Social & Environmental Report
2023

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 30 Portfolio At Risk 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

FEFISOL II
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Tel.: 01 40 46 70 00 - Mail: info@sidi.fr
Editorial: Ariane Bévierre, Jon Sallé, Leïla Marliac, Natasha Olmi
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Foreword

Built on the success of FEFISOL I and on the track record of its two promoters, SIDI and Alterfin, the FEFISOL II fund has started to invest very rapidly and developed a strong and well diversified portfolio. In 18 months, FEFISOL II disbursed € 25M to 30 clients in 13 countries and has an outstanding portfolio of € 17M as of end of March 2024. Financing has been made in two new countries, Morocco and Tunisia, during the year 2023.

The portfolio development is well aligned with FEFISOL II's investment strategy and objectives, especially in terms of targets and outreach. 93% of the portfolio is invested in sub-Saharan Africa, the poorest region in the world, 100% in fragile states and 68% is provided to organizations with a strong rural focus. Among the latter, 30% of the portfolio is dedicated to agricultural entities working with smallholder farmers. FEFISOL II also gives priority to small organizations in consolidation (Tier2/Tier3 MFIs represent 76% of the microfinance portfolio) in order to increase access to financial services in underserved areas. The mix of financing and tailored technical assistance offered by FEFISOL II is well adapted to the needs of this type of client and is a key aspect of the fund's additionality.

Since the launch of FEFISOL II, the contexts in which clients operate have deteriorated in many different ways. Political, social and environmental crises are intensifying and adding up year after year, with a significant impact on final beneficiaries. Commodity prices and inflation have particularly impacted local populations. We also observed that the development of agricultural entities is more fragile and difficult given the changes in the market. For instance, the coffee sector has experienced major fluctuations, with a sharp fall in prices and yields that affected several FEFISOL II clients. On the other hand, MFIs have performed well, their average portfolio growth rate reaching 26% in 2023 and their portfolios at risk (after 30 days) falling slightly to 4% on average (vs. 5% in 2022). Both MFIs and AEs have significantly increased their outreach in terms of job creation with a 17% increase for MFIs and a 9% increase for AEs.

Political risks and foreign exchange rates volatility have been the two major issues for the development of FEFISOL II's portfolio over the past months. The crisis in the Sahel region has limited the opportunity to develop the activities in the three concerned countries, Burkina Faso, Mali and Niger, while the foreign exchange risk increased significantly in the entire sub-region. Due to the high volatility of most African currencies, it became more difficult to access hedging products at affordable conditions for FEFISOL II and its clients.

In this context, guarantees and/or blending mechanisms are essential to secure and stabilize the financial model of a fund such as FEFISOL II, which is why the team worked to structure tailored tools aimed at covering the various risks. As of today, FEFISOL II's portfolio quality remains good, with only one loan with arrears (a coffee SME in Rwanda), for which a restructuring plan has been approved to facilitate repayments.

FEFISOL II also increased its investment capacity during the year with a second closing in the end of 2023. Two new investors came in, the Belgian Raiffeisen Foundation (BRS), and the French Caisse des Dépôts (CDC). One of the existing shareholders, Banque Alternative Suisse, also decided to increase its commitment by increasing its stake in the fund. With this second closing, the size of FEFISOL II now exceeds € 25M. A third and last closing is planned for the end of 2024 to reach the initial target of € 30M.

FEFISOL II is therefore well on track to achieve its social and environmental objectives. Thanks to its new risk coverage mechanisms, the fund is adequately equipped to successfully deploy its investment strategy and increase its impact in Africa.

We hope you enjoy reading this report,

Anne-Sophie Bougouin
& Jean-Marc Debricon

FEFISOL II's shareholders

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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 entities (AEs). 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 entities clients. This will be achieved through client targeting, new financial incentives introduced in the debt instruments and a specially designed technical assistance component.

FEFISOL II at a glance

29 ACTIVE CLIENTS IN 2023 (MFIs/AEs FINANCED OR SUPPORTED)

€ 16.8M TOTAL LOAN PORTFOLIO OUTSTANDING

26 CLIENTS WITH AN OUTSTANDING LOAN

15 NUMBER OF MFIs WITHIN THE CLIENTS

93% SHARE OF PORTFOLIO DISBURSED IN SSA

€ 15.5M TOTAL AMOUNT DISBURSED

14 NUMBER OF AGRICULTURAL ENTITIES WITHIN THE CLIENTS

68% SHARE OF PORTFOLIO DEDICATED TO CLIENTS WITH A RURAL FOCUS

€ 673.1k AVERAGE LOAN DISBURSED

13 COUNTRIES OF INTERVENTION

23% SHARE OF PORTFOLIO INVESTED IN LOCAL CURRENCIES

4 NUMBER OF TA PROJECTS

2,1 M END-BENEFICIARIES

€ 120.7k TOTAL AMOUNT DISBURSED FOR TA PROJECTS

02.

FEFISOL II's additionality

FEFISOL II is a highly additional fund, for various reasons:

- The fund focuses on Sub-Saharan Africa, which is the poorest and the most unequal region in the world, and pays particular attention to countries which are often considered too risky by traditional financial investors. There is a wish to help the most vulnerable populations by investing in countries characterized by a high level of poverty, or by a relatively unstable political or economic context, because that is where economic actors have more trouble gaining access to financing.
- Within these countries, FEFISOL II aims at identifying the organizations which have the most impact-creating outreach such as those which serve a majority of women, or people residing in rural areas. These populations are disproportionately affected by poverty, due to remaining gender inequalities in the case of women, and due to the lack of access to financing and basic services for rural inhabitants.
- FEFISOL II finances and supports microfinance institutions, in order to increase the financial inclusion of these populations, thus reducing poverty and generating employment. The support to small agricultural entities aims at strengthening the agricultural value chains which are key to African economies and to food security, as well as at improving the living conditions of smallholder farmers. Because of this specific targeting strategy, FEFISOL II has developed a range of products aimed at addressing a variety of financial needs. The modalities of the loans provided by FEFISOL II are flexible, in order to truly help its clients reach their financial goals.
- Finally, the fund's technical assistance facility in particular aims at enhancing these organizations' capacities on a wide range of subjects, acting as an "accelerator" of key strategic developments for the clients, as well as assisting them in the achievement of their social mission.

This part of the report will delve into the details of all these aspects which constitute FEFISOL II's added value.

(1) African, Caribbean and Pacific countries

(12 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

(3) Although only 32% of the loans were in local currency, FEFISOL II ensured that none of its clients had to bear the exchange rate risk through different mechanisms. This is detailed in the part of the report regarding the diversity of FEFISOL II's products.

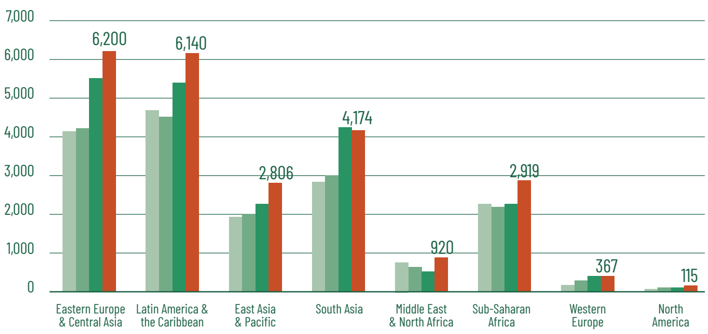
CATEGORY	TARGET	REALIZATIONS AT 31.03.2024
GROSS LOAN PORTFOLIO (GLP)	**BETWEEN 35 AND 45MILLION EUR**	**16,773,233**
Africa	**100% of GLP**	**100%**
Sub-Saharan Africa	>75% of GLP	93%
ACP countries[1]	>75% of GLP	93%
North Africa	≤25% of GLP	7%
WAEMU	Between 30% and 40% of GLP	23%
TOTAL NUMBER OF CLIENTS FINANCED (CUMULATED)	**BETWEEN 100 AND 130 CLIENTS**	**30**
TOTAL NUMBER OF COUNTRIES OF INTERVENTION (CUMULATED)	**BETWEEN 26 AND 30**	**13**
Countries with a low human development index and/or high climate vulnerability	Between 50% and 70% of GLP	84%
GROSS LOAN PORTFOLIO BY TARGET CLIENT	**100% OF PORTFOLIO**	**100%**
Microfinance institutions	**Between 70% and 80% of GLP**	**70%**
Amongst which Tier 2 and Tier 3 MFIs [2]	At least 85% of MFI GLP	76%
Number of MFIs financed through subordinated loan	Between 4 and 10 MFIs <15% of GLP	1 MFI - 3% of GLP
Agricultural entities	**Between 20% and 30% of GLP**	**30%**
RURAL PORTFOLIO	**>55% OF GLP**	**68%**
MFI clients financing agricultural production and/or the processing and sale of agricultural products and AE clients	>65% of clients financed >65% of GLP	68% of clients 59% of GLP
Local currency portfolio	**Between 70% and 80% of MFI GLP**	**32%[3]**

PRIORITY TO SUB-SAHARAN AFRICA

As mentioned previously, FEFISOL II is one of the very few funds which seeks to prioritize Sub-Saharan Africa, with an objective of investing at least 75% of its portfolio in the region. This ambition stems from the observation that despite a reduction of the financing gap in the past few years, Sub-Saharan Africa remains the poorest and most vulnerable region in the world. According to the World Bank, Sub-Saharan Africa concentrates approximately 60% of the global poor living under the US$2.15 poverty line, and 35% of its population lives in a situation of extreme poverty[1]. In addition, its development continues to be hindered by a variety of challenges, such as rising political instability, continued high levels of inequality, and vulnerability to external shocks and climate-change-related events.

