finance) is a global network of socially responsible lenders which finance agricultural SMEs, in which SIDI is a member

The coffee industry in Rwanda

Coffee plays a central role in Rwanda. The country of a thousand hills is characterized by high altitudes, a temperate tropical climate and particularly fertile volcanic soils. These natural conditions are ideal for growing an exceptional specialty coffee, with a rich, creamy body and floral, fruity or citrus flavors, depending on the region of production. Awarded and recognized worldwide (in 2018, "Best of the Best" and "Coffee Lover's Choice" against nine other coffee-producing countries), Rwandan coffee is coveted, thanks in particular to the government, which, through reform and liberalization efforts, has enabled the coffee sector to develop both in terms of quality and production volumes.

Most of Rwanda's coffee is Arabica, and the Bourbon variety, introduced by the Germans in the early 20th century, is almost exclusively available. An estimated 39,844 hectares are devoted to coffee cultivation, at altitudes ranging from 900 to 2,400 meters. Ranked among the world's top thirty coffee producers, Rwanda remains a small coffee producer (0.2% of world production), and all Rwandan coffee is produced by small growers spread over areas ranging from 0.5 to 1.5 ha. This fragmentation of land enables a large number of people to benefit from coffee growing, as barriers to entry are lower than when farms are larger. There are five main coffee-growing regions: the Virunga volcanic region, the Kivu region, the Kizi Rift, Akagera and the Muhazi region.

Coffee accounts for around 24% of domestic production, which rose again in the mid-2000s, although it remains below pre-genocide levels. Indeed, production was greatly impacted by the genocide because of the destruction of numerous coffee farms and the collapse of the country's infrastructures (over 400,000 bags produced before the genocide compared with 325,000 bags for the 2022/23 bi-annual cycle). The local growing season generally begins in September/October, with harvesting between March and July. Along with tea, coffee is one of the two main export crops. In fact, 95% of the coffee produced in Rwanda is exported, notably to Kenya, Sweden, the United States, Germany, and Russia. Rwanda was also one of the first African countries to break into the Asian coffee market, with Japan, China, South Korea and Singapore as its main import customers. Annual exports generally take place between July and December. In fiscal year 2021/22, 18,564 MT of coffee were produced, and 15,184 MT exported, representing 11.8% of total agricultural exports.

Coffee growing is also a pillar in the fight against poverty in rural areas. Indeed, Rwanda's economy is highly dependent on agricultural exports such as coffee and tea. As a result, crops are exposed and sensitive to soil infertility, unfavourable weather conditions and falling coffee prices with a direct impact on the income of rural populations. In addition, the government is promoting the adoption of modern methods to produce high value-added specialty washed coffee. Indeed, a strategy has been put in place to build the capacity and skills of coffee growers and washing station workers, strengthen and support producer cooperatives, build coffee washing stations, replant old trees, improve quality control throughout the industry and develop a Rwandan brand identity. Also, to better regulate the industry, in 2016 the government introduced a "Zoning" program, obliging producers in different geographical zones to sell their harvest to specific washing stations. Sales or purchases outside these predefined zones are prohibited, with a view to improving coffee traceability, strengthening the relationship between washing stations and coffee growers, and limiting price competition on purchases from intermediaries. In addition, the coffee sector is particularly involved in certifications (Fair Trade International, Rainforest Alliance, Organic, Common Code for the Coffee Community) to enhance its global reputation.
It is in this dynamic and growing environment that the partners financed by FEFISOL II operate. Mahembe Coffee, Tropic Coffee and Viva Coffee are three Rwandan SMEs sourcing from 715, 3 114 and 1 714 coffee growers respectively.
The majority of the latter produce certified coffee (UTZ, Café Practices and/or Organic), and all three SMEs have great potential to increase the number of member producers, given that many coffee growers are interested in the advantages offered by these cooperatives (for instance, the supply of inputs and non-agricultural services). Also, with the government's "zoning" program reducing unfair competition in the sector, FEFISOL II's partner SMEs are aiming to reach more producers.

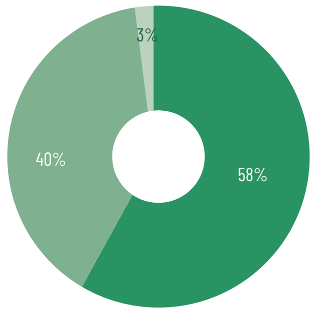
RISK LEVEL OF FEFISOL II CLIENTS

The majority of FEFISOL II's portfolio is dedicated to clients with a "medium-low" risk level, as demonstrated in the graph presented below. The tool used to reach this information is the one that was developed by FEFISOL I, and which analyses the client risk according to five key dimensions: legal structure and experience, strategic positioning, organization, and portfolio and financials.

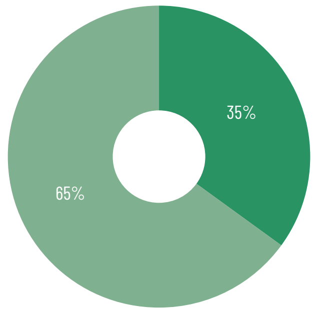
FEFISOL II sought to add to this analysis another tool which would be used to screen the social and environmental residual risks presented by its clients. To do so, the Fund developed an in-house screening tool, based on the good practices of the microfinance and agricultural sectors, and inspired by sectoral performance standards. The risks include (but are not limited to): children labor, forced labor, deforestation, biodiversity loss, land tenure pressure, governance, production issues... In addition to this, FEFISOL II also strengthened its qualitative analysis of S&E risks faced by agricultural entities, per sector and per country, as risks may vary from one sector to another, and from one country to another. It thus benefited from a TA project which led to the realization of risk profiles, specific to certain sectors and countries, which aim at guiding the investment officers in their analysis of the S&E risk of a particular client. The FEFISOL II team was also trained on this material. At the end of the training, a dedicated tool to assess each agricultural entity's S&E risk was designed.

As of the end of March 2023, there were no clients classified as being at a high S&E residual risk.

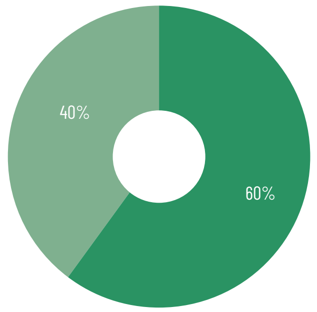
Nonetheless, FEFISOL II's partners operate in value chains that can be inherently risky. As such, because of the importance of the occurrence of child labour and deforestation within the cacao value chain and the risk of cashew processing (acid present in the cashew nuts), these two value chains have been considered as high S&E inherent risk.



OUTSTANDING PORTFOLIO BY RISK CATEGORY
- Medium
- Medium high
- Medium low



OUTSTANDING PORTFOLIO BY ESG RISK
- Low
- Medium



EA'S OUTSTANDING PORTFOLIO BY INHERENT RISK
- High
- Medium

04.

Products and services adapted to the needs of the clients

PRODUCT RANGE

FEFISOL II proposes to its clients a series of debt instruments, in order to meet each client's individual needs.

For instance, FEFISOL II has started to propose subordinated loans to its clients, with the goal of strengthening their quasi-equity to improve their leverage capacity and comply with capital adequacy requirements. These loans will range from EUR 300,000 to EUR 1 million and will have a tenure of up to 5 years.

