

Activities of **SIDI**
and its partners in **2003**



International
Solidarity
for Development
and Investment

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**INTERNATIONAL
SOLIDARITY
FOR DEVELOPMENT
AND INVESTMENT**

12, rue Guy-de-la-Brosse
75005 Paris - France
Phone : 33(0) 1 40 46 70 00
Fax : 33(0) 1 46 34 81 18
site : www.sidi.fr

Creation and realisation : SIDI

Poussières d'Étoiles - Courtabœuf (91)
+331 60 92 42 72

Glossary

ACAD: Arab Center for Agricultural Development (Palestinian Territories)
ADER: Association for regional economical development (Mali)
ADI-Kivu : Association pour le Développement intégré au Kivu
AFD: Development French Agency (France)
ADF: African Development Fund (USA)
ACB: Akiba Commercial Bank limited (Tanzania)
ADIE : Association pour le Droit à l'Initiative Economique (France)
ALTERFIN : Coopérative Financière (Belgium)
AMSEF: Association Marocaine Solidarité Sans Frontière (Morocco)
AMOS: Oued-Srou Microfinance Association (Morocco)
AOPP: Association des Organisations Professionnelles Paysannes (Mali)
ASPRODEB: Senegal Association For Promotion and Development à la Base (Senegal)
BAD: African Development Bank
BAEF: Bank for women investment (North Kivu)
BANCOSOL: Banco Solidario (Bolivia)
BANCO SOLIDARIO: (Ecuador)
BID: Inter-American Development Bank (USA)
CAC La Florida: Cooperativa Agraria Cafetalera - La Merced, Chanchamayo (Peru)
CCFD: Catholic Committee against Hunger and for Development (France)
CCSP: Credit Co-operative to support Small Producers (Laos)
CCG: Co-operative for guarantee security and management (Haiti)
CDC: Caisse des Dépôts et Consignations (France)
CECM: Caisse d'Épargne Crédit Mutuel (Burundi)
CEP: Capital aid fund for Employment of the Poor (Vietnam)
CERUDEB: Centenary Rural Development Bank (Uganda)
COD-EMH: Co-ordination of Development Operations - Methodist Church (Haiti)
CONFIANZA: Entidad de Desarrollo para la pequeña y micro empresa (Peru)
CONSOLIDAR: Cooperativa CORFAS de Credito Solidario (Colombia)
CORDAID: Catholic Organisation for Relief and Development (Holland)
CREDOC: Centre de Recherche pour l'Etude et l'Observation des niveaux de vie (France)
CRG: Rural Credit Union of Guinea (Guinea)
CTA: Technical Centre for Agricultural and Rural Cooperation (Holland)
EDAPROSPRO: Equipo de Asesoramiento a Actividades Productivas de Sectores Populares (Peru)
EDPYME : Entidad de Desarrollo para la Pequeña y Microempresa
EMT: Ennatien Moulethan Tchonnebat (Cambodia)
ESD: Saving Solidarity Development Association (France)
FC: Co-operative Fund (Laos)
FENAGIE Pêche : Fédération Nationale des Groupements d'intérêt Economique de Pêche (Senegal)
F3E: Fonds pour la promotion des études préalables, études transversales, évaluations (France)
FIDI: Ivorian Investment and Development Fund
FPH: Fondation pour le Progrès de l'Homme (France)
FONGS: Fédération des ONG du Sénégal (Senegal)
FONHSUD: Haitian Fund to promote Local Development in the Southern Province (Haiti)
HIVOS: Humanist Institute for Development Cooperation (Holland)
GRAIFSI: Support group for integrating the women of the informal sector (Haiti)
IMOFOR: Mobil Institute for training (Haiti)
INDES: Inversiones para el Desarrollo (Chile)
INDEPCO: Institut National pour le Développement et la Promotion de la Couture (Haiti)
JEMENI: Union des Caisses Mutuelles d'Épargne et de Crédit (Mali)
KNFP: National Council for Grassroot financial system (Haiti)
KRK: Kreditimi Rural I Kosoves LLC (Kosovo)
KOKARI: Co-operative of intermediation in rural credit services (Niger)
LA-CIF: Latin American Challenge Investment Fund (South America)
LIDE: Ligue pour le Développement (Nord-Kivu)
MAF: Microfinance Alliance Fund (Asia)
MAE: Ministry of Foreign Affairs (France)
MAIN: Microfinance African Institution Network
MENNGOS: MicroEnterprise Network NGOs (South Africa)
MISEREOR: Aktion Gegen Hunger Und Krankheit In Der Welt(Germany)
MUFED: "Women and development" Credit Union
MUSO: Solidarity Credit Union
MPDF: Mekong Project Development Facility
OMIPA: Oruchinga Microfinance Agency (Uganda)
PROFUND: Investment Fund in South-American Microfinance Institutions
PREFED: Programme Régional de Formation et d'Echanges pour le Développement (Rwanda)
PUFS: Projet d'Utilisation du Fonds Suisse (Togo)
ROPPIA: Réseau des Organisations Paysannes de l'Afrique de l'Ouest
SOC: Swedish Co-operative Center (Sweden)
SAINDESUR: Inversiones para el desarrollo (Uruguay)
SAPCA-EGAS (ex UGIE): Société d'Approvisionnement, de Production, de Commercialisation et de Conseil Agricole des Ententes des groupements associés du Sénégal (Senegal)
SIPEM: Investment Company for Investment Promotion in Madagascar (Madagascar)
SFI: International Financial Society
TEMBEKA: Social Investment Company Limited (South Africa)
TISE: Investment Company for Social and Economic Initiatives (Poland)
TITEM: Union of credit and savings local associations (Madagascar)
TRIODOS: Banque Sociale (Holland, England, Belgium)
UE: European Union
UGPM: Union of Peasant Associations from Meckhe (Senegal)
URCSONA: Regional Union of Sourou and Nyala Credit Unions (Burkina Faso)
VITA: Voluntary International Technical Assistance (USA)
WAGES: Women Association for both Gain Economic and Social (Togo)

