

Stromme Microfinance East Africa Limited

Kampala, Uganda

September 2018

Social Rating

Mission: To provide, on a sustainable basis, market responsive, financial services and capacity building support to financial and business service providers to enhance access to financial services by the enterprising poor in the East African region.

2018	
SOCIAL RATING	$\Sigma\beta$
RATING OUTLOOK	Positive
Rating dimensions	
	2018
SPM, Mission and Goals	$\Sigma\beta+$
Client Protection Principles	$\Sigma\beta-$
Other Social Responsibility	$\Sigma\beta+$
Partner Feedback	$\Sigma\beta+$
Outreach	$\Sigma\beta-$
Portfolio Data	$\Sigma\beta-$

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- ▶ Our services were performed and this Report was prepared in accordance with the Engagement Letter dated 23 July 2018 subject to the terms and conditions included therein.
- ▶ The information captured in this Report is based on the documentation and information received from time to time from Stromme Microfinance East Africa Limited. The findings contained herein are limited to the extent of the procedures conducted by M-CRIL till 31, August 2018, which are described in this document. Accordingly, changes in circumstances or information newly available after this date could affect the findings outlined in this Report.
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Structure

- ▶ Context
- ▶ Synopsis
- ▶ Rating Rationale
- ▶ SPM, Mission & Goals
- ▶ Client Protection Principles
- ▶ Other Social Responsibility
- ▶ Partner Feedback
- ▶ Outreach
- ▶ Portfolio Data
- ▶ Annexes

Key for bullets:

- ✓ Positive
- Issue
- Description



Context – East Africa Region Development*

- Regional economic growth for 2017 – 5.5%; forecast for 2018 – 5.9%, yet well below goals set by members
- Agriculture is the key driver for growth, on average accounting for 30% of total value added in the region.
- Slowdown in growth for Kenya, Uganda and Rwanda as a result of decline in agricultural performance due to severe drought conditions.
- Despite various industrial policies set by governments, manufacturing sector which accounts for less than 10% of total value for most countries has been on a declining trend.

*Macroeconomic and Social Developments in Eastern Africa 2018, United Nations Economic Commission for Africa

Poverty and vulnerability

- Eastern Africa remains at a low level of human development, with all the countries in the region classified in the bottom quintile.
- Women from most countries in the region suffer from high gender inequality in education and income.
- With regard to Sustainable Development Goals (SDGs), most countries need progress towards – ending extreme poverty & hunger, improving health and access to better infrastructure.
- 31 million people suffered from food insecurity as of May 2017.
- One of the largest recipients of refugees, hosting 3.5 million refugees at end of 2016.



Synopsis

- Stromme Microfinance East Africa Limited (Stromme) is a wholesale lending company incorporated in Uganda in 2004 to provide financial and capacity building services with the objective to enhance access to financial services for the enterprising poor in the East African region.
- It was incorporated as a spin-off of the microfinance activities of Stromme Foundation, Norway in its regional office in East Africa.
- Current operations are spread across Uganda, Kenya and Tanzania with lending to - Microfinance Institutions (regulated, unregulated and deposit-taking), Community Banks and Savings and Credit Cooperatives (SACCOs) that provide services to the enterprising poor.

Organizational overview	Dec-2017
No. of countries of operation in East Africa	3
Number of partners	23
Uganda	16
Tanzania	4
Kenya	3
Gross Lending portfolio (US \$)	15.6 million
Number of active borrowers of partners	756,000
Number of savers of partners	2,065,878
Number of active farmers supported	77,000
Total number of staff (women staff)	8 (2)

Shareholder	Shareholding
Stromme Microfinance Norway	58%
Stromme Foundation Uganda	13%
CORDAID	19%
SIDI	10%

Rating rationale

- While Stromme has undergone two financial ratings in the past, this is the first instance of a Social Rating being undertaken for Stromme.
- Most of the processes or systems that are evaluated as part of a Social Rating have been initiated as recently as 2017.