2023 was a challenging year in particular for African economies. After overcoming the debilitating effects of the Covid-19 crisis, the region faced another blow with the inflationary impact of Russia's invasion of Ukraine. This led to a global increase in interest rates, reduced international demand, and significant exchange rate pressures. These factors combined to create a severe funding shortage for African economies, forcing some nations to redirect crucial development resources towards debt repayment. This poses a threat to future generations due to the ongoing scarcity of funds to meet the region's extensive development requirements. Furthermore, escalating political instability across several countries is adding to economic uncertainty and deterring foreign investment. Climate change further compounds these challenges by affecting agricultural yields and labor productivity negatively. 2023 was the hottest year on record globally, and climate-related events hit the region hard, with devastating cyclones, droughts and prolonged floods[2].

In the face of all these challenges, the activity of funds like FEFISOL II becomes all the more important. Although more and more impact funds choose to focus their investments in Sub-Saharan Africa, the region still only accounts for 12% of the total direct portfolio of impact funds, according to the PAIF Report[3]. The investments in the region remain much less important than in Eastern Europe/Central Asia or Latin America for instance, as demonstrated by the graph below.

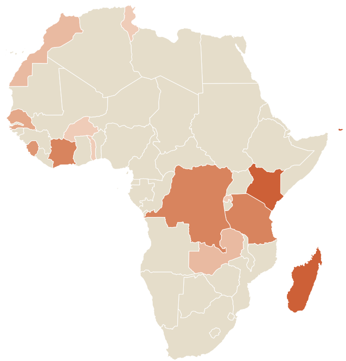


OUTSTANDING VOLUME OF INVESTMENTS BY IMPACT FUNDS BY REGION (IN USD MILLION)[4]

- 2019
- 2020
- 2021
- 2022

▶ In 2023, FEFISOL II invested 93% of its portfolio in Sub-Saharan Africa, thus largely fulfilling its objective.

The graph below presents FEFISOL II's countries of intervention according to the fund's exposure.The three countries in which the fund has the largest exposure at the end of March 2024 are Kenya, Tanzania and the DRC.



FEFISOL II'S PRESENCE IN SUB-SAHARAN AFRICA, ACCORDING TO THE LEVEL OF EXPOSURE

While FEFISOL II maintains a widespread presence across all regions of Sub-Saharan Africa, with a strong focus on East Africa, it's also crucial to highlight the opportunities and challenges present in other areas within the continent. One such area deserving attention is Zambia, a country largely underserved by impact funds, with only 0.29% of the PAIF's total outstanding portfolio, and yet which is in dire need of financing to face increasing challenges[4].

(1) Fragility and poverty in Sub-Saharan Africa: two sides of the same coin – World Bank, 2023

(2) Regional Economic Outlook : Sub-Saharan Africa, IMF, October 2023

(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) 2023 PAIF Report

(5) Zambia overview, World Bank, 2024

(6) Zambian Ministry of Finance, 2017

Country Profile - Zambia

GEOGRAPHICAL LOCATION

Zambia is a landlocked country located on the Southern African plateau, with fertile lands and abundant mineral resources. It shares borders with the United Republic of Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia, Angola, and the Democratic Republic of Congo. Savannah dominates Zambia's vegetation, complemented by tropical grassland and woodland. The country hosts 19 national parks and 32 wildlife management areas, showcasing a rich diversity of wildlife. Zambia's climate is very variable, and has been subject in recent years to more and more climatic shocks such as droughts, seasonal floods and extreme temperatures, all of these events causing much pressure on the country's vulnerable sectors, mainly agriculture.

POLITICAL SITUATION

Zambia's journey since independence in 1964 has been marked by both political transitions and social dynamics. The country transitioned from a one-party rule to a multi-party democracy in 1991, signalling a shift towards greater political pluralism. However, this period also saw growing discontent among the population, especially regarding issues such as unemployment, corruption, and basic freedoms. The succeeding leaders of the country attempted to address these concerns through anti-corruption measures and political reforms. Zambia's commitment to peaceful transitions was evident in the 2021 elections, where Hichilema's victory offered hope for addressing corruption, debt, and promoting social and economic progress. Despite some urban challenges like crime and corruption, Zambia enjoys overall safety and political stability.

SOCIO-ECONOMIC SITUATION

Thanks to this political stability, Zambia achieved middle-income status in 2011. The country even experienced robust growth from 2000 to 2014, driven by the services and mining sectors, particularly copper. Since then however, Zambia has suffered multiple and compounding crises, due to falling copper prices, erratic weather patterns affecting agriculture and power generation, and inadequate policy responses. The economy started recovering in 2023, only for growth to be threatened once again by a cholera epidemic and a severe drought in the beginning of 2024, which has impacted negatively agriculture, electricity availability and water supply. Zambia is among the poorest countries in the world, with poverty having reached 60% of the population in 2022. Limited job creation in recent years, combined with declining labour earnings have played a role in impoverishing the population. Zambia is ranked 146th of 189 countries in the Human Development Index, with a score of 0.584, and there exist significant and deeply rooted inequalities in the country. For instance,77% of the rural population lives in poverty, compared to 23% in the cities. Disparities between rural and urban areas in terms of access to basic services remain stagnant, hindering human development and productivity. One of Zambia's key challenges is the population growth rate, which stands at 2.8%, a trend which is expected to continue as the large youth enters reproductive age, which will put even more pressure on the demand for jobs, health care, and other social services[5].

FEFISOL II IN ZAMBIA

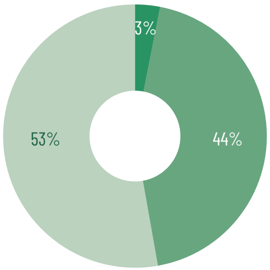
As of today, FEFISOL II is supporting two clients in Zambia working to improve the livelihoods and financial inclusion of people living in rural areas:

- Forest Fruits, an SME of the honey sector, which supports over 4,500 beekepers in the remote rural areas of the Mwinilunga region by providing them with an access to the market. Beekeeping is a traditional activity in this province, and represents a significant source of income for families. Forest Fruits is also committed to the protection of the environment, as it only works with organic certified producers.
- MLF Zambia, a microfinance institution with a strong social mission. In a context of particularly low financial inclusion (41% of Zambians are financially excluded[6]), this MFI serves exclusively women in poor rural communities. It offers business loans for small commercial ventures, as well as agricultural financing. In addition, MLF Zambia provides non-financial services such as financial education and business management training.

FOCUS ON VULNERABLE COUNTRIES

One key aspect of FEFISOL II's social mission is its ambition to reach out to the most vulnerable populations. To that end, the fund is committed to investing the majority of its portfolio in countries with high levels of poverty and and where the living conditions tend to be precarious, and it uses the **Human Development Index** to assess its countries of intervention's situation. Indeed, the HDI aims at assessing the level of development of a country based not only on economic data, but on the quality of life of its citizens. The lower the HDI, the lower the living standards tend to be.

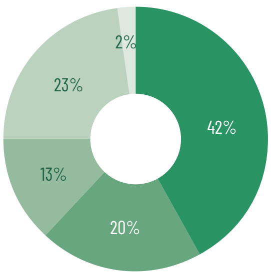
▶ In 2023, 53% of FEFISOL II's portfolio was invested in countries with low HDI levels (i.e countries where the HDI is inferior to 0.55).



OUTSTANDING PORTFOLIO BREAKDOWN BY LEVEL OF HDI
High Medium Low

One other factor which has become more important recently and which FEFISOL II takes into account in its targeting is the level of vulnerability towards climate change. Indeed, we are observing all over the world, and especially in Sub-Saharan Africa, the more and more frequent occurrence of climate shocks. Elements like droughts, floods or extreme weather occurrences are now happening more and more frequently, causing severe hardships for populations. The dependence of many African countries on agriculture makes them all the more vulnerable, as the agricultural sector is the most affected by climate change. FEFISOL II seeks at supporting the countries that are in this situation, and uses the **World Risk Index (WRI)** to evaluate not only the countries' exposure to extreme natural events, but also their capacity to respond to those shocks.

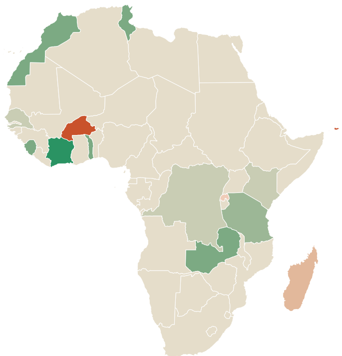
▶ In 2023, 62% of FEFISOL II's portfolio was invested in countries with high WRI levels (i.e countries where the WRI is superior to 5.87).