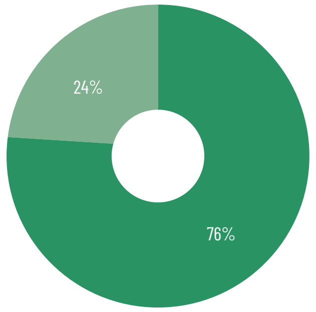
The fund has also created an incentive mechanism aiming at encouraging the MFIs to finance sustainable agriculture. Therefore, the interest rate of their loans can be reduced by 1% if the MFI increases the percentage of its portfolio dedicated to agriculture and energy conservation projects, implements non-financial services aimed at clients conducting activities in these two sectors, or improves its main organizational challenges and risks. There is a similar mechanism for agricultural entities, which can benefit from this 1% reduction if they manage to demonstrate a positive trend in their adoption of sustainable practices, or to improve their main organizational challenges and risks.

The addition of these products to FEFISOL II's offer demonstrates the fund's intention to be even more in line with its clients' needs, and to foster the adoption of sustainable practices among the organizations it finances.

PAMECAS
PAMECAS is an umbrella organisation for some thirty savings and loan mutuals operating throughout Senegal. It is a key player in microfinance in Senegal, ranking among the country's top 5 institutions in terms of outstanding loans and deposits. Since 2023, UM-PAMECAS is benefiting from a subordinated loan from FEFISOL II to enable it to strengthen the equity capital of some of the network's branches. This is taking place at a time when the regulator is ensuring that microfinance institutions maintain a healthy balance between their equity and debt in order to avoid over-indebtedness (specifically that equity must represent a minimum of 15% of the balance sheet). Although subordinated loans are a debt instrument, they are considered by all financial players and regulators to be equity or quasi-equity, due to their long maturity - at least 5 years - and their seniority - in the event of default, they are repaid after the other creditors have been repaid. This makes them a riskier instrument than a traditional senior loan, but they are also particularly useful for companies seeking to mobilise stable resources and consolidate their equity capital without having the opportunity or the desire to open up their shareholder base. For UM-PAMECAS, which operates on a mutualist model and can only increase its equity through its results and the membership fees of its members, a subordinated loan enables the institution to continue its growth, in particular to mobilise resources and grow its portfolio, without being limited by its equity. SIDI was one of the first international investors to offer a subordinated loan to UM-PAMECAS in 2018. This loan also had a signal effect on other financiers and enabled UM-PAMECAS to access other subordinated loans.

LOCAL CURRENCY

The devaluation of local currencies in Africa poses a substantial risk of insolvency for MFIs with debt in a hard currency. In this context, having access to local currency funding is particularly interesting, which is why FEFISOL II set the objective of having at least 70% of its microfinance portfolio in local currencies.



DISBURSEMENTS TO THE MICROFINANCE SECTOR ACCORDING TO THE CURRENCY
- Disbursements in hard currency (euro or dollar)
- Disbursements in local currency

▶ In 2022-2023, two MFIs benefited from a disbursement in local currency: MLF Zambia and Pamecas. As mentioned before, the first year of activity of the fund was mainly dedicated to developing the agricultural portfolio considering rising hedging costs.

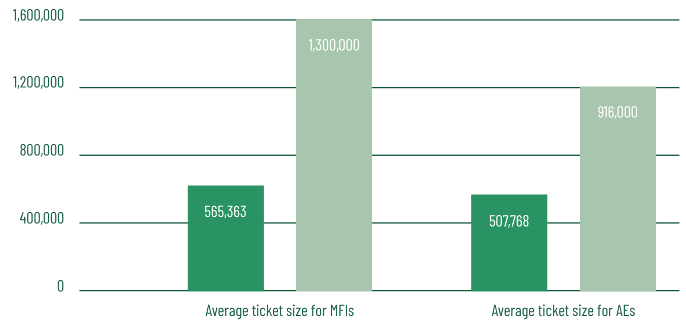
MATURITY OF INVESTMENTS

FEFISOL II adapts the duration of its investments to the needs of its clients. Thus, loans to AEs and SMEs aligned with the agricultural seasons are all short-term loans (100% of loans disbursed have a maturity of one year or less). If necessary however, according to the needs expressed by the agricultural entities, and in order to facilitate the administrative processes, FEFISOL II can disburse campaign loans with a duration of several years.

Similarly, all of the MFIs financed by FEFISOL II In 2022-2023 received medium-term loans (3 years), although one of the loan is currently being converted to a subordinated debt with a longer maturity.

INVESTMENT SIZE

The average size of the loans disbursed by FEFISOL II in this first year of activity amounted to **EUR 527 000**, which is relatively small when compared to the average loan disbursed by by the other impact funds, which equalled USD 1.4 million, i.e approximately EUR 1.3 million in 2021 according to the PAIF Report. This illustrates FEFISOL II's additionnality and capacity to target smaller organizations, often underserved by other investors.



- FEFISOL II
- Benchmark

For MFIs, the average ticket size in 2022-2023 equalled EUR 565,000, which is significantly lower than the average size of the loans disbursed by other investment vehicles towards the microfinance sector. Indeed, the other funds present in the PAIF report have an average loan size of around EUR 1.6 million when it comes to MFIs, almost three times bigger than FEFISOL II's ticket size.

When it comes to the agricultural sector, FEFISOL II also finances organizations which tend to be smaller in size than the beneficiaries of other social investors. This is visible when comparing the average ticket size disbursed by FEFISOL II with that of other CSAF members. Indeed, in 2021, the average loan size for CSAF members reached USD 983,000, or EUR 916,000 for existing borrowers, and USD 760,000, or EUR 709,000 for new ones, compared to an average ticket size of EUR 508,000 for FEFISOL II. Additionally, this value is pushed upwards by two disbursements in particular of EUR 1.5 million and EUR 1 million to Ecookim and Socak respectively. If we exclude these two clients, the average loan size of FEFISOL II in 2022-2023 amounted to EUR 359,000.

Nevertheless, FEFISOL II's financing offer seeks to respond to the needs of its clients, so the ticket sizes can vary across sectors and according to each client, as they all have different needs.

THE TECHNICAL ASSISTANCE FACILITY

In addition to its offer of financing, FEFISOL II has developed a technical assistance facility (TAF), aimed at providing its partners with support on various subjects, in the form of formal technical assistance projects. Technical assistance is important as it can act as a complementary offer to financing, and as an "accelerator" of key strategic developments for its beneficiaries. TA can also be key in supporting clients to fulfil their social mission. The success of FEFISOL I's TAF in bringing about these changes, and the high level of satisfaction demonstrated by the clients prompted the fund to create a similar offer for FEFISOL II.

FEFISOL II's TAF has a strong additionality :

- It seeks to target the missing middle, typically small MFIs and AEs that don't have access to financing and/or technical assistance other than through FEFISOL, SIDI/ALTERFIN
- FEFISOL II's team has extensive knowledge of local contexts, regulatory frameworks, sectoral issues and market competition, which ensures a better calibration and design of the TA projects
- It seeks to develop strong relations with each client, through regular field visits
- Like the TAF of FEFISOL I, the FEFISOL II TAF will maintain a capacity to match each client's demands and specificities
- It will benefit from the tested TA procedures put in place by FEFISOL I and the extensive database of primarily African consultants
- It enjoys a good reputation due to the long standing experience of SIDI/ALTERFIN and FEFISOL in supporting their clients through financial and technical services
- It will benefit from the applied research carried out by SIDI/ALTERFIN and by the extensive knowledge of the team i n many fields: agronomy, agroecology, SPM etc...

- Because this was the first year of activity of the Fund, only **two projects** have been initiated so far, although there are 12 projects in the pipeline for the coming year.