Strengths

- ▶ Board committed to the social goals and SPM committee has been well oriented on SPM
- ▶ Mission has been well defined and broken down into goals with measurable indicators
- ▶ Good understanding amongst staff on SPM related aspects
- ▶ Responsible systems for staff

Issues

- ▶ Data heavy SPM dashboard; manually filled and very time consuming
- ▶ No social performance requirements in covenants with partners
- ▶ Gaps in reporting on social performance at partner level
- ▶ Reporting and tracking on client protection practices at partner level needs to be improved



SPM, Mission & Goals

Mission: Goals and Objectives

- The exercise of breaking down Stromme’s mission into social goals/objectives was facilitated by CERISE* during June 2017. This facilitation was part of a larger quantum of support provided to Stromme by CERISE during 2017.
- ✓ The targets for most of the goals have been defined as part of the operational plan for 2018

	Goal Statement	Targets (for 2018)
Target Area	➤ East Africa	➤ Continue building portfolio in existing countries with slightly increased concentration in Kenya
Target clients	➤ Partners who have a commitment to reach out to the poor or target micro and small entrepreneurs	<ul style="list-style-type: none"> ➤ Reach out to at least 10 new partners during 2018 ➤ At least 4 of the 10 new partners should be exclusively involved in providing credit for agriculture ➤ 70% of partners should fall under “Small and Emerging category” i.e. asset size between US\$ 3-10 million
Services	➤ Sustainable, market responsive financial services and capacity building	<ul style="list-style-type: none"> ➤ Provide 4 types of loans to end clients viz., business, housing, agriculture loans and institutional development loans. ➤ Corporate governance training for staff of 8 partners ➤ Facilitate 4 partners in business planning and budgeting ➤ Link 2 partners to different players in the agriculture value chain
Outcomes	➤ Improved access of partners’ clients to financial and non-financial services	➤ To be set

*CERISE is a Paris based organization that trains and supports institutions to carry out social audits, analyze social data and define their social strategy.



Mission...continued

- ✓ Although Stromme was established in 2004, one of the first big steps towards committing to achieving their mission was made when a Social Performance Management (SPM) committee was formed at the board level in 2016 and soon followed by drafting of an SPM policy.
- Prior to this development, in addition to extending debt to its partners, Stromme offered two types of non-financial services
 - ▶ Funding to NGOs facilitating community managed microfinance*
 - ▶ Capacity building grants
 - ▶ Training partners in - using the Social Performance Index (SPI) to conduct SPM assessments and defining their social goals.
- While Stromme continues to provide capacity building grants to its partners, the funding to NGOs is now handled by Stromme Foundation's East Africa office.
- Formation of the SPM committee in 2016 was succeeded by a period of technical assistance in 2017 provided by CERISE which was aimed at operationalising Stromme's social strategy.
- The key areas of technical support provided by CERISE have been indicated on the right.

Technical support provided by CERISE

- Workshop to determine Stromme's social objectives and indicators
- Training and certification of investment officers on using the SPI4 to conduct due diligence of partners
- Developed an elaborate SPM dashboard that includes key social performance indicators that need to be tracked

*Similar in approach to Village Banks and Village Savings and Loans Associations

SPM Policy

- While the SPM policy was drafted in November 2016, it was operationalised and put into practice only after June 2017.



SPM Reporting

- ✓ Since becoming certified Social Performance Index (SPI) Auditors in 2017, the investment officers at Stromme have been using the full version of the SPI4 as a tool to aid in their due diligence of all potential partners.
- In case the potential partner is already using SPI4, the same document is used by Stromme's investment officers to further work upon.
- ✓ In addition to this, Stromme uses an SPM Framework (dashboard developed by CERISE in 2017) in order to input and report SPM data consolidated from all partners.
- Presently, the dashboard is quite data heavy given the 81 indicators for which data is manually extracted from documents provided by partners and entered into the dashboard.
- There are plans to revisit the dashboard and trim the number of indicators once Stromme has completed at least a year of regular reporting.
- The 81 indicators have been categorised under various social objectives (see right)