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

Finally, FEFISOL II is committed to stay present for its clients in the midst of political conflicts or tensions, whilst adapting its financing offer if necessary to mitigate the risks. As mentioned before, 2023 witnessed a lot of mounting geopolitical tensions in Sub-Saharan Africa, including the occurrence of two coups, the postponing or cancellation of elections in five different countries, and an overall intensification of conflicts across the continent.

The **Fragile States Index** is a useful tool to capture the risk of conflict or collapse of countries, based on an analysis of the different pressures they have to face, and of the capacity of the state to manage these tensions. Whilst all countries where FEFISOL II operates are considered "fragile" or "very fragile" according to the 2023 Fragile State Index, only a few of them have seen their score deteriorate between 2022 and 2023, as shown on the graph below. Burkina Faso is one of those few, as it reached the 21st place in the ranking of the most fragile states in 2023, mostly because of the intensification of the conflicts between terrorist groups which now control over half of the territory, and the counterinsurgent troops which often operate unsupervised.



EVOLUTION OF THE LEVEL OF STATE FRAGILITY IN FEFISOL II'S COUNTRIES OF INTERVENTIONS, ACCORDING TO THE FRAGILE STATES INDEX

-2.5 0.5 3.5

▶ Despite this general instability, FEFISOL II continues to operate in the region, in a cautious and measured manner.

For example, the escalating tensions in Burkina Faso strongly limited the possibility to travel there from France to visit FEFISOL II's clients. The fact that some investment officers are African nationals implanted locally allowed the fund to continue to follow up on its clients, as travel was easier within the region.

FOCUS ON RURAL AREAS

In 2023, FEFISOL II once again surpassed its objective of investing at least 55% of its portfolio in rural areas. As explained in the introduction of this part of the report, this focus on rural areas stems from the fact that these zones are disproportionately affected by poverty. As of 2021, 82% of Sub-Saharan Africa's poor population resided in rural areas[1].

Another aspect behind FEFISOL II's rationale to invest in rural areas is the importance of financing the agricultural sector. Agricultural entities are a key engine of employment and growth in Sub-Saharan Africa, and have the potential to be a driving force behind the reduction of poverty, and the increase of food security. Yet, in most countries, less than 5% of lending goes to agriculture, creating a substantial financing gap for smallholder farmers[2]. Were they to have access to more financial products and services, they would be able to acquire agricultural inputs more easily, to have more access to markets, and generally to increase their yields. Yet, financing is deemed too risky for many investors and traditional banks.

Due to factors such as short-term risks including price volatility, political instability, and organizational management challenges, alongside longer-term concerns like climate change, the agricultural sector appears less appealing to potential lenders. Funds like FEFISOL II which are committed to financing agriculture whilst managing these risks are crucial to unlock the sector's potential and bridge the financing gap.

▶ As of the end of March 2024, 68% 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).

(1) OHPI and UNDP Regional MPI Brief, 2021

(2) Rural and agricultural Finance, Mastercard Foundation

A DIVERSITY OF PRODUCTS, ADAPTED TO THE NEEDS OF EACH CLIENT

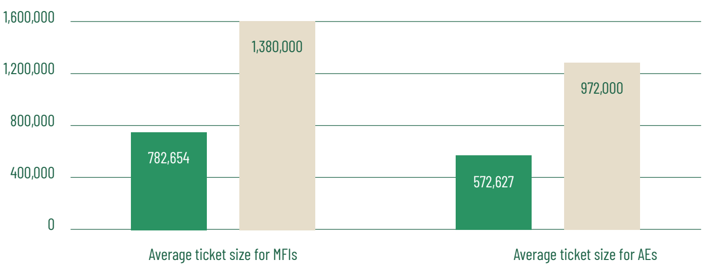
Product range

After two years of activity, the fund has deployed most of the range of the financial products available, namely senior and subordinated debts for MFIs, as well as credit lines and investment loans for agricultural entities. A first investment loan was indeed disbursed for South Organics, as described in the following page. Investment loans are essential to help agricultural entities finance equipment that they would not be able to finance on their own from their own equity, which are often too limited due to the low profitability of their activities. However, few international investors offer this type of loan, which is considered riskier and longer term, demonstrating once again the added value of the FEFISOL II fund.

Investment size

Another specificity of FEFISOL II's tailored financing offer is its capacity to offer relatively small loans. **Indeed, in 2023, the average ticket size of the loans disbursed by FEFISOL II reached 673 075 euros, which remains well below the average of other impact funds, as shown in the graph below.** This makes FEFISOL II a highly additional fund in the sense that it is able to serve smaller, less consolidated actors which on the one hand do not have the capacity to obtain a much bigger loan amount, but which still require financing in order to grow and prosper.

The graph below compares the average loan amount disbursed by FEFISOL II to its clients with the average loan amount disbursed by other microfinance investment vehicles(1), and by other investors in the agricultural sector(2).



COMPARISON OF THE AVERAGE TICKET SIZE DISBURSED BY FEFISOL II, WITH THAT OF CSAF MEMBERS AND MIVS

FEFISOL II Benchmark

It is however important to note that although FEFISOL II mostly finances small-scale institutions with limited needs, the fund also has the capacity to invest more heavily in the larger, well-established institutions when they require more funds. In some cases as well, when a client's financial needs are very important, FEFISOL II is able to call on Alterfin and SIDI to boost the amount it can offer. This is for instance the case of Ecookim in Ivory Coast. This large union of cooperatives required a substantial investment to finance the 2023-2024 cacao season. FEFISOL II's 1,5 million euros disbursement thus came to complete the 5 million already secured by Alterfin.

Investment in local currency

FEFISOL II also had the objective of lending to MFIs as much as possible in local currency. The rationale behind this was to ensure that MFIs do not have to bear the exchange rate risk. Indeed, the devaluation of local currency poses a significant insolvency risk for MFIs, whose debts are often denominated in hard currency. Although the fund has not been able to invest in local currency as much as was originally planned, because of rising and prohibitive hedging costs for some currencies, it still finds other ways to avoid passing on the exchange rate risk to its clients.

▶ As such, 100% of the loans disbursed to MFIs in 2023 were either covered by MFX (a foreign exchange hedging agency), covered locally by local banks, or disbursed in dollars in dollarized economies such as the DRC.

SOUTH ORGANIC – COMPLEMENTARY FINANCING TO MEET EVOLVING NEEDS

South Organic is one of this year's new clients, and is an example of a client having benefited from various products and services from the fund. It therefore demonstrates the additionality of FEFISOL II.

South Organic is a date processor and exporter based in Kebili and established in 1997. This Tunisian company has been the client of Alterfin since 2019, and its mission is based on strong social and environmental pillars. The company aims at "supporting farmers so they engage in organic agriculture for their own welfare and the protection of the environment". The company prioritizes working with smallholder farmers and obtained the organic certification in 2001 and the Fair-Trade certification in 2006, pioneering the creation of organic-certified groups of date producers.

Beyond the production of dates, South Organic's objective is also to contribute to the expansion of the oasis agricultural system, key to reach an adequate level of food security for local populations. Dates are most often the only source of income for the smallholder farmers working with South Organic, who usually also cultivate some staple crops for their own consumption.

As of today, South Organic is the third exporter of organic dates in Tunisia. The company sources dates from 196 smallholder farmers spread among 4 oases in the Governorates of Kebili and Tozeur. It employs 215 people and it is adequately equipped to process and export up to 2,000 tons of dates. Given its history, ethos, and socio-environmental commitment, FEFISOL II initiated a partnership with South Organic in 2023.

The company had at that time various financing needs, which the fund responded to by providing them with two separate loans:

- A €400,000 credit line destined to finance the short-term, operating expenses associated with the purchase, processing and export of dates.
- A €200,000 capex loan, which is a loan that must be used for capital expenditures, i.e investments in physical assets such as land, buildings, equipment etc. In this case, the capex loan was destined to purchase a neighboring processing unit and to acquire new equipment, in order to increase volumes and separate the organic from conventional dates production.

In addition to these two credit lines, FEFISOL II has committed to providing a water management Technical Assistance program, initiated in early 2024. Indeed, date palm cultivation heavily relies on irrigation in the southeastern oases, where water resources are already scarce, because of the numerous droughts that occurred in recent years. In addition, ineffective irrigation contributes to soil salinization, thus jeopardizing sustainable date production. FEFISOL II and South Organic are committed to working on this issue together to try and minimize the organization's negative externalities and find sustainable solutions for the future.

South Organic is therefore clearly an example of the diversity of products and services which FEFISOL II has to offer, and of the adaptability of the fund according to its clients' needs.

(1) PAIF Report 2023

(2) CSAF State of Sector 2023 (CSAF is a network of investors lending specifically to agricultural entities. As a member of this network, SIDI is required to report on a certain number of indicators each year and has access to key benchmarks for the sector)

FEFISOL II'S TECHNICAL ASSISTANCE FACILITY (TAF), A CLEAR ADDED VALUE FOR ITS BENEFICIARIES

FEFISOL II not only provides a wide range of financial products, but has also established a Technical Assistance Facility (TAF) to offer support to its clients across various areas. This technical assistance is very beneficial, serving as a supplement to financing and expediting crucial strategic advancements for its recipients.