The first one, which aims at developing a long-term business strategy for Biotan, a processor of organic cashew nuts in Tanzania, is presented in detail in the focus on the right. The second one will benefit the supplier producers of Gebana Togo, an SME that markets and exports organic soybeans. Its goal is to improve the plots' productivity, by providing the producers with the material needed for crop inoculation, and by training them to adopt this methodology.

FOCUS

Interview with Biotan's director, Paul Schreilechner

Where did the idea for this technical assistance project stem from and what were its main objectives?

The idea for this particular project came up during some of the talks we had with Philippe, the investment officer at SIDI in charge of overlooking SIDI's partnership with Biotan, about the future of the company. Biotan has experienced a steady development in the past five years, but we are now at a very critical stage as we would like to bring the company to the next level. This requires some investment, but also some careful planning. The goal is also for Biotan to bring in a new strategic investment partner. This technical assistance project therefore aimed at diagnosing the existing business activities and structure of Biotan, in order to develop a clear business plan.

What were the different steps planned for this project?

Firstly, we searched for a consulting company to implement the project. Out of the three offers that we received, we chose Nitidae for their extensive experience in the cashew nut sector in Africa. The project was then divided into three phases :

- Preliminary work : discussions were held between us, the FEFISOL team and the consultants, in order to align our objectives and understand the project a little bit better. The consultants then started reviewing the existing documentation from Biotan, as well as their own data on the cashew market.
- Field investigation : the consultants then planned on conducting a field mission in order to dive in Biotan's operations, from the capacities of the farmers to Biotan's performance in terms of sourcing, processing, logistic etc. We will get back to that later.
- Analysis of the data and design of the business plan: finally, and based on the conclusions from the documentary review and the field observations, the consultants planned on drafting a Business Development Plan.

Could you tell me more about the field investigation?

Yes, so two of the consultants came to visit us here in Tanzania, Cédric and Olivier. While they were here, we had a lot of very extensive talks with them. We provided them with all the information they needed about our operations, our systems, and about the performance of our production. We also had discussions regarding our future development, and in particular about our new factory, as one of the goals for us was also to gain some insights on how to select the machinery/equipment which will be needed in order to scale up our production. It was particularly useful to talk to someone like Olivier who has a lot of experience in big factories and has a good overview of cashew nut processing. We also went with them to visit some of the farmers, so they could get a more precise idea of the way we source our providers of raw materials, how we work with individual farmers and with cooperatives.

What would you say was particularly interesting for you when working with the consultants during their field investigation ?

One of the really interesting outcomes for us was to have some feedback about Biotan's work and operations. The Nitidae team has a very good knowledge about the cashew nut industry worldwide, they have made numerous analyses, business plans, in a lot of countries all over the world, and particularly in Africa. So to talk to someone who has such extensive knowledge and can give you feedback about how your company fares in comparison to others in the sector was very interesting. For instance, one of the key added values of Biotan according to the consultants is the way we source our raw materials. We work with farmers very individually, which is important for the organic certification, but also for the traceability of our products. We can trace each single kilogram up to the latest farmer and even to the plot of land. Also, everything is digitalized, which makes our processes a lot simpler. This was one of Biotan's good practices identified by the consultants.

Another added value of Biotan according to the Nitidae team was the way we analyse the quality of the cashew nuts we collect. We know each farmer individually, and we do a quality check for each bag of nuts which receive, which allows us to pay the farmer at the price which he/she deserves. Finally, the fact that the farmers are paid immediately on the day of collection is also very beneficial for them. So it seems that Biotan's system is very unique, and it was great to hear all that from the consultants. It was also interesting to hear about the areas where Biotan still has room for improvement.

What are the next steps for Biotan?

At the moment, we have the capacity to produce 7 tons of nuts per day but the goal is to gradually scale up production. As mentioned before, we are moving to a new, larger factory at the end of the year, which will allow us to reach a capacity of 10 tons per day. We have already bought the land and we are currently building the new warehouses which will be used for production and storage, as well as buying new machinery, thanks to the insights we gained during the technical assistance project. The goal in the next three years is to scale up again to produce 20 tons per day. We also have to think carefully about the layout of the factory and the materials which we want to use, as we would like to reach new certifications in the coming years. The technical assistance projected included all of these aspects, so the business plan developed by Nitidae should help us to achieve all these longer term goals.

Would you say you're satisfied with the project overall?

Absolutely. We are very happy with the project overall, and especially with the selection of the consultants, it was a good choice. We are confident that this project will enable Biotan to move on to the next stage of its development.

05.

Client assessment and follow-up

1. DUE DILIGENCE

RISK ANALYSIS, INCLUDING S&E RESIDUAL RISK

- Contextual risk (country, currency...)
- Market risks
- Organizational risks
- Products, procedures, IT, Human resources
- Portfolio and financial risks
- S&E Residual risk for AEs: impact on environment, local communities, producers...

SWOT ANALYSIS

ORGANISATION & MANAGEMENT

- Governance structure
- Quality of management and staff
- Efficiency of Internal control

S&E PERFORMANCE

- Mission / Vision
- Targeting and outreach
- ALINUS for MFIs : adequacy of products and services, client protection, social responsibility towards employees, environmental responsibility
- Compliance with:
  FEFISOL II exclusion list
  FEFISOL II eligibility criteria

FINANCIAL PERFORMANCE

- Track record and business plan
- Operational and financial sustainability
- Asset / Liability management
- Cash flow analysis
- Portfolio quality analysis

2. FOLLOW-UP

ANNUAL KEY PERFORMANCE INDICATORS

- Financial ratios
- Regulatory ratios
- Activity data
- Social performance data

SOCIAL & FINANCIAL RATING

REGULAR ON-SITE VISITS

- Interviews with governance, top management and staff
- Review of activity reports and FS
- Field visits

QUATERLY REPORT

- Financial ratios
- Regulatory ratios
- Activity data
- Covenants
- Annual site visits for all clients

ANNUAL AUDITED FINANCIAL STATEMENTS

- Balance Sheet
- Profit and loss statement
- Portfolio / Activity report

06.

Results of FEFISOL II's clients in 2022

In order to be able to measure its clients' economic, social and environmental progress over the years, FEFISOL II has put in place a monitoring system based on the annual collection of key performance indicators for its clients. The tools used to collect and analyse the data are quite similar to those of FEFISOL I, apart from the fact that FEFISOL II can now use the data centralizing platform Atlas to consolidate the indicators of its MFI clients.

RESULTS – MICROFINANCE INSTITUTIONS

Microfinance is an important recipient of financial inclusion in Sub-Saharan Africa because MFIs typically work with households and micro-enterprises that are usually excluded from traditional banking services. Even though Africa's microfinance sector avoided a liquidity crisis during the pandemic thanks to the resilience of microfinance institutions[1], the coronavirus crisis amplified their solvency risks because it generated more financial difficulties for households, with a greater negative impact on the poorest. Since 2019, the PAR 30 has deteriorated more quickly in Sub-Saharan African than other regions and this portfolio deterioration is stronger for the smallest and medium-sized institutions.

The fact that Tier 2 and Tier 3 MFIs seemed to have suffered more from the economic crisis is related to their effort to serve poorer populations. In 2022, FEFISOL II had 6 active clients which were mainly Tier 2 or Tier 3 microfinance institutions in Sub-Saharan Africa (except Pamecas that is a Tier 1 MFI).