Categories of social objectives in SPM dashboard

- Global outreach
- Portfolio distribution per country
- Sustainability of operations (at Stromme's level)
- Partner satisfaction with products and services offered
- Mix of small, emerging and mature partner institutions
- Global outreach of partners
- Extent of rural focus amongst partners
- Extent of partner focus on serving the enterprising poor
- Extent of partner focus on serving vulnerable and excluded populations
- Capacity building
- Client centricity of partners
- Introduction of new products and services
- Improvement in end clients' living conditions, and their children's education
- Increase in employment and assets of business financed by partners



SPM Reporting...continued

- The first SPM report ever for Stromme was compiled and shared with the SPM committee in March 2018 (data for 2017). The report essentially provides an update on Stromme's achievement of its social objectives which amongst others includes promoting and supporting institutions in incorporating SPM related practices and process.
- A significant challenge as part of this effort was the lack of effective reporting on behalf of partners which if managed well in future can lead to a much better reporting on Stromme's objectives.
- While "A World Free of Poverty" is Stromme's vision and keeping track of partners using the Poverty Probability Index (PPI) is part of its reporting, Stromme has set no targets with regard to the poverty level of clients it would like to reach out to through its partners. At present, there is no poverty outreach reporting done by partners to Stromme.



Governance

- ✓ Board members have strong experience in the development & social sector, banking, finance and economic policy management.
- Meetings are held regularly, are well attended and minuted.
- ✓ CEO's performance appraisal – 15% weight for delivering on Stromme's social goals
- ✓ In the August 2016 board meeting, an SPM committee was established whose objective is to ensure that there are systems in place for effective translation of Stromme's mission into practice.
- Since then, the SPM committee has met regularly to review Stromme's SPM related work and give it better direction.
- Presently, the SPM committee has 7 members which includes 4 board members, an independent member, the CEO and the Operations Manager.
- Members of the committee have undergone trainings on SPM orientation conducted by SPTF.
- ✓ The specific role of the SPM committee has undergone lot of deliberation and is now documented as part of the board manual.

Board	Performance
Directors	9
Independent directors	3
Women directors	6
Directors with SP related skills	3
Number of meetings prev. year	4
Use of social performance indicators for strategic direction	Yes
SPM committee	Yes
Achievement of social goals is part of the evaluation of the CEO's performance	Yes

Governance – SPM Committee

- The specific objectives of the SPM committee are broadly as follows –
 - ▶ To ensure that Stromme positions itself as a socially responsible organization
 - ▶ To ensure alignment and improvement in systems which will bring in greater efficiency and profitability
 - ▶ To continually assess if Stromme is achieving its mission; measuring, tracking and improving its social performance
 - ▶ To review covenants with current and potential social investors which will help in mobilizing funds at less expensive rates
- The minutes of the SPM committee meetings indicate that the members thoroughly evaluate Stromme’s performance on achieving its mission and provide guidance on the same (see right).
- While the SPM committee is relatively recent and has ambitious responsibilities cut out for itself, it will be important to see how the committee guides the SPM efforts of Stromme in light of the current state of reporting on behalf of the partners and Stromme’s own plans to add more partners which will mean more data to analyse and report.

Key feedback received from SPM committee

- Plan for measuring change in livelihoods of partners’ clients and reporting the same.
- Analyze partners’ performance on the basis of their legal status rather than pooling them together
- Deeper analysis of Individual Vs Group loans of partners to analyze which institutions are socially oriented
- Track progress on implementation of CPPs since they are primary to SPM reporting
- Closer association with Association of Microfinance Institutions of Uganda (AMFIU) to be able to track indicators related to Persons With Disabilities (PWDs)



Client Protection Principles

Client Protection Principles

- While there have been no reported instances of Stromme's partners having undergone the Client Protection Principles (CPP) certification process, 16 of their 23 current partners are endorsers of the Smart Campaign, signifying their commitment towards implementing the principles in their daily operations.
- SPM committee has also recommended tracking implementation of Client Protection Principles at the partner level.
- ✓ In addition to looking for partners who have a commitment to reach the poor, Stromme also has a criteria for bringing new investors on board. Some of the key aspects of this criteria are –
 - ▶ Look for socially responsible investors who encourage practices that promote including the excluded, consumer protection, human rights and diversity.
 - ▶ The investors should be interested in achieving a balanced return for both social and financial goals.