ACTIVITIES OF SIDI AND ITS PARTNERS IN 2003

Chairman's Message

SIDI's primary endeavour is to open the door to financial services, often in circumstances of poverty and exclusion. **Solidarity finance**, the path that SIDI chose some 20 years ago, offers appropriate solutions that can increase the capacity of local players to overcome problems caused by being excluded from the traditional financial system, enabling them to achieve sustainable and equitable development.

SIDI - *Solidarité Internationale pour le Développement et l'Investissement*, created twenty years ago by the CCFD - Catholic Committee against Hunger and for Development, believes that solidarity finance is the tangible expression of a Solidarity Chain for Financing that supports the economic activities of the most disadvantaged individuals and groups and the creation of partnerships among the various players in the North, South and East.

SIDI is highly appreciated for its activities and know-how in the fields of solidarity finance and microfinance and was invited to attend a gathering at the Elysée Presidential Palace on 18 May 2004, along with other public and private organizations, to explain its beliefs, offer recommendations on how to attain better recognition for solidarity finance and obtain a leverage effect through appropriate public measures. Solidarity finance, as a means of fighting poverty, needs to be developed further and must create jobs, in particular for women, improve the living conditions of local populations, take up the challenge of family health care and promote education for children.

The Solidarity Chain, which was set up by CCFD and SIDI, has today many participants – more than **500 shareholders**, who have pooled **5.3 million Euros** in capital, 80% of which has been invested in loans, guarantees and capital for community finance structures in developing countries, and more than **6,000 savers** who, with the support of several French banks, have saved nearly **80 million euros** and who share the **proceeds of their savings with SIDI**. These shared proceeds constitute part of the resources that SIDI needs to support and reinforce the community finance structures of its partners. In the last 20 years, **more than 20 million Euros** were generated to help develop these community finance initiatives and increase the impact on rural and urban customers.

