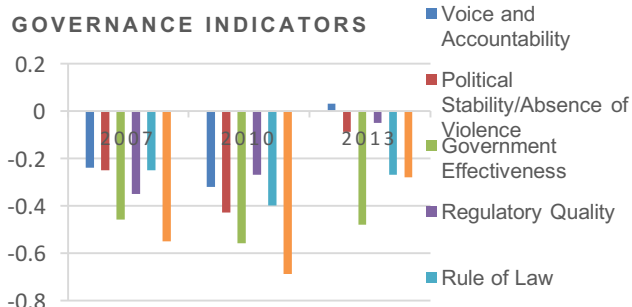


Strengthening FMS's Position in the Senegalese Market

FIDES MICROFINANCE SA, SENEGAL

1. Development relevance

Economic and poverty context: Senegal is the fourth-largest economy in West Africa after Nigeria, Ivory Coast and Ghana. Given its geographical situation and its relative stability, it has attracted a variety of industries, and a number of multinational firms. Among those in formal work, industry accounts for 21.7%, agriculture 15.5%, and services 62.3%. The main industries include food processing, mining, cement, fertiliser, chemicals, textiles, refining imported petroleum, and tourism. Exports include fish, chemicals, cotton, fabrics, peanuts, and calcium phosphate. The principal foreign markets are the EU, India, the USA and the UK. Senegal has a 12-mile exclusive fishing zone that has been breached regularly in recent years (as at 2014). As a member of the West African Economic and Monetary Union (WAEMU), it is working towards greater regional integration with unified external tariffs. Senegal is also a member of the Organisation for the Harmonisation of Business Law in Africa (OHADA). Senegal is a



major recipient of international development aid. Donors include the United States Agency for International Development (USAID), Japan, France and China.

Senegal has a population of over 13.5 million, about half of whom live in rural areas. Population density in these areas varies from about 77 inhabitants per square kilometre in the western central region, to two per square kilometre in the arid eastern part of the country. Economic growth is largely concentrated in a limited number of urban

centres, while the majority of the population still lives in rural areas and/or works in the informal sector.

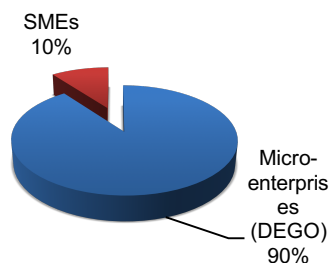
Financial sector context: Senegal's financial sector is characterised by a combination of banks and microfinance institutions (MFIs), focusing primarily on households and small and medium-sized entrepreneurs in urban centres. The main operators in the microfinance market are four large cooperative networks, three commercial microfinance companies (of which FIDES Microfinance Senegal is one), and many small cooperatives.¹ The density of MFIs is high in a growing number of urban locations. A progressive shift among MFIs to consumer lending, as well as rising levels of debt, can be observed. In rural areas with higher transaction costs, a greater number of small and often weak local savings and credit cooperatives prevail, the bigger MFIs being largely absent. The small rural institutions, most of them founded under projects, have so far not addressed the needs of rural populations. They lack the necessary knowledge, appropriate tools and, often, financial strength. Only 15% of the population aged 15+ had an account in 2014, 7% had formal savings and 4% had borrowed on a formal basis. Insurance companies only have clients in urban areas. Up to now, less than 10% of the population has been formally insured.

Partner financial institution: FIDES Microfinance Senegal SA (FMS, former St. Louis Finances), with headquarters in St. Louis, is a greenfield MFI created by a group of social investors and development finance institutions, including Swiss Microfinance Holding, KfW, IFC, Investisseurs&Partenaires and Oikocredit. It started its activities in 2011 with the aim of making a meaningful contribution to inclusive finance by expanding financial services to rural areas and small towns that are largely underserved today. FMS provides savings and credit services to formerly unbanked micro-entrepreneurs. It now also provides micro insurance services. Since its creation, FMS has

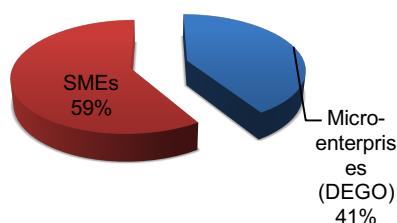
FMS	2011	2014	2015 (June)	2018 (projection)
Total clients	3'450	26'726	33'900	90'000
Total staff	45	148	176	300
Total branches	1	3	4	8
Compound annual revenue growth rate		56%	50%	
Client retention or renewal ratio	90%	89%	90%	86%

been on a steady growth path. The number of clients has almost doubled compared to the initial business plan, whereas the average credit size is half of the amount initially projected. This underlines the pro-poor orientation of the institution. FMS often represents the first formal financial service that people have accessed and used in their life. In other words, to a large extent it targets the formerly unbanked.