MFI'S KEY PERFORMANCE INDICATORS

Outreach and activity	Total	Average	Growth 2021-2022
FEFISOL II's active clients	**6**		
Number of branches	190	32	-1%
Number of employees	1,856	350	+6%
Of which women	885	148	+10%
Gross loan portfolio (EUR)	148,051,518	24,675,253	+43% on average
Average outstanding loan (EUR)		948	+25% on average
% Income generating activities*		84%	
% Agriculture*		8%	
Number of active borrowers	188,748	31,458	+21%
Number of active savers**	1,054,479	263,620	+5%
Number of active clients (savers+borrowers)	1,153,848	192,308	+8%
% women clients		70%	+17%
% rural clients		35%	+22%
Total assets (EUR)	243, 413,994	39,068,999	+29%
Total liabilities (EUR)	167,804,848	33,560,969	+25%
Total equity (EUR)	52, 387,952	8,731,325	+12%

Average	Financial ratios
	Sustainability and profitability
47.66%	Portfolio yield
120.21%	Financial self-sufficiency (without grants)
4.67%	ROA
	Portfolio quality
4.33%	PAR 30 days
	Asset/Liability Management
3.44	Debt/Equity
26.78%	Capital Adequacy Ratio

(1) *Finance in Africa : For green, smart and inclusive private sector development*, European Investment Bank, 2021

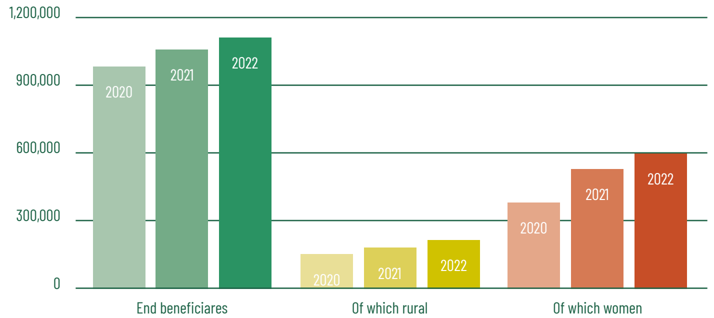
(2) *Finance in Africa : Navigating the financial landscape in turbulent times*, European Investment Bank, 2022

i. Outreach

For many MFIs, the year 2022 was marked by a continuous growth of their activity, following the slump caused by the Covid-19 pandemic in 2020. This growth materializes in a stronger outreach, particularly noticeable in the number of clients of the MFIs. The number of borrowers per institution grew by 16% on average, to reach more than 189K in total as of December 2022. For some MFIs, this was not only due to the post-Covid19 rebound, but also to the strategic choices they made. For instance, for MLF Zambia, whose number of borrowers increased by 46%, the growth observed was due in particular to the adoption of a new group lending methodology, enabling them to reach many more customers. As a reminder, group lending is a type of loan aimed primarily at the poorest segments of the population. No collateral is required, and group borrowers agree among themselves to repay the loan.

In addition to credit products, some of FEFISOL II's MFI clients also offer savings services to their clients. Savings are a very important service for poor populations, enabling them to protect themselves against possible shocks, to plan larger expenses over the long term, or to invest in their businesses. In 2022, the number of active savers served by FEFISOL II's partner MFIs was 1.1 million.

▶ In total, the number of clients served by FEFISOL II's partner microfinance institutions reached 1.2 million. Their outreach thus increased by 18% on average between 2021 and 2022. In 2022, on average, 70% of the MFI's beneficiaries were women, and 35% of them were from rural areas. This is in line with the fund's objective to target the most vulnerable populations through the activity of its clients.



EVOLUTION OF FEFISOL II'S MFI PARTNERS' END-BENEFICIARIES

The outreach of the institutions working with FEFISOL II can also be illustrated by job creation. As such, via its microfinance clients, FEFISOL II contributes to the employment of 1856 people in 2022. Beyond the quantity of jobs supported, we also need to look at the quality of employment. One way of assessing this is to look at the benefits offered to employees. As of December 2022, all of FEFISOL II's partner financial institutions offered benefits such as complementary healthcare, a better retirement plan, scholarships for the children, bonuses etc. The section on the S&E performance of the MFI, page 39, will detail this a bit more.

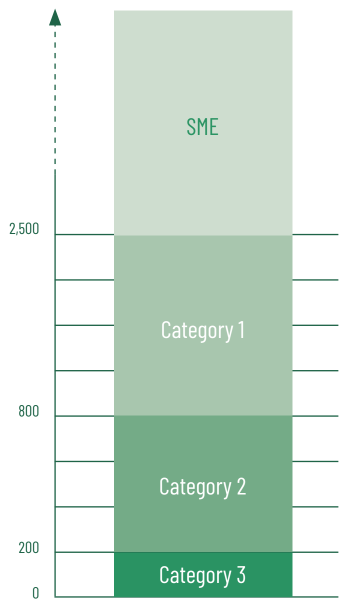
ii. Portfolio composition

In 2022, FEFISOL II's MFI partners dedicated on average **85% of their portfolio to financing income generating activities, such as trade, agriculture or the craft sector**. The financing of income generating activities is important as it contributes not only to the empowerment of the people receiving the financing, but it also helps to strengthen the local economy of developing countries.

On average, only **8% of their portfolio was geared towards the financing of agriculture**, with only one of them dedicating more than 20% of its portfolio to that sector: Pamecas in Senegal, which in 2022 dedicated more than EUR 21.8 million to the agricultural sector, i.e 21% of its portfolio.

It is also worth noting that 2 MFIs (Sipem and Lapo) have developed specific green loans, aiming at protecting the environment or protecting their clients against environmental risks. Lapo for instance offers an energy loan, which aims at assisting the clients in buying affordable solar energy power solutions for their homes or their business. An example of equipment which Lapo clients often purchase with this loan is solar lighting devices, in order to replace their kerosene lanterns.

Furthermore, the targeting of MFIs can also be determined by looking at their average loan. As such, a categorization of FEFISOL II's MFI partners according to their average loan size was carried out as shown here below.



AVERAGE LOAN SIZE (€)

According to this categorization, 3 out of 6 MFIs were in categories 2 and 3, reflecting a clear targeting of the poorest parts of the population. The 3 others were in category 1. **The average loan size equalled almost EUR 950, compared to EUR 1900 on average for the MFIs financed by other MIVs**.

All this shows that FEFISOL II's partners are indeed targeting the most vulnerable populations, which is consistent with the fund's mission and objectives.

iii. Economic growth and financial performance

Along with the substantial increase in the number of clients of FEFISOL II's MFI partners, there was also a significant increase of their portfolio in 2022. **Indeed, at the end of 2022, the consolidated portfolio of FEFISOL II's MFI partners reached EUR 148 million, compared to EUR 115 million in 2021, with an average outstanding of EUR 24.7 million**. This average masks important disparities between FEFISOL II's partners, as the gross loan portfolio actually ranges from EUR 3.8 million to EUR 102.2 million.

All of FEFISOL II's MFI partners experienced an increase in their portfolio in 2022, with an **average growth rate of 43%** compared to the end of 2021.

The most significant growth rate was witnessed for the Tier 3 MFI, MLF Zambia, whose gains in efficiency caused by the digitalization of their procedures and operations in the past few years translated into a high portfolio turnover, and therefore into a substantial portfolio increase (92%). The two MFIs located in the DRC also experienced a substantial increase of their portfolio (47% and 42% growth rates).

Two other indicators can be analysed to assess the institutions' financial performance, their OSS and their PAR30.

The OSS aims at evaluating an institution's viability, and its degree of self-sufficiency. As of the end of 2022, **all of FEFISOL II's MFI partners had an OSS superior to 100%**, which means they all had the capacity to cover their operating expenses with their operating income. Additionnally, for three of them, their OSS ratio was under 100% in 2020, and they have all reached comfortable levels in 2022, which is clear sign of recovery after the pandemic. Indeed, the covid-19 pandemic had fostered a degradation in the quality of the portfolio of many MFIs, causing in turn an increase in the provisions.