In addition, **subsidies**, both public and private, are essential to consolidate financial and non-financial services set up by local institutions, to train field staff and buy basic computer equipment. In other cases, subsidies can help financial institutions get off the ground by assuming a share of the risk that is inherent in launching economic activities in difficult circumstances where poverty is widespread. That, in a few words, is how SIDI tries to attain a **leverage effect in the private sector** in the countries where it intervenes, in relations with **public authorities in France, in Europe, regional and continental development banks and multilateral agencies of the United Nations and the World Bank**. Today, thanks to a ten-fold leverage effect, the **Solidarity Chain for Financing** provides **loans to more than 500,000 microentrepreneurs**, mainly artisans and farmers, in developing countries.

The year 2003, the first of the new 2003-2005 strategic plan adopted by SIDI, brimmed with activities, as demonstrated in the annual report that you will be reviewing. Although the economic and social situation of the countries of intervention has not always been encouraging, we have made headway on the agreed priority paths, thanks to the quality of the partnerships. We have managed to reinforce and diversify these partnerships, implemented solidarity finance engineering via alliances, and built a long Solidarity Chain for Financing.

In 2003, 726,000 Euros were allocated to 13 partners in the following priority countries: Niger, South Africa, Mali, Togo, the Andean countries, Morocco, Cambodia, Laos, Kosovo and elsewhere. Today, the partnerships are suitably diversified, which goes to show that our partnership relations are valuable, that solidarity can take on different forms in line with the local context, that we have achieved closer ties with the customers and that Africa remains a priority. Extensive technical assistance and support activities were also carried out in 2003 to provide specific and adapted solidarity finance responses, as seen in this year's thematic classification of SIDI's partners and activities. This task bore fruit thanks to the reinforcement of SIDI's staff and the valuable contributions of skilful volunteer consultants. This work required additional financial resources, beyond those provided by the CCFD. A significant amount of time was also devoted to considerations of the social viability of our actions and those of our partners, and to seeking new partnerships.

By year-end 2004, provisions for investments are expected to reach approximately 5 million Euros. Given SIDI's long-term investment periods, i.e. longer loan periods for investment and housing, the search for additional financing will, according to estimates, get underway around the middle of 2005.

In its role as a citizen's enterprise, SIDI, with the support of other solidarity finance networks, will seek to promote proposals that usefully reinforce solidarity finance for development. Following are some of the proposals that were presented to the French President 18 May 2004:

- Tax exemption for companies and enterprises that do significant microfinance work in France and in the South;
- The creation of incentives for covering exchange rate risks in order to improve access to financial resources for microfinance institutions (MFIs).
- Allocation of available resources on a priority basis to MFIs that work in rural areas, because of the world's poor live outside the cities, and the revival of agricultural banks able to finance seasonal credits to farmers.
- Enabling rural banks and MFIs to benefit from state mechanisms and cooperation in order to cover risks arising from rural activities. Support mechanisms should be provided for these activities so as to consolidate actions and training, either at the embassy level or by means of a Foreign Ministry funds set up for these specific development actions.
- Facilitation of relations between French development cooperation structures and citizens' enterprises, such as SIDI, with the goal of expanding solidarity savings actions.
- Lastly, encouragement to the private sector and the public authorities to take a more active part in shoring-up solidarity savings through the introduction of tax incentives for subscribers.

Christian SCHMITZ
Chairman of the Board
of Directors
Paris, 4 June 2004



Activities of SIDI in 2003

Support and financing of our partners in 2003

International solidarity...

Guided by a solidarity-based approach and the pursuit of sustainable financial services, SIDI helps to foster the development of local, community-based financial initiatives that are engaged in the solidarity economy, in the South and the East.