**FMS credit portfolio % of clients
(end of May 2015)**

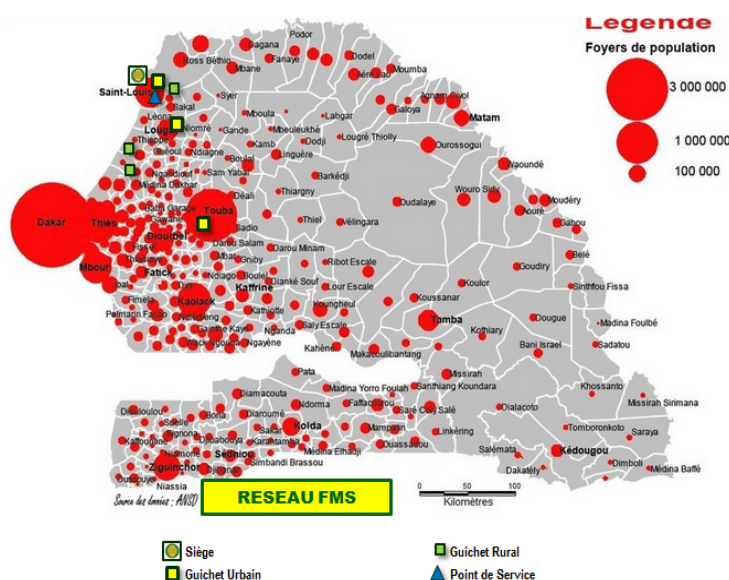


**FMS credit portfolio % of volume
(end of May 2015)**



SME¹ clients represent only a relatively small number of FMS's clients, but they account for 59% of its portfolio volume. In this segment the average loan amount disbursed is CHF 2,600, with a maximum of around CHF 50,000. In terms of portfolio volume (and income), success in the SME sector is crucially important in order to continue serving poor people.

The majority of its clientele in terms of numbers consists of female micro-entrepreneurs who develop self-employment strategies. These clients work with relatively low weekly loan and savings amounts and thus result in high transaction costs. FMS has developed an appropriate response to this challenge by creating joint and several liability groups (DEGOs) at client level, to which it has delegated a significant share of day-to-day operational tasks (client pre-selection, loan repayment and savings collection, recovery of arrears, etc.). This allows transaction costs and loan risks to be reduced, and increases client advisor productivity at the same time. This segment represents 90% of the total number of clients and 41% of the loan portfolio (see figure). The average loan amount disbursed in this segment is about CHF 180.



2. Intervention approach

Capacity-building needs: Whereas in the DEGO segment (joint and several liability groups) FMS has a stand-alone technology and strong demand with little competition, the SME sector had to be revisited with a critical and professional analysis, since there have been important developments in this market segment. While the overall number of SMEs has been increasing thanks to several years of consistent economic growth in Senegal, competition between MFIs in this sector is even growing faster. In the bigger towns, an over-supply in SME lending can be observed, with a clear tendency towards the grant of consumer loans, and over-indebtedness. Since FMS is strongly committed to responsible lending and aware of the potential risks, the institution intends to re-evaluate the market and the tools it uses to intervene.

Main activity areas and outputs: The main activities financed through the SCBF contribution concerned the development of financial services for SMEs in an increasingly competitive market. Examples include investment loans, saving plans combined with insurance and overdraft facilities, and warehousing. The project enabled external expertise to be mobilised in two fields:

¹ In the Senegalese microfinance industry, the acronym SME ('petites et moyennes entreprises') means enterprises that are served by the MFIs with an individual approach (versus enterprises served with a group approach). These enterprises are largely one-person businesses. Only few meet the EU definition of the lowest SME category, the 'micro entity', i.e. companies with up to 10 employees.

- A **comprehensive market study** – including review of the legal and regulatory environment, an analysis of competitors, their products and outreach, the current market positioning of FMS and its capacity to grow, and an analysis of strategies and demand from microenterprises – intended to deepen the understanding of the SME market from a quantitative and qualitative point of view, focusing on over-indebtedness risks and ways to mitigate them. FMS's research department worked closely with the external experts. The results of the study were the subject of several internal seminars in order to discuss with the consultants and to integrate the results in the preparation of the new FMS business plan for the 2015 to 2017 period.
- In order to further expand SME lending – which is marked by more competition and riskier client behaviour – FMS felt the need to **review and to strengthen its guarantee mechanisms and procedures** through a study that would combine the legal and technical aspects of securing loans. A training seminar built staff capacity to implement the new procedures.