Between March 2023 and March 2024, four clients benefited from FEFISOL II's TAF, in the form of large-scale projects incorporating both business-related aspects, and a social and environmental component. In total, more than 120 000 euros were disbursed by the TAF to finance these projects. We will delve into the details of the two projects which were finalized in 2023.

The first one was for Gebana Togo, a key player in Togo's organic soy value chain, a country which has in the past decade established itself as Africa's leading producer and primary exporter of organic soybeans to Europe. Despite the SME's success, showcased by its extensive supply network composed of over 4 800 smallholder farmers, it still faces a number of challenges, one of which being the productivity of soya beans. Indeed, although Gebana Togo has established itself as the 3rd most important organic soy exporter of the country, their soy productivity still lags behind that which can be found in other countries such as China or Brazil.

As a response, Gebana Togo sought to enhance the use of inoculation, an agricultural practice which has proved successful in increasing farmers' yields, without adding substantial work.

To facilitate the widespread adoption of this technique, the SME sollicited the assistance of FEFISOL II's TAF, in the development of comprehensive dissemination materials for the farmers. These materials were designed to serve a dual purpose: to clarify the inoculation process and to instil confidence in farmers by highlighting the tangible benefits of its implementation.

In addition to this project's clear added value for the farmers, it also fits with FEFISOL II's ambition to support its clients in the improvement of their environmental impact. Indeed, inoculation is a very positive practice for the environment, as it is a means of naturally improving soil quality, revitalizing non-arable land, and eliminating the need for chemical inputs.

The second FEFISOL II client which benefited from the TAF's support in 2023 was SIPEM Banque, an MFI in Madagascar which provides tailored financial services to small businesses in urban and peri-urban areas. SIPEM Banque is one of SIDI's historical partners, and has been financed by FEFISOL I since 2015. Subsequently, FEFISOL II renewed this collaboration with a first loan in 2022. In 2023, FEFISOL II responded to SIPEM Banque's request for technical assistance by supporting them on three distinct projects. Firstly, following the expiration of their previous strategic plan, SIPEM Banque solicited help from the fund to facilitate workshops for the conception and formulation of the future strategic plan, in which they wanted to include social and environmental considerations. In this regard, the second project consisted in organizing various awareness-raising sessions on S&E performance for their management team and their board. Finally, SIPEM Banque asked for support from FEFISOL II to ensure the successful implementation of their new information management system.

We had the opportunity to exchange with Benoit Sarraute, SIPEM Banque's CEO, as well as with Miarintsoa Ramambatiana, the HR Director, regarding these different projects, and in particular regarding the social and environmental aspect of this wide-scale support. Below is a transcript of this discussion.

Where did the idea to train SIPEM Banque's managers and board members on S&E issue first stem from?

SIDI carried out a social audit in the summer of 2022, which revealed substantial gaps in the knowledge of social and environmental issues among the governance bodies and employees of SIPEM Banque. There was therefore a desire to move closer to global standards and practices regarding S&E performance, and to raise awareness on how SIPEM could improve its practices and procedures related to these subjects. The impending beginning of a new strategic plan also represented an opportunity for SIPEM Banque to include S&E recommendations in our policies and practices for the next few years, this project came just at the right time.

Could you tell us more about how the organization of these different training sessions?

In September of 2023, a first introductory session was organised with the investment officer in charge of SIPEM Banque, with the objective of giving a brief overview on the different concepts of S&E performance, ESG and impact, in order to raise their awareness on the existing standards and indicators. Concrete examples from SIDI's partners were presented to illustrate each concept. After this, another in-depth training session was conducted by a local company, specialized in governance training. During these sessions, there was a lot of discussion and questioning from the board. The approach chosen by the consultants was not top-down but very participative, so that everyone could ask questions and debate.

What was the general feedback from the participants, and what did they learn in particular from these different workshops?

The participants were actually asked for their feedback after each training session. Overall, they gave the workshops an average rating of 4/5, and out of the 8 people who were trained, 6 of them declared having a strong understanding of S&E-related concepts after the sessions, compared to 0 of them prior to the project. They particularly enjoyed the presentation and comparison of the different concepts related to ESG, as well as the analysis of SIPEM Banque's practices in regard to these concepts. One point which was also interesting is that this helped the team realize that there were already some good practices in place at SIPEM Banque, but that these had not been considered under the ESG angle, such as a reforestation project put in place in 2023. Overall, SIPEM Banque was already an inherently social structure, due to its vocation to support the very small enterprises of Madagascar, which are otherwise excluded from traditional banking. This S&E training allowed them to frame this ambition within a more formal, conceptual framework. This will be materialized in the next strategic plan.

Has SIPEM Banque already implemented certain changes since the project?

The goal of this project was really to sensitize the team, but it was also aimed at ensuring that S&E aspects would be incorporated in the future strategic plan. The consultants gave some key recommendations, which SIPEM has already started to put in place. In terms of governance, we have created an S&E committee, which is currently in charge of redacting our S&E policy, and which will reunite twice a year in order to discuss on how SIPEM Banque can improve its practices and procedures. Regarding the environmental side, we have started a process of solarizing SIPEM Banque's agencies and digitalizing our processes in order to reduce our consumption of paper. We are also committed to calculate our carbon footprint in the medium term in order to take action to reduce it. Finally, on the social side, a substantial project has been implemented in order to improve the working conditions at SIPEM Banque. We used to have quite a lot of employee turnover, and this has completely turned around thanks to the practices we put in place. Not only did we increase the salaries of our employees, but we also remodeled the offices so as to make them more pleasant to work in and we organized afterworks and times of dialogue between the team and the executives.

How do you envision the future for SIPEM Banque at this stage?

Our ambition remains to become the country's first bank in terms of providing services to small and very small enterprises. Madagascar is a country where there are many primary problems and where it can be very difficult to escape poverty. Increasing the financial inclusion of these small enterprises, and helping them in their formalization can be a good way to foster economic growth, and to help the country's development. Thanks to this project, we can now integrate ESG aspects within this broader ambition. Finally, we are looking to create a reporting framework, with key ESG indicators.

Would you say you are overall satisfied with the project?

We are very satisfied with the different projects we have been able benefit from this past year. Without the technical assistance facility of FEFISOL II, it is likely that S&E issues would not have been as integrated as they are within our new strategic plan. It is very positive to be able to learn from experts and to get an outside perspective, we now understand how central these subjects are to our operations and activities.

03.

Client assessment and follow-up

FEFISOL II has developed a comprehensive investment review process, which aims at ensuring that the fund's clients not only meet the eligibility criteria, but also that they have the potential to contribute to the objectives and therefore to the mission of FEFISOL II. The investment review process is a two-step analysis which includes a pre-selection phase, and a due diligence phase, as detailed in the following page.

There is also a detailed monitoring system which allows the fund to ensure an alignment between the clients' activities and impact with FEFISOL II's S&E commitment on the long term.

INVESTMENT REVIEW PROCESS

At the pre-selection phase:

VERIFICATION OF THE COMPLIANCE WITH THE FUND'S ELIGIBILITY CRITERIA

- Eligibility criteria, including S&E criteria
- Exclusion list

RISK ANALYSIS

- S&E compliance light risk tool
- Analysis of the key risks in the pre-selection file

SWOT ANALYSIS

FIRST ANALYSIS OF THE CLIENT'S SITUATION AND PERFORMANCE

- S&E key indicators and coherence with the fund's mission
- Fnancial key indicators
- Information about governance and coherence with the fund's mission

At the due diligence phase:

ASSESSMENT OF S&E RISKS

- S&E inherent risk tool for agricultural entities
- Alinus for the MFIs
- Analysis of the main S&E risks in the due diligence

ASSESSMENT OF S&E PERFORMANCE

- OSB (tool created internally which centralizes the majority of a client's financial and extra financial information), with S&E indicators
- Agro-ecological evaluation grid, when relevant

DEEPER ANALYSIS OF THE CLIENT'S SITUATION AND PERFORMANCE

- Detailed analysis of S&E performance and coherence with the fund's mission
- SWOT analysis
- Detailed analysis of governance and HR
- Detailed analysis of the operations
- Detailed risk analysis
- Detailed analysis of the financial situation

MONITORING PROCESS

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

04.

Profile of FEFISOL II's clients

In 2023-2024, FEFISOL II had 29 active clients, meaning either clients with an outstanding portfolio at the end of the year, clients which received a disbursement during the year, or clients having been supported through technical assistance during the year.

In 2023, the fund continued its partnership with the 6 microfinance institutions which were already in its portfolio at the end of last year, and financed 9 new institutions. The choice to support microfinance institutions stems from the observation that despite considerable progress in recent years, especially with the rise of mobile banking, financial inclusion remains relatively low in Sub-Saharan Africa. According to the latest global Findex report, 55% of adults possessed a financial account in 2021, which is the lowest proportion out of all the continents. Supporting MFIs which are themselves targeting the unbanked populations therefore remains crucial to reduce this gap for the region.

As for the agricultural entities, out of the 12 clients already in the portfolio at the end of last year, 10 received new loans in 2023, and one was supported through a TA project during the year. FEFISOL II also started new partnerships with 2 additional clients, Abakundakawa and South Organic. The agricultural sector is the second most important sector for FEFISOL II. Producers cooperatives and agricultural SMEs in Sub-Saharan Africa hold great potential to create employment in rural areas, foster economic growth and improve food security, and yet they still face substantial challenges in accessing capital, as explained previously in this report. FEFISOL II is well equipped to support this crucial sector, notably thanks to the experience of its founders SIDI and Alterfin, the presence of teams on the ground to allow for a close follow-up, and because of the strategic partnerships it has with end-buyers.