Other Social Responsibility

Human Resources

HR alignment with mission and values

- Lean team structure with just 8 staff. Headed by a CEO and supported by Operations and Finance team; 2 out of 8 staff are women which includes the CEO.
- Well documented HR manual in line with Uganda Employment Act.
- ✓ In appraisal of senior managers, 11% weightage allotted for each of the following –
 - ▶ Achievement of social goals
 - ▶ Enhancing capacities of partners

Responsibility to staff

- Salary in line with Stromme Foundation group salary scale; plans to customise this for Uganda next year.
- Employee benefits include medical coverage for employee plus family, accident insurance, gratuity and loans & advances.
- To foster a team spirit, lunch is cooked and provided to all staff by the office on a nominal charge basis.
- Good training opportunities provided to staff
- ✓ Work environment survey conducted by Stromme Foundation, Norway in 2015 and 2016. Survey covered staff of Stromme Microfinance East Africa as well as Stromme Foundation, Uganda (common workspace for both entities in Kampala).

Key features – Work Environment Survey 2016

- Questions covered – work load, training, mentorship, transparency, space to innovate, recognition and benefits
- Questions scored on 1-5; 1 being very good and 5 very bad
- Survey results compared with 4 other regions of Stromme's work – Norway, Asia, South America and West Africa.
- Average overall score across all 5 regions was 2.39; Stromme East Africa fared better than the average at 2.2 and only behind two other regions.
- Key issue reported by staff of Stromme East Africa was improper communication channels at work.
- Staff of Stromme East Africa were more satisfied than staff of other regions on – work related travel and behaviour of colleagues.

Capacity Building

- The capacity building support that Stromme provides to its partners is what differentiates it from its peers.
- ✓ Stromme increasingly looks to engage with small and emerging partners who normally have gaps and are in need of technical assistance in various areas of work in addition to just debt.
- Some partners have institutional challenges of poor governance, limited staff skills or poor skills that affect their performance.
- Stromme hopes that their capacity building intervention will help these partners access funds from other lenders/investors in future.
- During 2017, 3 of Stromme's partners (where Stromme was their first lender ever) went on to attract local and international investors.
- The following are areas identified by Stromme for providing capacity building to partners
 - ▶ Strategic – analysis, assessments, ratings
 - ▶ Operational – product development, setting up processes, internal controls, systems for SPM
 - ▶ Systems and Processes – improvement of Management Information System (MIS)
 - ▶ Synergy interventions
 - ▶ Networking and collaborations – induction and participation in industry networks
- Partners are also supported in form of grants to undertake SPM activities of the following nature –
 - ▶ Setting clear objectives and creating a deliberate strategy to achieve them
 - ▶ Monitoring and assessing progress towards achieving social objectives.
 - ▶ Using social performance information to improve overall organizational performance.



Capacity Building...continued

- Providing capacity building support to partners is an integral part of Stromme's mission.
- ✓ As part of policy, 10% of profits each year apportioned to building capacities of partners in key areas identified by them. In addition, Stromme bids for capacity building grants from shareholders.
- Reduction in profit (2016) and losses in 2017 has brought down the outlay for capacity building. Consequently, a cost sharing model is being considered which has been successfully implemented with a few partners.
- One of the capacity building initiatives has included a Responsible Inclusive Finance (RIF) training on deepening understanding of SPM. This 3-day training was delivered by Social Performance Task Force (SPTF) and a total of 30 partner staff and a number of consultants were trained.

Own staff

- ✓ Two of Stromme's investment officers were trained and certified in using the SPI by CERISE in June 2017.
- Staff members have attended local and international workshops/ fundraising meetings / network meetings and professional

Capacity Building Expenses

Year	Expenditure on Capacity Building (\$)
2015	174,960
2016	119,172
2017	51,585
2018*	30,000

*Planned

Key Capacity Building Initiatives

1. Governance training
2. Agriculture product strategy formulation
3. Training on delinquency management
4. Piloting of housing loan product
5. Training on Performance Monitoring Tool (PMT)
6. Business plan development
7. Training on SPM (details on left)