3. Results achieved and not achieved

3.1. Client level

Given the fact that this intervention consisted of a study, it is too early to make any statements on results at the client level. As an indirect effect, a considerable increase in outreach is expected, as the results of the study have enabled FMS to hone its strategy, and to build a solid business plan that targets multiplication in client numbers while achieving full sustainability (see Excel file in attachment).



Mame Meissa is a hard-working woman who assumes considerable responsibility as the head of and breadwinner for her large family. Despite her years, Mame Meissa remains active as entrepreneur because her children are incapable of generating stable incomes that would allow them to support their family. Mame Meissa brings fish sourced directly from fishermen from Saint-Louis to market.

For one year now, loans granted by FIDES Microfinance Senegal have allowed her to increase her working capital in order to build up her business.

At the market in Saint-Louis, fish is packaged for sale in cases of 50 kilogrammes each. The price per case depends directly on the catch that day and fluctuates

between FCFA 35,000 and 100,000. Furthermore, fishing activities are seasonal in nature, i.e. fish become rare for some months after July, which strongly influences Mame Meissa's business.

Having access to credit secures Mame Meissa's working capital, which allows her to build up stock during the period when prices are low and to increase sales profits. Without hesitation, Mame Meissa states: "Fides Microfinance Senegal is important for my business and me. Thanks to FIDES, I can continue my business activities and make an income." She remains careful in taking out loans, but explains: "I have built trust in Fides Microfinance Senegal. The repayment schemes and interest rates are fair. I have proved that I am able to repay the money every week". This trust and self-confidence has encouraged her to step up her working relationship with the bank in order to secure the working capital needed to optimise her business. In the longer run, this client is confident that she will be able to build up savings that will allow her to reduce her dependence on credit and will allow her to secure the working capital she needs on a sustainable basis.

At the age of 40, **Awa** is an entrepreneur and a self-confident woman who has been able to identify and seize opportunities in her environment. Brave and hard-working, she has been able to build a prospering business. Today, the mother of four employs six people and has her own house, which she had built with the money she earned. She has been a client of Fides Microfinance Senegal since the end of 2011. FMS has allowed her greater flexibility in her business activities. As the owner of a restaurant and a small food store on the university campus, Awa is a fully-fledged entrepreneur. In her family almost everyone is in the buying and selling business!

Her husband works as a topographer with the military. Being a civil servant, “he doesn’t earn much money – just enough to buy food and take care of the kids,” says his wife. He returns fortnightly to Saint-Louis to visit the family. During his absence, Awa plays the role of ‘patriarch’ in the household. She also takes care of her half-sister and her husband. Awa employs a housekeeper who also lives in the house. Two years ago, Awa and her family have moved to their new residence in the Sanar district, close to the university. This has significantly improved their daily life: “my restaurant opens from 7am to midnight, and I work there all day long. Now, I can come home in the afternoon between 2pm to 5pm and I have been able to reduce my travel costs,” she explains.

This client has never had to rely on a loan. The cooperative where she had placed her savings in the past had repeatedly offered them to her, but Awa admits to having been afraid of them. However, with a growing business and increasing liquidity needs of over FCFA 100,000 to cover daily operating expenses, she needed to find a solution. Thus, when a group of women from her district told her about “a network that really helps women to get to work”, she became interested and made enquiries. Where Fides Microfinance Senegal was concerned, it was the word-of-mouth recommendation and the social aspect of the group loans that reassured her, as well as the small weekly repayments. Awa says: “Previously, I could buy only the very basic products from merchants on credit, but with the growing business I needed more working capital to succeed. With the financing that is now available, I am able to buy a broader product range and bigger quantities, which allows me to manage the restaurant more professionally”.