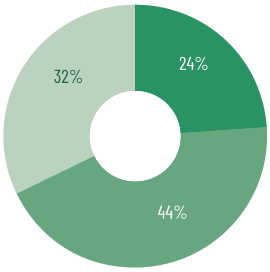
MICROFINANCE INSTITUTIONS

As of the 31st of March 2024, microfinance institutions accounted for 70% of FEFISOL II's portfolio, and for 15 out of the fund's total of 29 clients. This is an increase compared to last year, when MFIs accounted for only 51% of the fund's portfolio. This evolution is in line with the objective set by the fund, which began partnerships with 9 new MFIs over the past year.

This focus on microfinance is also in line with global trends. Indeed, the microfinance sector is one of the primary targets of impact investments, accounting in 2022 for 51% of the total portfolio of impact funds, a testament to the sector's importance[1].

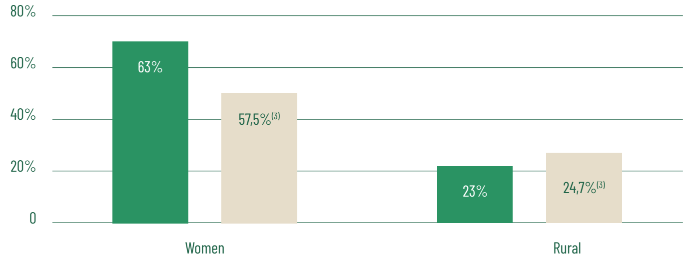
But FEFISOL II differentiates itself from the majority of impact funds through the type of institutions it seeks to support. Indeed, one of the fund's objectives is to dedicate at least 85% of its microfinance portfolio towards Tier 2 and Tier 3 MFIs, which means MFIs with assets under EUR 50 million. These organisations tend to be smaller in size and less well-established, which makes them less likely to receive financing from more traditional sources.

However, because there is a need to balance the portfolio risk, and because the outreach tends to increase when the organization's assets are more important, FEFISOL II does not exclude Tier 1 institutions from its targets. In fact at the end of March 2024, these represented 24% of the fund's portfolio, as demonstrated in the graph below. FEFISOL II did not therefore reach its objective, although it should be reminded that the fund is still at a quite early stage of its development, and needs to build up its client base quite rapidly.



OUTSTANDING PORTFOLIO BREAKDOWN BY TYPE OF ORGANIZATION
MFI Tier 1 MFI Tier 2 MFI Tier 3

In addition, in accordance with FEFISOL II's social mission, the fund seeks to support institutions to support institutions wuith a focus on helping the most vulnerable parts of the population. In this regard, MFIs which have a strong outreach in rural, isolated areas, and MFIs dedicated to serving and empowering women should be strongly represented in FEFISOL II's clients. The graphs below compare the average of women and rural clients among FEFISOL II's clients with the average of MFIs present in the Atlas benchmarks[2]. **As we can see, women are well-represented within the clients of the MFIs in FEFISOL II's portfolio. The focus on rural areas is less pronounced** although this is mainly due to the presence of Pamecas (a union of MFIs in Senegal). Indeed Pamecas is the largest organisation in the portfolio with 1M clients of which only 3.8% are rural.
These proportions are similar to last year's situation, showcasing a certain consistency in the types of MFIs which FEFISOL II targets.



SHARE OF FEMALE AND RURAL CLIENTS IN THE BORROWERS OF FEFISOL II'S CLIENTS, AND IN THE BORROWERS OF THE MFIS IN THE ATLAS BENCHMARK
FEFISOL II Benchmark

Finally, because of FEFISOL II's commitment to support African agriculture, the fund is set on targeting MFIs which invest a substantial part of their portfolio in the agricultural sector. **In 2023-2024, FEFISOL II's active clients dedicated on average 15% of their portfolio towards agriculture**. This is lower than the average of MFIs on Atlas, and beneath the objective which the fund set for itself, demonstrating that there is still room for improvement in this regard. FEFISOL II is committed to make efforts to increase this share, either by building partnerships with new MFIs, more focused on the financing of agriculture, or by assisting its current clients to invest more in agriculture.

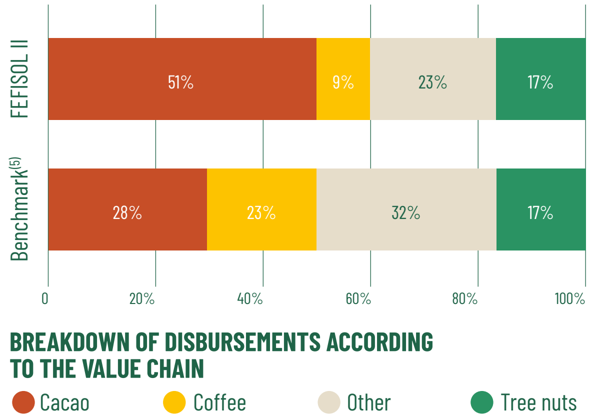
AGRICULTURAL ENTITIES

As of the 31st of March 2024, FEFISOL II had 14 active clients in the agricultural sector in Africa, and they represented 30% of its portfolio. As a means of comparison, this sector only represented 7% of the global outstanding portfolio of impact investment funds in 2023[4], which is coherent with the observation that financial actors are less likely to invest in agriculture because of the substantial risks associated with the sector. The fact that the share of agricultural entities in the fund's portfolio has decreased since last year (54% in 2022) is consistent with FEFISOL II's list of objectives.

FEFISOL II also tends to finance organizations which are smaller in size and in assets than the beneficiaries of more traditional investors. This is visible when comparing the average ticket size disbursed by FEFISOL II with that of other CSAF members. **In 2023, FEFISOL II's average loan size for agricultural entities equalled EUR 572 627, while the average ticket disbursed by CSAF members amounted to slightly less than a million euros.** This showcases one of the key aspects of FEFISOL II's additionality, which is that it is able to meet the needs of smaller organizations. However, the fund is committed to meet each of its clients' needs, even the bigger ones, which can be demonstrated by the larger disbursements provided to two well-established cocoa cooperatives in the Ivory Coast.

In terms of value chain, as we can see in the graph below, cocoa has remained the most important sector for FEFISOL II, followed closely by nuts and coffee. Agricultural entities in the cocoa value chain represented 51% of the fund's total disbursements during the year. This is consistent with the data of 2022, but not so much with the global trends in the sector, as demonstrated by the graph below. Indeed, if there has been a significant drop in cocoa lending in Sub-Saharan Africa among CSAF's members, this has not been the case for FEFISOL II in 2023. This is largely because of the two substantial loans disbursed to Ecookim and Socak, two cooperatives from the cocoa value chain located in the Ivory Coast. These two entities indeed benefit from important sales contracts which justify the need for more external funding. On the other hand, although entities in the coffee value chain are more represented within FEFISOL II's clients, they are smaller structures working with fewer producers, so their need of financing is less important. As such, the average disbursement towards the cocoa value chain for FEFISOL II in 2023 amounted to more than 1,1 million euros, compared to 161 000 euros for the coffee value chain.

The other value chains financed by FEFISOL II are grains and cereals (like sesame seeds), fruits and vegetables (like peppers), and honey.



BREAKDOWN OF DISBURSEMENTS ACCORDING TO THE VALUE CHAIN

Similarly to the logic used with its MFI clients, FEFISOL II aims at selecting agricultural entities with a strong female outreach. This is especially important given the continued discrimination which women have to face in the agricultural sector. Indeed, despite representing approximately 43% of the world's agricultural workforce, women producers still face substantial challenges in terms of land and livestock ownership, equal pay, and access to credit and financial services[6]. Agricultural entities which work primarily with female producers, providing them with key resources and an access to market, are therefore key to women empowerment in the sector. **In 2023, women represented 16% of the agricultural entities' beneficiaries on average.**

Although the outreach to women for FEFISOL II's agricultural clients has remained quite low, they perform better in other gender-related indicators, which allows the fund to comply with the **2X Challenge**. 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. It has defined a set of criteria aiming at identifying such enterprises, with indicators and thresholds to be met. As such, although not many of the agricultural clients comply with the criteria on female outreach, they perform much better in terms of gender inclusion within their employees, with 46% of female employees on average in 2023. 12 out of FEFISOL II's 14 agricultural clients also comply with the "women in leadership" criteria of the 2X challenge, with over 30% of women on their board and/or senior management teams.

FEFISOL II has been approved as "2X eligible", and largely surpasses the criteria required to be considered eligible, but the fund is committed to going beyond this initiative, and to increase the proportion of "gender forward enterprises" in its portfolio year after year.

(1) PAIF Report 2023

(2) 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.

(3) Atlas 2023 - 32 MFI
Atlas 2022 - 34 MFI
This data has been calculated using a simple average, in order to allow for the comparison with the Atlas benchmark, which uses the same method of calculation. In the rest of the report, the method used to calculate averages is a weighted average.

(4) PAIF Report 2023

(5) CSAF members

(6) Women in Agriculture, FAO, 2022

05.