Partner Feedback

Partner Feedback

- An online partner satisfaction survey (using Google forms) was conducted in 2017 to assess Stromme's objective to offer market responsive and client-centric services.
- Survey forms were sent to 24 partners that were served during the year. Of them, 19 provided feedback.
- ✓ Following were key aspects on which feedback was collected – pre-investment exchanges, terms and condition for loans, onsite/offsite monitoring by Stromme, administrative & reporting requirement and support provided on capacity building
- While the feedback was largely positive on most aspects, some key recommendations have been summarized below -

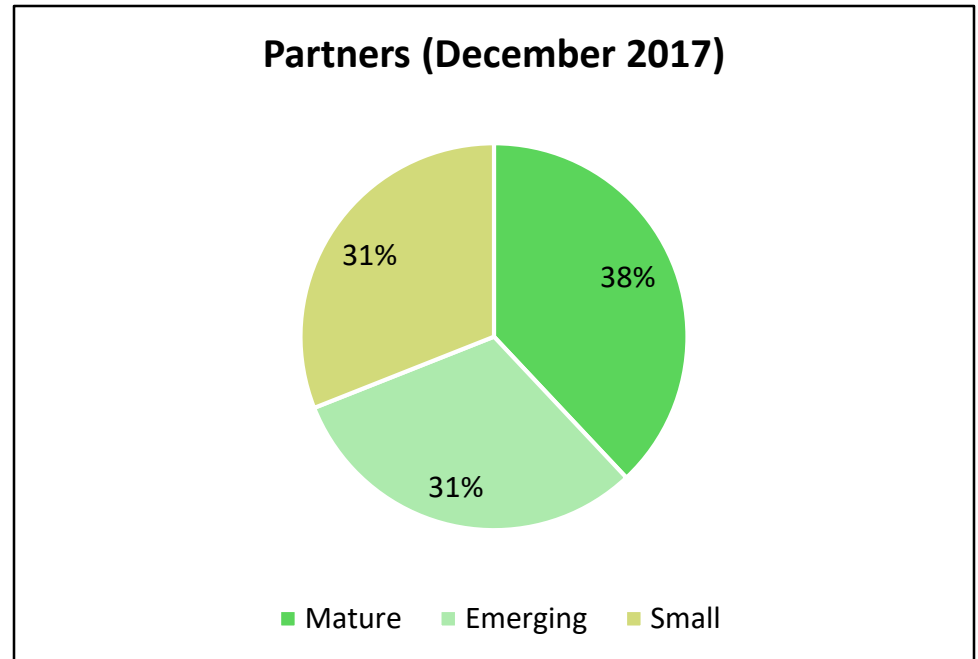
Loan terms	Reporting deadlines	Product improvements	Capacity building
Lower interest rates to remain competitive	Need to develop standard reporting format. Take cognizance of existing reporting	Interest for agri products to be lowered	Support required on improving marketing, risk management and compliance
Physical collateral requirements are too strict	MIS issues can delay reporting at times	Products to target Fintech companies	Funding for capacity building needs to be improved
Interest rates for Kenya to be in line with new interest rate cap			Some partners are willing to share cost on certain services