As for the MFIs' portfolio at risk, it has also been decreasing in the past 2 years, from 6% on average at end 2020 to 4% at end 2022, illustrating a good recovery after the pandemic-induced crisis. All institutions have seen their level of PAR30 decrease since 2020, except for Sipem, whose portfolio is still suffering from restructured loans due to the sanitary crisis.

The number of MFIs in the portfolio at end-2022 remains too limited to undertake analyses of their financial performance according to their size or their region.

iv. Social and environmental performance

In addition to targeting the most vulnerable populations, which was detailed above, MFIs can implement a large range of practices aiming at improving their social and environmental performance. This part of the report will be dedicated to analysing these practices, products and tools in FEFISOL II's 6 MFI partners, using indicators which were collected through SIDI's internal data collection tool, as well as the results from social audits. Indeed, all 6 MFIs have realized an SPI4[1] in the past 3 years.

Gender inclusion

Women are a particularly vulnerable group. Providing women with access to finance is a key step in their empowerment, as it means giving them the power to act and make decisions about their own lives. Yet in many countries, women continue to be neglected by traditional banks: almost one in three women worldwide is excluded from the formal financial system. The probability of a woman having a current account is 7% lower than that of a man, and 28% lower in poorer households[2].

Against this backdrop, microfinance has emerged as a real lever for emancipation for women, who are increasingly turning to micro-credit to meet their needs and become entrepreneurs. Not only does this enable them to lift themselves out of poverty, but access to finance for women also has a positive impact on society as a whole. In fact, a World Bank study has shown that increasing loans to women by 10% would reduce extreme poverty by 5%.

Microfinance is therefore a lever for empowering women, and empowering women helps to combat poverty.

In this context, FEFISOL II seeks to encourage institutions that target a majority of women. As we have seen before, on average, **70% of the MFIs' beneficiaries were women in 2022**.

Although looking at the proportion of women in the beneficiaries of the MFI is important, it is not the only criteria which can be used to assess an institution's contribution to the reduction of gender inequality. Indeed, it is also important to look at the presence of women in managing positions and in the team in general. The promotion of woman entrepreneurship is key to their empowerment within society and thus to gender equality, but it is also a crucial lever of economic development. It has indeed been proven that gender diversity at all levels of a company's hierarchy can improve the performance of said company on a whole range of indicators.

On average, at end-2022, **43% of FEFISOL II's MFI partners' employees were women, the management team was composed of 48% of women, and women represented 29% of the board**. These figures have remained relatively stable since 2021, apart from the presence of women in the management team, which has increased substantially thanks to a good performance by Hekima, Paidek and Pamecas.

Finally, some MFIs have developed specific products or services dedicated to women, or have put in place practices to facilitate women's access to their offer. This is the case of Pamecas, where efforts have been made to improve the women's access to the loans, through loan products with mandatory deposits and with guarantees which are lower than in conventional loans.

The 2X Challenge is an initiative launched by the development finance institutions of the G7 countries in 2018, with the aim of improving access to finance for companies demonstrating a commitment to gender equality. The initial target was to mobilize $3 billion to invest in companies owned or run by women, or in companies that support women's economic participation in developing countries. In 2021, a new target has been set, more ambitious than the first, at $15 billion. To define which investments were eligible for the 2X Challenge, 5 criteria were established, with indicators for each criterion and certain thresholds to be met before an investment could qualify for the 2X Challenge.

All of FEFISOL II's investments in MFIs were aligned with the 2X Challenge in 2022. FEFISOL II is however planning on going further than the targets set by the 2X Challenge, and has set itself higher goals in order to better promote women empowerment.

(1) The SPI4 is a tool developed by Cerise, aiming at evaluating financial institutions' level of social performance, by comparing their practices to the Universal Standards of Social Performance

(2) CGAP, 2017

Products and services adapted to the needs of the clients

The products and services offered by an MFI need to be adapted to the specificities of that institution's clients. Clients can indeed have different needs depending on their gender, their activity, their level of education, where they live etc. To ensure maximum benefit, an MFI must ensure its products are suited to its target population.

Pamecas is the institution which performs the best out of the 5 having conducted an SPI4 recently in terms of adapting its products and services to the needs of its clients. Its offer is very diversified and can therefore respond to a majority of the clients' needs:

- Working capital loans, consumer loans and investment loans to finance any type of activity
- Savings products
- Insurance products (health, life, fire insurance etc) and money transfer services
- Socially-oriented products like housing loans
- Special conditions to encourage women to apply for loans

In addition to the range of credit and savings products offered, **5 out of the 6 MFI partners also provided their clients with non-financial services**. This is very important because for the most vulnerable populations, who are the targets of these institutions, gaining access to financing is not sufficient. They also need to be educated on how to use this financing, to receive training on how to manage their finances and how to invest properly. This is key to an improvement in their living conditions which lasts on the long term.

Formalization of social performance management

One of the key steps which MFIs have to take in order to truly commit to improving their social performance is to formalize their mission and vision through the establishment of clear social goals, and monitoring indicators. **Out of the 6 MFIs financed by FEFISOL II in 2022, 4 have either already done this, or are currently doing it. Out of those 4, 2 also have a tool which aims at analysing their clients' poverty levels**.

Hekima is the most advanced MFI in this regard, and scored 82% in the Dimension 1 of the SPI4 conducted in December of 2021, which relates to the definition and the monitoring of social goals. Hekima developed an SPM policy in 2020, as well as 3 social objectives, which it monitors regularly through the use of its MIS, Musoni. The institution is also currently working on the analysis of its clients' poverty levels through the use of the Progress out of Poverty Index, a poverty measurement tool created by the Grameen Foundation.

Client protection

The MFIs financed by FEFISOL II all demonstrate a certain level of commitment towards social performance and impact. But the first step to ensure that these institutions do have a positive impact on their clients is to make sure that their products and services avoid harming their clients. This is called the "do no harm" approach, and it seeks at ensuring that financial services are brought to clients in a safe, responsible and fair manner.

To do so, the inclusive finance industry has developed a set of standards called the "client protection standards", and which defines the good practices that an MFI can set up to ensure it does no harm.

The most advanced MFI regarding client protection practices is Lapo, with a score of 73% in the dimension 4 of the SPI4 conducted in 2021. The MFI has put in place an efficient system aiming at preventing its clients' over-indebtedness. All the information related to its products is detailed and transparent so that the clients can make their decisions more easily. There is also a clear code of conduct for employees, and the sanctions in case of non-adherence are detailed in order to ensure a respectful treatment of clients. Finally, the institution has developed a strong mechanism to collect its clients' complaints and deal with them accordingly. **Four out of the six MFIs financed by FEFISOL II have put in place such a system aimed at complaints resolution.**

Fostering quality employment

As mentioned before, **FEFISOL II's partner MFIs employ in total 1,856 people**. Beyond the quantity of jobs supported, we also need to look at the quality of employment. One way of assessing this is to look at the benefits offered to employees. As such, **all of the MFIs financed by FEFISOL II in 2022 offered this type of social advantages to its employees**. To take the example of Sipem, such advantages may include healthcare coverage, a supplementary pension insurance, school grants for the employees' children, end-of-year gifts, trainings on various subjects etc...

Environmental performance

Environmental performance is an aspect that is more recent for MFIs than that of their social performance. As such, although they are making progress, it is less embedded in their practices compared to the ones described above which relate to social performance.