Results of FEFISOL II's clients

FEFISOL II is committed to following up on its clients' evolution in terms of financial, economic, social and environmental performance over time. The fund has developed a monitoring system based on an internal tool created by SIDI over 10 years ago, which allows for the collection of extensive and detailed data from the fund's clients. The goal of this system is to allow for a consolidated analysis of the clients' performance in a number of different domains, but it also serves to assess the strengths and weaknesses of each client individually, in order to ensure their continued alignment with FEFISOL II's mission, and in order to support them on the long term if needed.

The goal of this part of the report is to delve into the details of the clients' performance, and particularly of the evolution of some of their key characteristics over the past couple of years. As such, although some current active clients were not partnered with FEFISOL II in 2022, they are still included in the analysis, and their historic data has been collected in order to analyse their evolution as well.

RESULTS – MICROFINANCE INSTITUTIONS

Outreach and activity	Total	Average	Evolution since 2022
FEFISOL II's active clients	**15**		**+150%**
Number of branches	688	30	+10%
Number of employees	5,850	390	+17%
Of which women	2,729	47%	+5%
Number of active borrowers	742,987	49,532	+6%
Number of active savers	1,253,278	96,406	+12%
Number of active clients (savers+borrowers)	2,015,411	134,361	+9%
Of which women	1,276,983	63%	+10%
Of which rural	429 522	23%	+5%
Gross loan portfolio (EUR)	324,533,131	21,635,542	+26%
Average outstanding loan (EUR)	/	682	+7%
% of portfolio dedicated to income generating activities	/	87%	/
% of portfolio dedicated to agriculture	/	15%	/

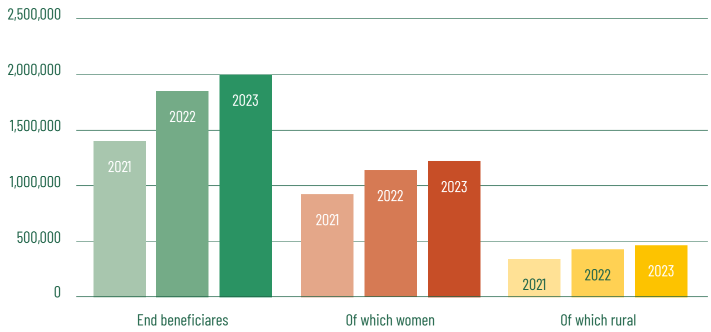
MFI'S KEY PERFORMANCE INDICATORS

i. Outreach

In 2023, approximately 2 million people benefited from the services of the MFIs supported by FEFISOL II. In addition, almost all of the MFIs financed by the fund experienced an increase in their number of clients in 2023-2024, a trend which has been continuous since the rebound of activity following the Covid-19 pandemic. **The total number of active clients (borrowers and savers) grew on average by 9% between 2022 and 2023**.

MLF Zambia for instance saw its number of borrowers increase by 30%, to reach approximately 54,000 at the end of the year. The institution has been experiencing continuous growth for the past few years, and has even been awarded the prestigious 60Decibels top impact award, for its success in supporting communities, fostering financial resilience and making a difference in its clients' lives.

Women continued to represent an average of 63% of the MFIs' clients, although there was an increase in the total number of women borrowers. This is mostly due to an evolution in Asa Kenya's total number of clients by +45%, as it serves almost exclusively women. **As for rural clients, they represented 23% of the MFIs' total number of clients in 2023,** a similar proportion to that of 2022.



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

In addition, via its microfinance clients, FEFISOL II contributed in 2023 to the employment of 5,850 people, which is an increase compared to the 4,996 people employed in 2022. The fund also pays attention to the quality of employment in the organizations it finances. Indeed, a criteria on fair and adequate employment conditions is included in FEFISOL II's S&E risk tool, so this is systematically analysed.

ii. Portfolio growth and financial performance

The sizes of the portfolios of FEFISOL II's MFI clients varies significantly from one MFI to the other, a testimony to the fund's ability to work with both consolidated, solid models, as well as more fragile structures, which are still developing. In 2023, the MFIs' gross loan portfolios ranged from 2.6 million euros to 132 million euros, with an average portfolio of 21.6 million euros.

The MFIs financed by FEFISOL II had a relatively good year in terms of growth in 2023, with their portfolio increasing on average by 26%. Guilgal, one of FEFISOL II's new clients, and a Tier 2 institution in the DRC, experienced a particularly impressive growth rate of 52%. This institution has developed its portfolio by opening new branches on an annual basis, including in areas less served by financial institutions, such as the rural provinces of Maniema and Southern Ubangi. This allowed Guilgal to substantially increase its number of borrowers, from 9,000 in 2022 to more than 23 000 in 2023. 40% of Guilgal's portfolio is dedicated to small or isolated cities and villages, and they are aiming at increasing their investment towards the agricultural sector, which is key in a country like the DRC, where smallholder farming employs 70% of the population.

One observation from this year's results is that MFIs with a more urban outreach performed particularly well compared to their rural counterparts in terms of portfolio growth, a statement which is coherent with the higher risk that lies in financing rural MFIs.

The quality of the MFIs' portfolio increased slightly in 2023, with their PAR30 going from 5.23% on average to 4.73%, an evolution due mostly to some institutions successfully implementing turnaround policies, like SIPEM Banque.

iii. Portfolio composition

The part of the MFIs' portfolio dedicated to income generating activities remained very high in 2023, at 87% on average. 8 out of the 15 MFIs clients of FEFISOL II were exclusively financing these types of activities, which include trade, agriculture and the craft sectors. Financing those sectors is particularly important as it contributes not only to the empowerment of the people receiving the financing, but it also helps to strengthen local economies.

FEFISOL II also seeks to support institutions financing the agricultural sector. The share of this sector remains quite low in the MFIs' portfolio, at 15% on average, although it is higher than last year. This is mainly due to one of FEFISOL II's new clients in 2023, Juhudi Kilimo. This Kenyan MFIs targets mainly rural smallholder farmers and microentrepreneurs within the agricultural value chain, with the mission to improve their livelihoods on the long term.

It is the most specialized MFI in the country with a diversified agricultural product offer. In 2023, 70% of its portfolio was dedicated to agriculture.

Finally, the MFIs' targeting can be analysed through the average size of their loans, which stood at €682 for FEFISOL II clients in 2023, against approximately €3,000 for the MFIs in the Atlas benchmark in Sub-Saharan Africa. For 9 out of the 15 MFIs supported by FEFISOL II, the average loan size represented less than 50% of the country's GDP per capita. All of this shows that FEFISOL II indeed seeks to target the most vulnerable households.

TECHNOLOGY AT THE CENTRE OF THE MFIs' SERVICES

As of the end of 2023, 10 out of FEFISOL II's 15 MFI clients had included a digital product in their offer. This is consistent with the recent trends in Sub-Saharan Africa regarding the use of mobile money and digital solutions for financial inclusion. Indeed, for the past few years, the average rate of account ownership has been increasing substantially in developing economies, and in the case of Sub-Saharan Africa, this increase has been largely attributed to the adoption of mobile money.

In 2021, 55% of adults in the region had an account, and it was a mobile money account for 33% of them, the largest share in the world[1]. Microfinance institutions are therefore increasingly partnering up with mobile money providers, or creating their own mobile money platforms, which can be more convenient for their existing clients, and which can help them attract individuals previously excluded from banking channels.

This is the case of Bimas in Kenya, which has created the Bimas USSD Mobile Banking, a service allowing clients to receive information about their accounts, and to make transactions directly from their phones. They have also integrated M-Pesa, a mobile payment application within their core banking system, allowing clients to pay directly to and from their accounts.

Over 90% of all transactions are now done through this system.

Mobile banking is not the only innovation of these past few years. There exists a wide range of digital solutions which MFIs can adopt to enhance efficiency, but also to improve the quality of their services through a data-driven approach.

For instance, Fortune Credit, one of FEFISOL II's clients in Kenya, has developed an inhouse agritech solution called Fortune Connect. Having a rural client base, they soon realized that the low levels of farm productivity were due to a lack of access to quality inputs and infrastructure, as well as to poor agricultural practices and climate-related issues. The aim of this digital solution is to provide linkages to farmers with input providers, technical services providers and market off-takers in the agricultural value chain. This innovative service has become quite popular since its creation in 2021, as there are now over 54,000 farmers registered.

The use of mobile money and other digital solutions have therefore proven to be a quite promising evolution in the African microfinance landscape, although there remain some challenges such as the lack of connectivity in certain areas, as well as the low digital literacy of certain clients.

(1) The Global Findex Database 2021

Client profile: Assilassimé

Assilassimé Solidarité, which means "hand in hand" in Ewe, is a Togolese MFI set up by Entrepreneur du Monde (EdM) as an association in 2012. In 2015, the organisation officially became a microfinance institution after obtaining a licence to grant direct credit. The MFI currently operates from 10 branches, mainly concentrated in Greater Lomé (7 branches, 90% of the portfolio), but it is gradually extending its activities into the interior of the country.