We can speak about solidarity because SIDI's institutional structure enables it to benefit from the actions undertaken by its shareholders and solidarity subscribers, all of whom make a telling contribution to SIDI, and promote development and financing activities in the South and the East, by sharing the income generated by their savings

Sustainable activities are another key element, since the support and financing efforts of SIDI's partners are designed to support and to empower local actors who then assume responsibility for their own actions in order to improve the living conditions of the target populations, on a long-term basis.

SIDI works in close collaboration with the CCFD, its founding shareholder, so as to jointly take up the challenge of creating a society within which all may live in a dignified way and may be able to provide for their own needs, as well as those of their family.

... For development and investment

The solidarity chain for financing illustrates the vision of development and solidarity investment promoted by SIDI's shareholders here in the North and by the partnership links established in the South and East. SIDI's development mission is given tangible expression through activities that provide technical assistance, follow-up, counselling and institutional support to microfinance institutions, dedicated to providing long-term financial services. This mission is carried out by the operational team and volunteer consultants, which allows SIDI to benefit from quality skills and from close-up monitoring, all of which is placed at the service of its partners. The main features of the "investment" mission are the granting of loans or equity investments in microfinance institutions.

SIDI works on a partnership basis with a total of 47 institutions, in 32 countries, and three continent-wide organisations (the MAIN network, LA-CIF and

PROFUND). In 2003 for the functioning and support services provided to its partners, SIDI's activities required € 1.7 million. These resources come from:

- Shared revenue from solidarity investments and support from the CCFD (€1.1 million), covering 64% of total expenditure.
- International financial partners (€0.5 million), covering 30% of total expenditure
- Financial proceeds from its portfolio (€0.1 million), covering 6% of total expenditure.

Development and support of partners: A diversifying mission

2003 is the first year of the new action plan and as such it has seen an increase in SIDI's commitments in West Africa, with the creation of new partnerships in Mali, identification missions in Senegal, Benin and Mozambique, as well as a reinforcement of technical assistance missions, in Asia. In 2003, SIDI's priority areas (Africa, the Mediterranean basin, Haiti) benefited from 65% of the financial resources dedicated to supporting partners (see graph and table 1). Technical assistance, as well as enhanced partners follow-up, were provided by SIDI's operational team, composed of 7 people (the "desk officers"), who spend more than 40% of their time in the field, providing direct support to the partners. This group of people is supported by the Director, volunteer consultants and a project leader for evaluating social viability. This year, joint missions, involving two desk officers were undertaken in Laos, Morocco and Senegal, so as to pool skills for the greater benefit of partners.

SIDI's follow-up mission vary according to the areas and partners for whom they are undertaken:

Regular technical support

SIDI provides regular technical support for institutions in which it has a financial involvement: it has equity investments in 20 microfinance institutions (including three in which this investment is combined with a loan) and has loans outstanding to 16 institutions.

Regular technical support for HATTHA KAKSEKAR in Cambodia and the design of a software package to

monitor farming family enterprises for the UGPM, are only two concrete examples of such support.

The creation of solidarity financing instruments

SIDI is involved, from a technical point of view, in the development of savings/credit instruments for emerging institutions. In fact, SIDI's role as a solidarity investor means that, in many cases, it has to undertake actions to ensure the institutional and methodological consolidation of the partners before it enters into any form of financial commitment. This is particularly the case for the partnerships which have been established together with the CCFD within the framework of the Great Lakes Convention (Burundi, the Democratic Republic of the Congo and Rwanda), the feasibility study for the creation of a guarantee instrument, carried out with ACAD, in Palestine and the methodological support provided to TITEM, in Madagascar.

Technical support in collaboration with our alliances

SIDI carries out missions to identify new opportunities, in collaboration with our "alliances" in the North (CCFD, CORDAID, ALTERFIN...), which can lead to the establishment of a financial relationship: CDA in Madagascar and the Djoliba centre in MALI, together with the CCFD, FENAGIE PECHE in Senegal, the MAF refinancing fund in South-East Asia with CRS and CORDAID, the evaluation of CREDO, for the CCFD in Cambodia, the undertaking of an evaluation mission in Morocco together with ALTERFIN.