Nevertheless, some good practices should be highlighted :

- Three out of the six MFIs have an exclusion list
- Two of them offer loans related to the protection of the environment.
- Two of them have either included or started to include the environmental aspect in their SPM policy.
- Two of them have organized awareness-raising sessions for their clients about the protection of the environment.
- Two of them have implemented internal practices aimed at reducing their carbon footprint and improving their energy efficiency.

Interview with Mathilde D'Orgeval, member of FEFISOL II's investment committee

In a few words, how does FEFISOL II differ from other investors in Africa? How would you describe its additionality?

The FEFISOL II Fund operates on the African continent, financing both microfinance institutions, with priority given to small Tier 2 or 3 rural MFIs, and agricultural businesses or cooperatives involved in the production and marketing of food crops or exports. The Fund's specificity lies first and foremost in this dual mandate, which enables it to support economic operators with complementary profiles, thereby helping to fulfil the Fund's main mission, which is to improve people's standard of living while promoting socially and environmentally sustainable practices, particularly in the agricultural sector. This double mandate enables the Fund to build up a diversified client base, both geographically and in terms of risk and institutional profile.

An important element of the FEFISOL II fund's additionality lies in the range of its instruments, and its ability to respond to the specific needs of its clients in an adapted and flexible manner. The Fund complements more traditional investors by facilitating access to foreign currency resources and long-term loans that are often difficult to obtain on local banking markets. The average loan size, typically between between EUR 250,000 and EUR 2 million, complements the range offered by international investors in the sector. The Fund also offers a degree of flexibility in the guarantees it requests from its borrowers, thanks to its in-depth knowledge of its clients, which enables it to tailor the guarantee scheme as closely as possible to the institution's actual risk profile.

The strength of the FEFISOL II Fund lies in the fact that it was initiated by two highly experienced practitioners in the field - Sidi and Alterfin. These two organizations have forged long-term partnerships with local institutions over several decades, giving them a detailed understanding of the needs and risk profile of their partners, as well as a very good knowledge of the country context. This excellent knowledge of the field and of local partners is a key factor in the success of the Fund and the selection of partners with a genuine social mission. It is also an important factor in minimizing risk for the Fund.

Finally, another specific feature of FEFISOL II is its technical assistance facility, which enables it to provide TA support alongside its loans in order to assist its partners with operational and strategic issues, such as improving their social and environmental performance, risk management, organisational and business model development, and taking climate issues into account. This ability to mobilise TA is particularly important for supporting the development of partners over the long term, and is also a risk mitigating factor for the Fund by helping to maintain a very close dialogue with its clients.

The Fund is closing its first year of activity! What are the main lessons learnt from this first year? And what are the main challenges facing FEFISOL II in the years ahead?

The FEFISOL II Fund was launched at the beginning of 2022, in the post-COVID-19 period, and in a particularly complicated international context. The deteriorating geopolitical and macroeconomic conditions, linked to the repercussions of the Covid-19 epidemic and the impact of the war in Ukraine, as well as the effects of climate change, which were already very tangible in the Fund's countries of intervention, were all challenges for FEFISOL II's clients and for the deployment of activities. Currency fluctuations, the high cost of currency hedging and the Fund's limited resources in dollars also posed challenges in terms of ensuring the competitiveness of the Fund's offering and the rapid deployment of financing.

Despite this complicated context, the Fund's first year of activity ended very positively overall. The profile of the portfolio reflects the social mission given to FEFISOL II, as well as the balance between support for the microfinance sector and agricultural businesses. FEFISOL II's range of financial instruments and flexibility also seem to be appreciated by its partners. These good results were the result of a number of factors. In particular, the Fund was able to benefit from all the history and experience accumulated by the FEFISOL I Fund, which closed in 2021, and was able to quickly resume financing activities with former clients as well as new clients identified by Sidi and Alterfin. The teams' local knowledge also proved crucial in quickly identifying potential partners, understanding their needs and supporting them in the post-Covid transition phase.

In the coming months, the international geopolitical and macroeconomic situation will continue to pose the greatest challenge to the deployment of the Fund. 2023 and 2024 are also election years in several of the countries in which the Fund will operate, and the teams will continue to monitor developments in these countries very closely. FEFISOL II is also in constant dialogue with its investors and other partners to identify concrete solutions to better meet the needs of its clients, particularly in terms of access to resources in local currency and hedging against exchange rate risks on the euro and the dollar.

In a few words, could you tell us about the organisation of the FEFISOL II investment process, the roles of each member of the IC and how the profiles complement each other?

The FEFISOL II IC is made up of 5 members, including 2 members representing the founding shareholders (Sidi and Alterfin), 2 members representing the fund manager (Inpulse), and one independent member. The expertise and profiles of the 5 members are highly complementary, each bringing in-depth knowledge in several areas, relating to financial analysis, social and environmental performance, investment, agricultural and export value chains in Africa, and the macroeconomic context. The 5 members also have extensive field experience in all the countries covered by the Fund.

The investment process has two main stages: pre-selection and due-diligence. The first stage, which involves prospecting and identifying potential investments, is carried out by the Sidi and Alterfin teams, and leads to the drafting of a 'pre-selection' memo, which is submitted to the investment committee for review. At this stage, the committee verifies the alignment of the proposed financing with the Fund's investment strategy, the eligibility of the partner, and identifies any areas for further investigation to be carried out in the subsequent due diligence stage. In the second stage, the projects approved at the pre-selection stage are subject to an in-depth field mission, resulting in a detailed and comprehensive due diligence report, which is again presented to the Investment Committee. At this stage, in-depth discussions take place in the IC on all aspects of the investment, in particular the financial, social and environmental aspects. At the end of this process, approved projects are formalised with the local partner in the form of a financing contract.

This process is ongoing, with the Investment Committee meeting every month to assess the projects in progress. A pipeline is also built up on an ongoing basis to ensure good visibility of the future development of the portfolio.

There is a lot of talk about the social and environmental performance of microfinance institutions and agricultural entities. How is the Fund addressing this issue?

Issues related to the social and environmental performance of local partners are systematically addressed in the IC, and are at the heart of discussions. The balance between financial performance and social performance, environmental issues and adaptation to climate change, client protection (in the case of microfinance institutions), the implementation of sustainable agricultural practices and access to local, regional and international premium markets (in the case of agricultural businesses), employee or member management, dividend policy, etc. are systematically detailed in the notes and discussed at meetings. The members of the IC are particularly committed to these issues, each bringing their own individual sensitivities to bear on a given subject, offering nuanced points of view and making the discussions particularly rich. These discussions on social and environmental performance generally provide a good understanding of the profile of the institutions and their alignment with FEFISOL II's mission and investment strategy, while identifying any weaknesses and the TA support needed to help the partners improve their practices.

RESULTS – AGRICULTURAL ENTITIES

The agricultural sector in Africa is very important, both from a social and from an economical standpoint. In 2021, it employed 52% of the Sub-Saharan population, and accounted for approximately 23% of the continent's GDP. At the heart of Africa's agriculture are smallholder farmers, who produce up to 70% of the entire food supply. Despite the critical role of these producers for both the local economies and food security, they face many challenges which hinder their productivity, the biggest one being the lack of access to markets and to finance. In the past few years, the number of agricultural SMEs and producers' cooperatives focused on providing the inputs necessary to the farmers and on connecting them to markets has increased. These types of organizations play a key role in not only helping these farmers raise their living standards, but also, on a larger scale, in fostering economic growth and increased food security.

In 2022-2023, FEFISOL II had 12 active clients in the agricultural sector in Sub-Saharan Africa.