The aim of the institution is to support people who are excluded or marginalised from the social sphere because of their economic, social or psychological situation. Assilassimé pays particular attention to vulnerable groups, such as people who have never carried out an income-generating activity and/or who have never benefited from formal credit, but also people living with HIV, people with disabilities, widows, single mothers, sex workers, etc. Its mission is very clear: "to provide sustainable access to adapted social microfinance services for people in situations of exclusion or extreme poverty, with limited access to the traditional microfinance system in Togo, to enable them to carry out income-generating activities and improve their living conditions".

To achieve this, the institution offers flexible products tailored to the target beneficiaries. For example, it sets itself apart from the competition by offering loans without guarantees or sureties. Assilassimé has also adopted a hybrid methodology that combines individual loans with a group approach: it gives greater importance to training beneficiaries, and helps group dynamics to repay loans while providing a flexible offer (amounts, duration, disbursement date) .

In order to see by ourselves the impact that an MFI like Assilassimé can have on the lives of people previously excluded from formal financial systems, we were able to talk to one of their customers.

Ahiagbenyo Akouvi (30 years old, married with three children) called us from her shop in Lomé. **She is a member and treasurer of the MAWUSSI 2 beneficiary group.** Formerly a braider, she became a general grocer 4 years ago, selling mainly iced drinks and cosmetics.

How did you discover Assilassimé?

I had owned my own shop for 4 years and one day a friend came into my shop. She saw that there was great potential for improvement and that's when she told me about Assilassimé. She had been a customer for over 10 years and was completely satisfied with her experience. But I was still rather suspicious because I'm not really a fan of this type of structure.

Had you ever tried to obtain loans from other institutions?

No, no, the whole thing scared me and seemed too complicated. I was worried about loans, unpaid debts and repayments, and I didn't know anything about this. It wasn't for people like me. But when this friend told me about Assilassimé, she reassured me: she told me about their low interest rate and said that the most important thing was to be up to date and in good standing.

Why did you change your mind and what was the purpose of your first loan?

Everything is blocked in the country when it comes to developing a business, but I wanted to do something, I wanted to get out and go beyond my dreams. So I decided to go to an agency to find out more and they convinced me. I decided to take out my first loan two and a half years ago for 90,000 FCFA (137 euros) to improve my shop: I wanted to diversify the types of products I offer and increase my storage capacity.

But you didn't stop there, because you're now on your third loan with Assilassimé? Is that right?

Yes exactly, I've seen that the first loan really helped me to improve my business. My shop is a 12 m^2 room and with the money from Assilassimé we were able to build a small, more secure veranda in front and improve the layout of the items. As a result, the space has become bigger and more welcoming for my customers and the veranda attracts more people into my shop. I then took out a second loan, which enabled me to start selling drinks produced in Ghana. Finally, my third loan of 250,000 CFA francs (381 euros) enabled me to extend my product range to include cosmetics.

What have been the main changes in your business as a result?

The diversification of my product range and the improved layout of my shop have had a direct impact on my income: before, I was earning around 10,000 CFA francs (15 euros) a day, whereas today I'm making around 30,000/35,000 CFA francs (45-50 euros) a day! My turnover has doubled, I'm selling more expensive products, and my profits are much higher.

Apart from loans, have you benefited from any non-financial services from Assilassimé? If so, what did you think of them?

Yes, I've been able to attend a lot of training courses: how can we improve the way we welcome our customers? How can we best manage our stocks? How can we make the best possible use of our loan? These training courses are very useful because they open your eyes, help you to discover new ways of doing things, and help men and women to manage their business. The fact that these courses are run in groups means that everyone can exchange ideas and learn from each other. There's also the compulsory savings scheme, which gives you access to better loans every time: that was very important for me.

Do you work alone or do you have employees? Now that your shop is expanding, are you thinking of taking on an extra person?

It's a family business: I work with my mum. The workload is pretty heavy: the supplies, the deliveries, the upkeep of the shop: it's all pretty tiring. But at the moment the shop isn't big enough to take on someone, so I make do with what I've got. On the other hand, if the shop continues to grow like this, we'll see about taking on someone more in the future.

In terms of your personal life, have you seen any positive impacts?

We already have our own house and my husband is in charge of our children's education. The loans I have taken out with Assilassimé are exclusively for my business. But of course, the extra profits we make everyday mean that we are less vulnerable.

What are your plans for the future?

Personally, my dreams and my vision are huge: I want to become a businesswoman. I want to overcome the the obstacles that are in my way. One of my next objectives is to offer Chinese products in my shop: the profits are much higher, and I could diversify my offer with household products. To do that, I've already received some training in international commerce with the Alibaba group, and I hope we can work together again.

Is there another benefit that you have enjoyed and that we haven't mentioned yet?

I'm currently part of a pilot project for a micro health insurance product that Assilassimé is developing with the ATIA association. This is a very important benefit because it covers my health costs and those of my children, which is a real relief.

Finally, would you recommend Assilassimé to a friend?

Every day, if I see that someone needs funding, I tell them about Assilassimé. I know it can be scary, but today I know how much it can help us, I know that it helps women to have their own business and to become independent.

RESULTS – AGRICULTURAL ENTITIES

Outreach and activity	Total	Average	Evolution since 2022
Nb of active clients	**14**		**+16%**
Nb of smallholder farmers	83,024	5,930	+7%
Of which women	11,253	16%	+14%
Nb of permanent staff	547	39	+9%
Of which women	184	46%	+5%
Nb of seasonal staff	2,178	156	-7%
Amount of raw material bought to producers (EUR)	149,093,817	10,649,558	-15%
Average purchase per producer (EUR)	/	2,029	-8%
Total Sales (EUR)	179,773,445	16,343,040	-21%
% of sales certified	/	68%	/
% of sales on local market	/	12%	/

i. Outreach

The end-beneficiaries of the agricultural entities financed by FEFISOL II are the smallholder farmers who supply these entities with raw products. Supporting smallholder farming is crucial as it is key to increase food security, economic growth and employment in Sub-Saharan Africa. In terms of food security, smallholder farmers account for over 80% of all farms in Sub-Saharan Africa and are responsible for producing up to 90% of the food consumed in the region[1]. Investing in these producers can also yield significant economic benefits, as it has been shown that every 10% increase in crop yields for smallholders can lead to a 7% reduction in poverty rates in Africa[2].

In 2023-2024, the activity of the agricultural entities financed by FEFISOL II benefited more than 83 000 smallholder producers in total. Again, the size and outreach of clients vary significantly from one to the other, with large cooperatives such as Ecookim in Ivory Coast working with more than 35,000 clients, compared to much smaller entities like South Organic, which has an outreach of 200 producers spread across 4 oases in Tunisia. The average number of supplying producers amounted to approximately 6,000 in 2023.

On average, the outreach of FEFISOL II's agricultural clients grew by 7% in the last year. The most significant increases concerned Neper, an agri-food company in the Ivory Coast focusing on the local oilseed sector (see focus on page 32), and Ecookim. Ecookim has experienced a steady increase in the number of supplying producers over the past few years, due to its recent integration of new cooperatives. The members of the 32 cooperatives working with Ecookim are however not forced to sell their cocoa to the Union, therefore the fact that the latter manages to attract more than 90% of total production during the main season is a clear sign of farmer adhesion. This could be due to the numerous services which it provides its farmers with, such as capacity building and trainings, production support, secured market and certifications.

There were no significant disparities between value chains in terms of the evolution of the number of supplying producers last year.

On average, women represented 16% of the supplying producers in 2023. Supporting women in the agricultural sector is particularly important because although they account for 43% of the world's agricultural workforce and are responsible for producing 70% of Africa's food[3], their work tends to be less recognized and remunerated compared to the male producers. The lack of access to land, credit, inputs and technology, which smallholder male producers already suffer from, is exacerbated in the case of women because of gender-based discriminations. It is therefore crucial to work with organizations promoting the role of women in agriculture. Abakundakawa is a good example of an organization seeking to counter gender inequality by working with women and by prioritizing them. 43% of the organization's producers are women, and they have created an association called Ingakawa (which means growing coffee), aiming at valuing their coffee for export, in a voluntary approach.

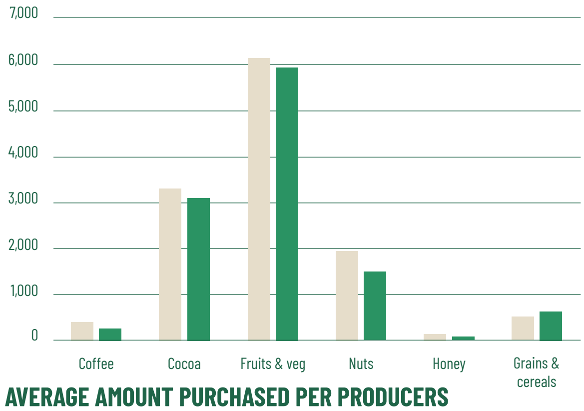
Other organizations have very few women in their member base but are still developing programmes aiming at promoting women empowerment. For instance, 8% of the producers supplying to Socak are women, which can seem very minimal, but is actually already quite significant given the traditional male dominance over the cocoa sector in Ivory Coast. They are committed to increasing this number in the future, and they have also created an association which aims at creating income-generating activities for producers' wives, which they finance every year.