Outreach

Outreach

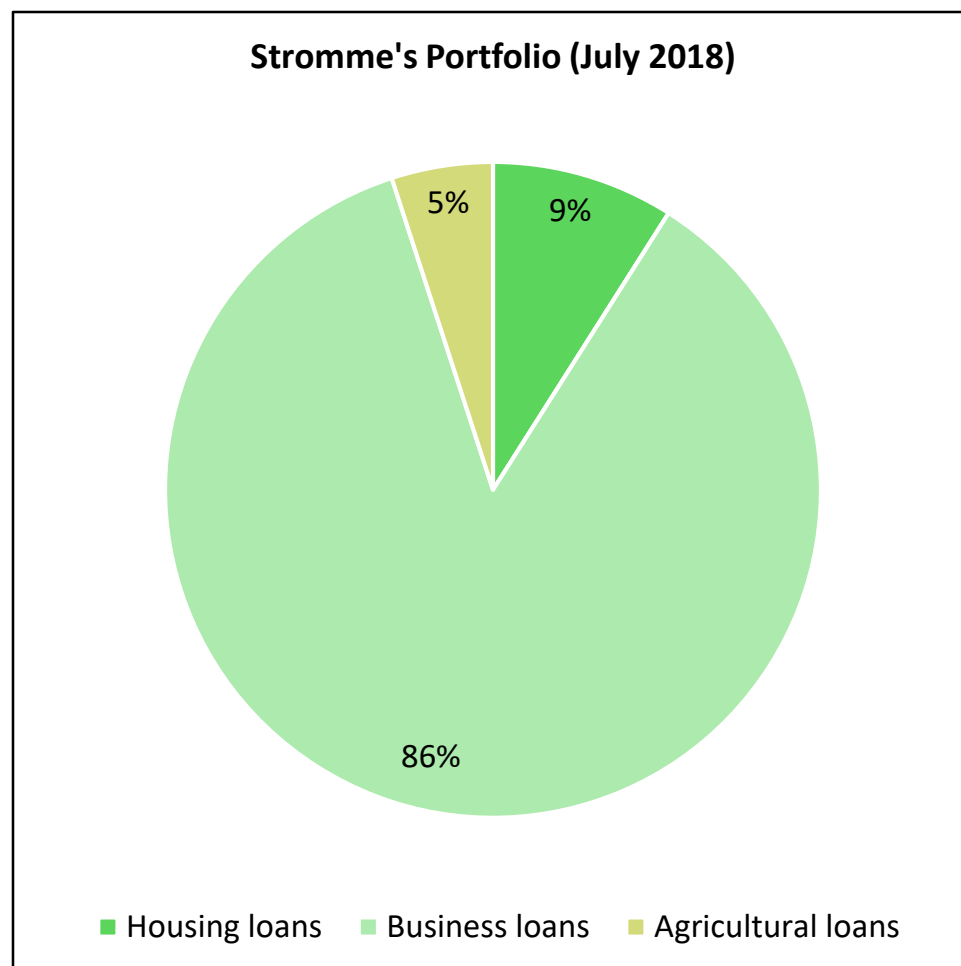
- Since development of the SPM framework in 2017, Stromme has been in a position to report on its outreach in line with its social goals.
- Since this process has begun only recently, there are still a few gaps in data that has been reported by partners.
- There is no government or standard definition of rural in any of the three countries of Stromme's operations. Institutions use their own definition and report accordingly.
- 62% of Stromme's partners fall under the Small and Emerging categories while 38% fall under the Mature category. Stromme's target for 2018 is to have 70% of partners under the Small and Emerging categories by the end of the year.



Small intermediaries – Asset base < US\$ 3million
Emerging intermediaries – Asset base between US\$ 3 – 10 million
Mature intermediaries – Asset base > US\$ 10 million

Outreach...continued

- As of July 2018, majority of Stromme's lending portfolio (86%) comprised of loans given to partners for on-lending as business loans.
- While only 5% of loans were for agriculture (as compared to Stromme's target of 13% to be achieved by December 2018), there are efforts to improve this by looking to engage with partners that exclusively lend for agriculture.





Portfolio Data

Portfolio Data

- 13 out of 23 partners of Stromme launched a new product or service in the last 2 years
- 14 of the 23 partners are involved in undertaking market research of their products and services
- 6 of the 23 partners are using a poverty outreach tool i.e. Poverty Probability Index (PPI)
- On a whole, the 23 partners registered an average borrower retention rate of 80%. Furthermore, 16 of them carried out exit interviews but did not analyse the cause for exit.
- 13 of the 23 partners have effective complaint mechanisms in place.
- Overall, the average APR of Stromme's partners for 2017 was reported to be 59%.