AES/ SMES' KEY PERFORMANCE INDICATORS

Outreach and activity	Total	Average	Growth 2021-2022
FEFISOL II's active clients	**12**		
Number of smallholder suppliers	75,335	6,497	+20%
Of which women		30%	
Number of permanent staff	471	39	+18%
Of which women		41%	
Number of seasonal staff	2,486	207	+7%
Amount of raw material bought to producers (EUR)*	150,331,277	13,666,480	+4%
Average purchase per producer (EUR)*		1,340	-17%
Total Equity (EUR)*	13,079,514	1,189,047	+15%
Total Sales (EUR)*	202,917,102	18,447,009	+14%

Average	Financial ratios
49%*	Added Value/Total sales
4%*	Net income/Total sales

i. Outreach

Improving the living standards of smallholder farmers is one of the key priorities of FEFISOL II, which is why it seeks to target AEs and SMEs with a real commitment towards the producers they source their products from. The quality of these entities' treatment towards their producers is even something that is considered at the very beginning of the investment process during the analysis of the S&E risks involved.

▶ In 2022, the activity of the AEs and SMEs financed by FEFISOL II benefited more than 75,000 smallholder producers in total, a 20% increase when compared to 2021.

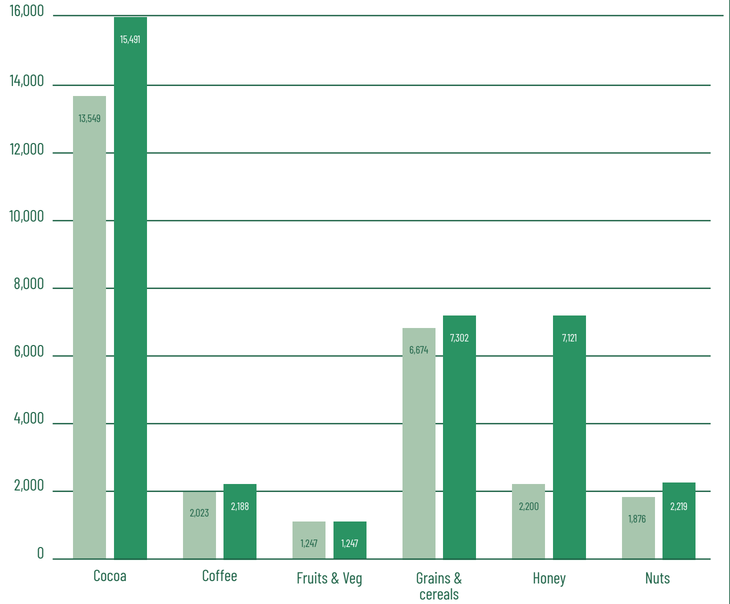
The total number of supplying producers is heavily influenced by Ecookim, which is the largest exporting cooperative in the Ivory Coast, and which accounts for 40% of those 75,000 beneficiaries. The most significant increases in terms of outreach concerned the cocoa value chain, thanks notably to a rise in the number of producers by 88% for Cadesa. This increase was partly due to the fact that Cadesa became a Union in 2020, and as part of this transformation, has been integrating more and more new members from 15 cooperatives.

* Without Cadesa (because of missing data)

(1) *Revitalizing African Agriculture : Time for bold action, UNCTAD, 2022*

(2) *It's time to transform African agriculture, IFAD, 2022*

The other value chain which experienced a major increase in its outreach is the honey sector, through Forest Fruits. This SME collects honey from more than 7000 producers, transforms it into high quality and high value-added honey and honey-related products, which it then exports (for the most part). After a year of drought in 2021, which had a major impact on beekeepers' production, they were able to revive their activity in 2022, increasing the number of producers supplying Forest Fruits by 20%.

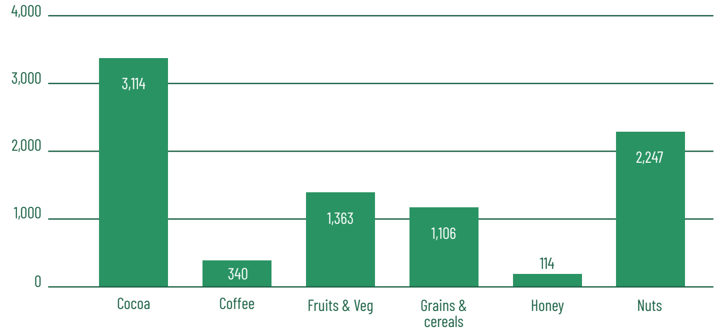


AVERAGE NUMBER OF SUPPLYING PRODUCERS PER VALUE CHAIN

- 2021
- 2022

In terms of the total value purchased per producers, it amounted to approximately **EUR 168,000 in 2022**, which is a substantial increase compared to 2021 (EUR 146,000).

▶ The amount purchased per producer remained relatively stable between 2021 and 2022, at EUR 1,340 approximately.

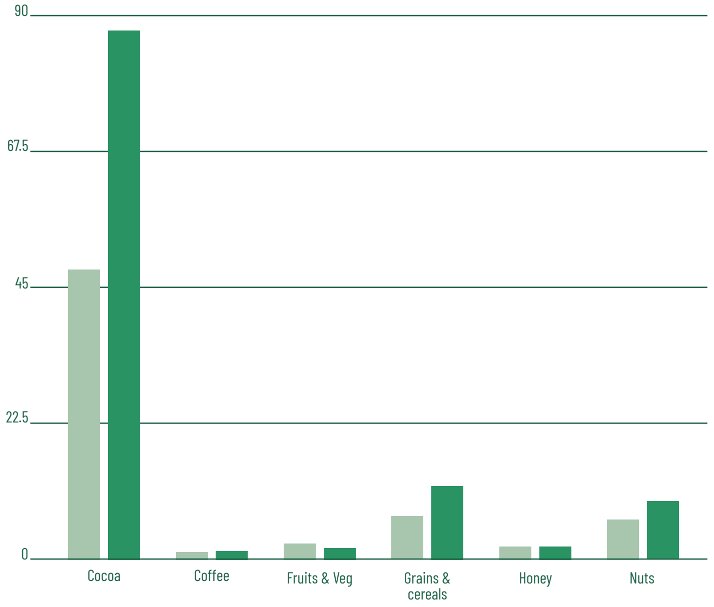


AVERAGE AMOUNT PURCHASED PER PRODUCERS ACCORDING TO THE VALUE CHAIN

The average amount purchased from producer varies according to the value chain. On average for the four AEs specialized in coffee in FEFISOL II's portfolio, the amount purchased per producers rose by 24%. This is partly due to the fact that the government set a higher fixed coffee farm gate price, in order to anticipate the global price increase that could occur due to a supply shortfall from South America.

ii. Economic growth and financial performance

Along with the growth in the number of producers and in the value of the products purchased, **the AEs/SMEs financed by FEFISOL II experienced an overall increase in their total sales. Indeed, they reached EUR 210 000 in total, with an average increase of 24%.**



TOTAL SALES (M€)

- Average 2021
- Average 2022

As we can see in the graph above, the most substantial increase took place in the cocoa value chain, with an average growth rate of 47%. The average sales in this value chain are also considerably higher than in the other sectors financed by FEFISOL II, although this is once again mostly due to the presence of Ecookim. The union saw its sales grow by 38% in 2022, in continuation of its sustained growing activity in the past few years. Indeed, its sales volumes have been increasing consistently in the past few years, matching an increasing demand from buyers for organic cocoa, and thanks to a growth in its collection capacity in 2021-2022.