Finally, the agricultural entities in FEFISOL II's portfolio employ in total 547 permanent employees, as well as 2,178 seasonal workers. Again, employment quality is systematically checked by FEFISOL II prior to the investment, particularly in sectors like cocoa where the risk of child labour is substantial.

ii. Producers' revenues

FEFISOL II aims at working with agricultural entities which ensure that the producers are well-remunerated for their work. This is one of the reasons why the fund almost exclusively finances organizations which are certified organic, fair trade, or both. These certifications allow the producers to gain premiums for their production, meaning additional payments made on top of the selling price. **9 out of the 14 organizations clients of FEFISOL II are certified organic, and 7 are certified fair trade.** This has remained stable since last year.

If we do not take into account the premiums, the average amount purchased per producer actually decreased last year, from 2,200€ in 2022 to 2,000€ in 2023. This evolution is visible in almost all the value chains financed by the fund, as we can see in the graph below.



AVERAGE AMOUNT PURCHASED PER PRODUCERS ACCORDING TO THE VALUE CHAIN (IN €)

2022 2023

For the coffee value chain, the decrease of the average amount purchased per producer can be mainly explained by a decrease in national production after a boom in 2022 (all of the clients are situated in Rwanda), due mainly to the fact that 2023 was an "off-year" in the country's biennial cycle, as well as to lower productivity levels in the end of 2022 because of late rainfall. This example illustrates the volatility of revenues in the agricultural sector, whether it be because of climatic conditions, or because of fluctuations in the market prices. This is why it is so important to work with organizations which can ensure relatively stable revenues, through the provision of premiums or second payments.

(1) Leaping and Learning, FAO, 2013

(2) Smallholders, food security and the environment, IFAD and UNEP, 2013

(3) World Economic Forum, 2018

iii. Sales

For the majority of FEFISOL II's agricultural clients, 2023 was a complicated year in terms of sales. **On average, they experienced a 21% decline in their total sales, and again, no value chain performed particularly better.**

For coffee, the reduction in sales was due to a decline in production as explained previously , as well as to a decrease in the prices of coffee on the global market compared to 2022, when they were at an all-time high. The cocoa cooperatives were affected by a lower production level in the Ivory Coast, resulting in a shortage of cocoa beans, and an unusually heavy rainy season in 2023, which slowed down harvests and therefore exports. Finally, after several years of growth, the consumption of cashew nuts fell significantly in 2023, mainly because of inflation, particularly in the US. This affected the value of nuts on the market, thus affecting the sales of organizations like Biotan or Gebana Burkina Faso.Certified sales continued to represent on average half of the cooperatives' total sales, with particularly impressive increases for Ecookim and Abakundakawa.

A HIGH LEVEL OF ENVIRONMENTAL CONSCIOUSNESS

As mentioned previously in this report, FEFISOL II uses a comprehensive S&E risk assessment tool before investing in its clients, and in particular with its agricultural clients, because of the inherent risks associated with certain value chains.

In addition to this risk-oriented approach, FEFISOL II also aims at supporting institutions which seek to have a positive impact on the environment, through for instance the promotion of agroecological practices. As such, 12 out of the 14 agricultural entities financed by FEFISOL II had such a practice in place in 2023.

For example, Biotan, a cashew nuts processor and exporter in Tanzania, supports its producers to acquire the organic certification, and accompanies them in the adoption of sustainable practices. Until last year, this support was not formalized, it was done by field agents when they visited producers. But the SME recently developed a pilot farm for varietal improvement, the goal being to provide training to growers directly on site.

Client profile: Neper

Originally named TAFALO (which means farmer in Senoufo), NEPER Farmers is an Ivorian agro-food company operating in local oilseed sectors (sesame, sunflower, soybean), which was created in 2020. The two Ivorians who founded this enterprise chose to venture into agriculture because of the importance of this sector in the Ivorian economy with 20% of GDP and more than 48% of the active population. The focus on the local market was driven by market opportunity and the willingness to maximize impact, particularly on the income generation for producers and on the food and nutritional security of local populations. Indeed, out of the 9 Mha cultivated in the Ivory Coast, almost 60% are used for export.

More specifically, NEPER Farmers is an innovative business model linking an agricultural enterprise providing improved and locally adapted seeds in exchange for purchasing production under contract, and an agronomy training school enabling students (in internships or apprenticeships, hence at lower cost) to be available in the field to advise and support producers.

Overall, NEPER Farmers works with nearly 5 120 producers, primarily smallholders cultivating an average of 0.7 ha and mainly located in the North-West and West zones of the country. Their production is destined for the local market through sales to Ivorian agro-industrialists and traders, aiming to provide oils rich in proteins as well as animal feed in order to have a real impact on populations, ensuring their food and nutritional security. Otherwise, the choice of oilseed production was made naturally for various reasons including its high protein percentage contributing to its high nutritional value, the dual valorization in edible oils and animal feed, its ease of storage and transformation at a reasonable cost... Moreover, these crops allow strong complementarity with cash crops in the North (such as cashews and mangoes as well as annual crops like cotton) and enable diversification and supplementation of income sources.

In terms of environmental performance, NEPER, in collaboration with research institutes, promotes the use of adapted and more efficient seeds as well as the use of organic fertilizers (with the development of biochar) in regions devastated by the use of phytosanitary products for cotton crops.

Until 2023, NEPER Farmers had the mission of ensuring the trading of seed productions and supporting producers. With the upcoming creation of their transformation entity, Africa Oil Seed, the company wishes to expand by processing its own seeds (soybean and sunflower initially) into edible oils and animal feed and thus, improve the added value of their oilseed production.
Regarding the economic development of the region, NEPER foundation intervenes with producers who supply oilseeds to the company to coordinate social actions (literacy, education, administrative support, gender justice awareness, development of water supply boreholes, irrigation, small productive equipment, etc.) and ensure an overall development of the community.

Thus, by financing this company, FEFISOL II has committed with a 100% Ivorian structure that seeks to improve the food and nutritional security of local populations and to enable the diversification of income for smallholder producers who are often dependent on cash crop sectors. Furthermore, the innovative business model combining technical training for youth and production enterprise allows for much greater local development with the creation of professional opportunities and learning and training pathways.

Conclusion

In 2023, FEFISOL II continued to develop its portfolio according to its investment strategy, and in alignment with its social objectives. The fund indeed ramped up its client base, from 18 clients at the end of March 2023 to 26 at the end of March 2024. It is now active in 13 countries, thanks to the launch of two new partnerships during the year, Attadamoune and South Organics, which have enabled FEFISOL II to gain a foothold in two new countries: Morocco and Tunisia.

The fund has now deployed most of its range of products, including senior and subordinated debt for MFIs, as well as credit lines and investment loans for AEs. Four clients also benefited from FEFISOL II's technical assistance facility during the year, which is one of the fund's main added value.

In 2023, the fund's total loan portfolio reached € 17M at the end of March 2024, slightly below its inital target. This was mostly due to the difficult situation in countries of the Sahel region, which constrained the fund to redirect its investment pipeline towards other countries, while still maintaining a presence in the region to support its clients.

Despite this challenging context, it was a successful year for the fund, which managed to increase its financing towards MFIs, which reached 70% of the total portfolio, in line with the fund's objectives. This is an important evolution compared to last year, as the fund was far from reaching this objective in 2022 due to increased hedging costs and a deterioration of the MFIs' risk profile. Measures were put in place and new partnerships were established in 2023 to find a solution for this issue, particularly through the development of new guarantee mechanisms to cover the foreign exchange risk. As a result, the part of the portfolio dedicated to the agricultural sector decreased to 30% in 2023, in accordance with the fund's objective. AEs however received 44% of FEFISOL II's total disbursements over the year, which demonstrates the team's strong involvement in this sector. The cocoa value chain was once again the most financed, despite a lower production level in Ivory Coast, one of the world's largest cocoa producers. The fund is closely following the evolution of the cocoa market, as this drop in production is causing a substantial increase in international cocoa prices.

With regards to the fund's objective of reaching the most vulnerable populations, substantial progress was made in 2023. First, the number of end-beneficiaries of FEFISOL II's clients increased from 1.2 million people at the end of March 2023 to 2.1 million at the end of March 2024, thus almost doubling the outreach of the fund in a year. Women represented 61% of the beneficiaries, a proportion which has also increased compared to last year, showcasing the fund's commitment towards gender equality and women empowerment. It is worth noting that FEFISOL II is now considered a 2X Challenge compliant fund which demonstrates its clients' good results in terms of gender performance.

Although FEFISOL II's outreach towards rural organizations (AEs and rural MFIs) is high, and has exceeded the original target of the fund, the number of rural beneficiaries in the total outreach remains relatively low. There needs to be a conscious effort to increase the financing of MFIs with a particularly rural outreach.

Reaching most vulnerable populations also means supporting clients which operate in a particularly difficult context. Results show that FEFISOL II is still committed to finance organizations located in countries with a low level of human development and countries which are at risk of suffering the most from the effects of climate change. In addition, the fund remains present in certain countries where the economic, social and/or security situation is deteriorating.

FEFISOL II has developed a solid and diversified portfolio over the past two years, in alignment with its social mission. With a third and last closing targeted for the end of 2024, the fund aims at consolidating its activities in Africa, by strengthening its support to small MFIs and agricultural entities and increasing its positive impact on the most vulnerable populations.