Annexes

Profile of the Board

Board Member	Position On Board	Representing	Experience
1 Mrs. Priscilla Serukka	Chairperson	Stromme Foundation East Africa- Regional Director	Microfinance & Commercial Banking
2 Mr. Bjorn Stian Hellgren	Director	Stromme Microfinance AS	Microfinance and Business Administration
3 Mrs. Clare Wavamuno	Director	Independent	Microfinance, Investment Appraisal and Management
4 Mr. Edward Sekabanja	Director	Stromme Microfinance AS	Commercial and Corporate Law
5 Mr. Quentin Lecuyer	Director	SIDI	Microfinance, Business Planning and Risk Assessment
6 Mrs. Rosemary Kantai	Director	Independent	Microfinance, Enterprise Development and Business Administration
7 Mrs. Aasa Sildnes	Director	Stromme Microfinance AS	Microfinance and Business Development
8 Mrs. Claudia Huber	Director	CORDAID	Financial Inclusion and Rural Livelihoods
9 Mrs. Sarah Tumwesigye	Director	Independent	Financial Management, Audit and Accountancy



Abbreviations

APR	Annual Percentage Rate	PWD	Persons With Disabilities
CEO	Chief Executive Officer	RIF	Responsible Inclusive Finance
CORDAID	Catholic Organization for Relief and Development Aid	SACCO	Savings and Credit Cooperative Organization
CPP	Client Protection Principle	SDG	Sustainable Development Goals
HR	Human Resources	SIDI	International Solidarity for Development and Investment
M-CRIL	Micro Credit Ratings International Limited	SMF EA Ltd.	Stromme Microfinance East Africa Limited
MDI	Microfinance Deposit-taking Institution	SPI	Social Performance Index
MFI	Microfinance Institution	SPM	Social Performance Management
MIS	Management Information System	SPTF	Social Performance Task Force
PMT	Performance Monitoring Tool		
PPI	Poverty Probability Index		



Glossary

APR: The annual rate that includes all fees, expressed as a single percentage number that represents the actual yearly cost of funds over the term of a loan.

Client retention: $\frac{\text{\#clients at end of the year}}{(\text{\# clients at beginning of the year} + \text{\# new clients joined during the year})}$

GNI: Gross National Income comprises the total value of goods and services produced within a country, together with its income received from other countries (interest, dividends, etc.), less similar payments made to other countries.

HDI: Human Development Index is a composite statistic of life expectancy, education, and income indices.

OER: Ratio of salaries, travel, administrative costs and depreciation expenses to the average loan portfolio

PAR: Ratio of the principal balance outstanding on all loans with overdue greater than or equal to 60 days to the total loans outstanding on a given date.

PPI: A set of proxy indicators that are used to score the likelihood that clients fall below a particular poverty line. Statistically derived from the NSSO sample survey.

RoA: Annual profits before grant upon average assets

Staff turnover: $\frac{\text{\# staff who left or were dismissed}}{(\text{\# staff at beginning of the year} + \text{\# new staff joined during the year})}$

Yield on portfolio: Annual income from portfolio upon average loan portfolio.



M-CRIL social rating grades

M-CRIL Grade	Description
$\Sigma\alpha+$	Strong social commitment, excellent systems, evidence for strong and comprehensive adherence to social mission and values.
$\Sigma\alpha$	Strong social commitment, very good systems, evidence for good adherence to social mission and values.
$\Sigma\alpha-$	Strong social commitment, good systems, evidence for good adherence to social mission and values.
$\Sigma\beta+$	Good social commitment, reasonable systems, evidence for reasonable adherence to social mission and values.
$\Sigma\beta$	Good social commitment, moderate systems, evidence of partial adherence to social mission and values. Many aspects of social performance need to be institutionalized.
$\Sigma\beta-$	Weak social commitment, weak systems, evidence of partial adherence to social mission and values.
$\Sigma\gamma+$	Weak social commitment, weak systems, no evidence reflecting social mission or values.
$\Sigma\gamma$	Very weak social commitment, very weak systems, no evidence reflecting social mission or values.

***Grade $\Sigma\alpha+$ also requires significant poverty outreach, in addition to performance in other aspects.**

In addition, a 'Positive' outlook given by M-CRIL suggests that the institution is expected to improve its rating in one year period to one higher notch, 'Neutral/Stable' suggests that the institution is likely to retain its rating till the end of one year from the rating, and 'Negative' outlook suggests that it is expected that the institution may lower its rating performance by one notch in one year period.