Socak, another cocoa cooperative of the Ivory Coast, experienced the largest sales increase out of all of FEFISOL II's agricultural partners in 2022 (56%). Despite some challenges, the cooperative has been able to increase its activity in recent years, thanks to access to external funding, a steady growth in the number of members, as well as its access to Ecookim's network.

Another value chain which grew substantially was that of cereals/grains, thanks to the good performance of Gebana Togo. The SME increased its total sales by 67%, through an important increase in the volumes of soy produced, as well as thanks to the rise in soy prices in 2022. The demand for soy grains has indeed been very dynamic in the past few years, and exporters of soy in Africa have been benefiting from the reduction of exports from Ukraine, as well as from the restrictions imposed by the US on India on exports of organic products.

iii. Social and environmental performance

Despite the targeting of vulnerable mostly rural populations, which was detailed above, AEs can implement a large range of practices aiming at improving their social and environmental performance. This part of the report will be dedicated to analysing these practices in FEFISOL II's 12 AE partners, using indicators which were collected through SIDI and Alterfin's internal data collection tools.

Gender inclusion

Gender inclusion is a particularly important topic in agriculture. Indeed, women account for 43% of the world's agricultural workforce[1], but face numerous difficulties in terms of land and livestock ownership, equal pay, participation in decision-making bodies and access to credit and financial services. In addition, since official statistics do not capture unpaid work, be it in the garden, in the field or in the household, they insufficiently represent women's actual share in agricultural work. However, research has shown that if women had the same access to productive resources as men, they could increase yields on their farms by 20-30% and this could raise total agricultural output in developing countries by 2.5-4%[2].

Therefore, FEFISOL II seeks to support partners who buy their products mainly from women. **The average percentage of women among smallholder suppliers was 30% in 2022**, a fairly stable trend since in 2021 this average was 29%. The small increase is primarily due to Biotan, which had 37% women suppliers in 2021 against 46% in 2022. In addition, more than 50% of Phyma's smallholder suppliers are women (66%).

FEFISOL II's investees also seek to promote gender inclusion among their staff. **Since 2021, the proportion of women staff is relatively stable (from 40% in 2021 to 41% in 2022).** This average is boosted by an impressive performance of Phyma, Tropic Coffee and Viva Coffee on this indicator. They have respectively 75%, 87% and 82% of female staff.

Finally, the promotion of gender inclusion comes also from the creation of products and services dedicated to women. For instance, Cadesa has created a women association, whose role is to help create income-generating activities for women, especially in the cassava value chain. Moreover, 2.7% of funds (4.54m of FLO[3] premiums) dedicated to the 2020-21 development plan were used for women empowerment, especially through the setting-up of revenue-generating activities. Concerning Sokak, the cooperative is supported by the ANADER (National Agency for Support to Rural Development) in the implementation of a project targeting 90 women and aiming at creating income-generating activities for producers' wives.

In 2022, all investees agricultural entities were eligible to the 2X Challenge, except Gebana Togo and Forest Fruit, which must improve the women representation in management and in the BoD, as well as the share of women among staff and beneficiaries.

(1) FAO, 2023

(2) FAO, The State of Food and Agriculture, 2010-11

(3) FLO (Fairtrade Labelling Organisation) certification ensures that producers receive the Fairtrade Minimum Price and Premium

Products and services adapted to the needs of the producers

The main role of most of FEFISOL II's agricultural partners is to facilitate an access to the market for smallholder producers. They therefore often act as a distributer of the products supplied by the producers, either by exporting them or by selling them on the local market. Some also process raw materials to add value to the products before putting them on the market.
But FEFISOL II also seeks to target organizations which have a close relationship with their producers, and which provide them with additional services, such as training in agricultural techniques, or educational services. These types of services can enable small-scale producers to enhance their skills in a given field, and in the long term increase their income.

All of FEFISOL II's agricultural partners offer non-financial services. For instance, Ecookim offers a very good health coverage that is partly financed thanks to the certification premiums, and Mahembe intends to expand social activities to improve the welfare of the community. Indeed, every fiscal year, the company contributes to the well being of vulnerable families by helping to pay for community insurance. This typically covers access to free healthcare from hospitals within their district.

Other services on offer include the provision of advances to producers and the supply of inputs. On a sample of ten partners, seven provide farm inputs including seedlings before the rain seasons, agro-chemicals, and other support on-need basis directly to individual households.

All of FEFISOL II's agricultural partners have at least one processing activity. These include cleaning, pulping, hulling, drying (for coffee cooperatives), final sorting and packing into export bags.
Some partners outsource these processing activities, such as Sokak, whose final processing of products is subcontracted to the processing plant leased by Ecookim in Abidjan and San Pedro, or Cadesa, which outsourced to a processing plant (CACL).

Fostering quality employment

In total, FEFISOL II's partners employ 471 people permanently and 2 486 temporary staff (this represents a 21% and 7% increase compared to 2021).

In addition, FEFISOL II's agricultural partners provide numerous social advantages to their staff. For instance, in Mahembe and Viva coffee, we observe a nil level of turnover among the permanent employees, which is due to the conditions offered but also the low availability of comparable job in operating regions. Both ensure that all employees are paid above the minimum wage and entitled to other benefits. As for Ecookim, it offers a very good health coverage and staff attachment to the Union is strong, as illustrated by the low turnover and competitive salaries. At Gebana Burkina, all employees are declared and covered in the event of workplace accidents.
In addition, the cashew factory has a nursery to look after the workers' children and an infirmary. There is also the distribution of performance-based bonuses for all permanent and seasonal employees.

Finally, training is also a good practice in terms of bringing positive value to staff. For example, at Phyma, staff are trained on health and occupational safety. Thanks to technical training, Forest Fruits is gradually increasing the skills of its employees. However, Forest Fruits still must call on skills from outside Zambia when it is looking for targeted, high-level expertise.

Certification

The organic certification complies with specifications defined by European regulations aimed at guaranteeing a production method that respects the environment and the biodiversity and is free of synthetic chemicals and GMOs. As for the fair trade certification, it attests to better remuneration for producers, decent working conditions, the autonomy and democratic management of producer cooperatives as well as respect for the environment.

Out of the twelve agricultural entities, eight, representing 67% of AEs have an organic certification (including Cadesa, which has an organic certification for a reduced number of farmers but that has not translated into sales yet due to a lack of demand) and six out of the twelve (representing 50% of AEs) of the partners have a fair-trade certification. Consequently, **83% of the agricultural entities have either an organic, a fair trade or both certifications**.

Sustainable agricultural practices

According to the most recent studies by the World Bank, climate change is bound to have a heavily negative impact on agricultural production, through for instance the more frequent occurrence of extreme weather events. In addition to being vulnerable to climate change, agricultural activity contributes to global warming through, for example, the use of products that are harmful to the environment or the exploitation of forests. Agriculture is therefore at the heart of the fight against climate change, and the various players in the sector must take concrete steps to mitigate the consequences of climate disruption.

One step to mitigate the consequences of climate change is to raise awareness on the impact of agriculture on the environment, and to sensitize producers on the good agricultural practices that can be implemented in this regard. **92% of the partners have carried out awareness and training sessions for their suppliers on improved sustainable agricultural practices.** For example, in 2022 Gebana Togo sensitized 6 674 producers compared with 5 827 in 2021, i.e., 14.5% more people trained compared to the previous year.

Some agricultural entities also seek to mitigate their own environmental impact by putting in place certain sustainable practices. For instance, Muungano creates and distributes natural compost by storing cherry pulp, it treats its wastewater locally using ecological solutions, and finally, it promotes mixed farming, agroecology and agroforestry within its members.

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