3.2. Partner financial institution/s level

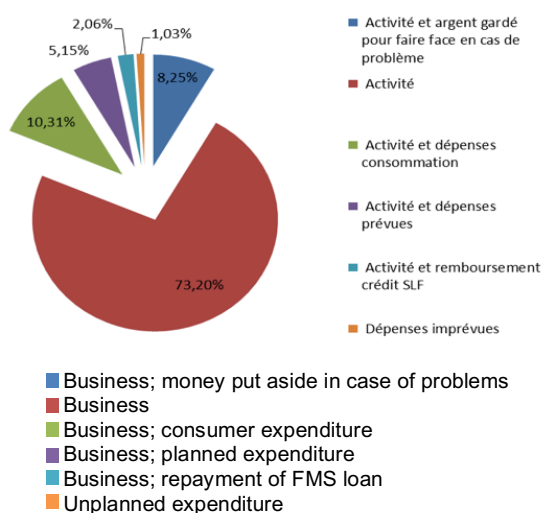
The SCBF-financed research laid the groundwork for a meaningful adjustment of the SME sector strategy – a key element of the new FMS business plan targeting full financial sustainability and strong outreach growth. The Board and the investors approved the business plan. It has reinforced the confidence of investors and lenders who are required to finance further expansion in FMS’s activities. The singularity of FMS is that it has a much lower average individual loan amount, and that its clients includes poorer and more rural population segments. SCBF support helps FMS to find the right balance between the different client segments in order to manage risks and achieve sustainability, while serving a large number of poorer clients. Furthermore, it enables FMS to approach its clientele with the right products, and to solidly plan expansion.

In addition, the revision of the guarantee policy and the related staff capacity-building has enabled FMS to better secure its crucial SME portfolio and laid a more solid foundation for the expansion of SME lending.

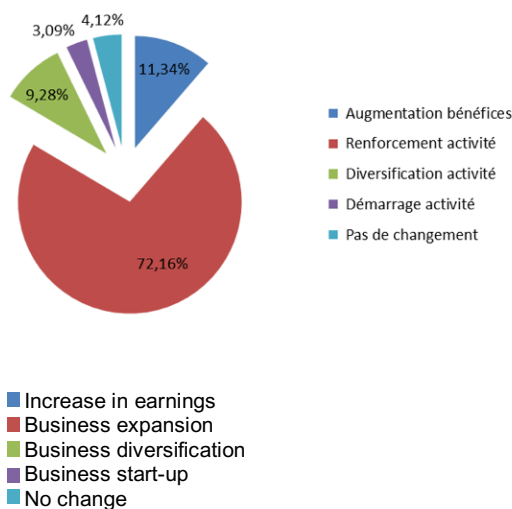
It is much too early to validate the strategic choices made on the results of the intervention. What can be stated as of today is:

1. The institution is evolving in line with its business projections in terms of outreach and financial performance, with a solid SME portfolio as a core element.
2. FMS needs more capital to grow. This has been known since the business plan was drawn up, and the shareholders have decided to open up the company to a new shareholder. A transaction advisor has been hired to lead this process.
3. Staff productivity is improving in line with projections.
4. The portfolio quality has further improved and the PAR is at 2% (April 2015).
5. The institution is fully endorsing the smart campaign principles and had translated them into every action even before the SCBF project began.
6. FMS runs a state-of-the-art Social Performance Measurement (SPM) system. It indicates that 53% of clients live under the poverty line of USD 2.5 per day. This is in line with the institution’s objective of offering reliable financial services to poor population segments.
7. Post-credit evaluations with a sample of 100 clients showed the following results:

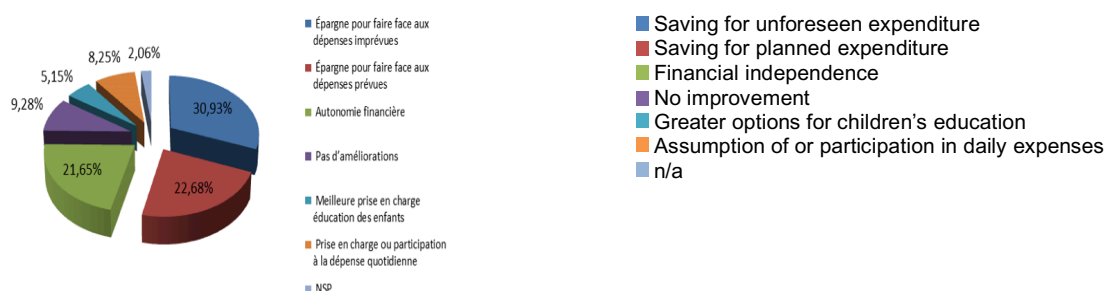
Use of credit:



Impact seen by clients:



Improvement of living conditions seen by clients:



4. RECOMMENDATIONS FOR OTHER SIMILAR INTERVENTIONS

Whereas the first, more strategic subject of the SCBF intervention – the market study – was conducted in line with the implementation plan, the second and more operational subject – the revision of guarantee mechanisms – has been subject to delays. These are linked to the unavailability of the consultant who was to have been engaged. This person is very competent, but the only specialist in this field in the Senegalese market. In the light of experience it would have been better to separate the two different subjects and to submit two smaller requests to SCBF.

ⁱ www.mixmarket.org