Pooling know-how

MAIN Network, in the Mediterranean basin with SANABEL and in Latin America with Foro-Lac (see page No. 24).

The first part of this report, called "SIDI and its partners", illustrates the partnership links which have been enhanced this year thanks to the mission of diversified support for the partners, carried out by the SIDI team.

Furthermore, mobilisation of additional financing ("co-financing"), covered the support mission, to the tune of €372,000, in other words approximately €100,000

more than in 2002. Of this total, €249,000 were transferred to partners for financing specific activities, or for the purchase of equipment. Other activities funded in this way, include training sessions for the MAIN network, training and capacity building in the Democratic Republic of the Congo, support for the Cooperative Fund in Laos, the study of the Palestine guarantee scheme ...

Financing partners

SIDI uses its capital to financially consolidate its partners by providing them with loans or by making equity investments. This financial relationship remains in keeping with the social objective of contributing to the economic development of an institution and its clients. The primary objective is certainly not one of making the investment as profitable as possible. Through its social vocation, SIDI is able to participate in the institutionalisation of programmes that are reaching the point at which they are financially sustainable, in the long-term.

1 Institutionalisation denotes the conversion of a development project into an autonomous organisation which assumes an autonomous legal status and which can commit itself to the provision of savings and credit services over the long-term.

	Total in 2003 in €Ks	Total in 2002 in €Ks
Africa	624	654
Mediterranean basin	84	58
Central and Eastern Europe	38	13
Latin America	63	89
Caribbean	137	74
Research and development	72	50
Total	1 217	1 071
(Amount of co-financing)	372	280

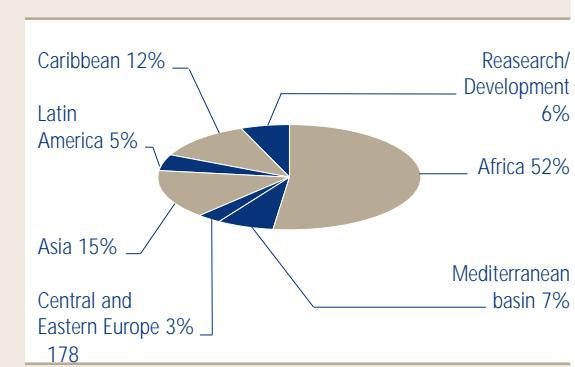


Table 1 and graph 1: destination of SIDI resources in 2003: counselling and support for partners



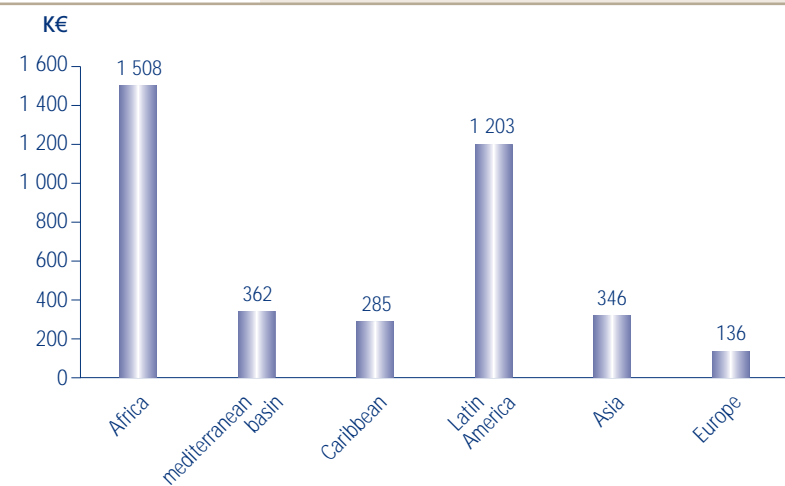
Activities of SIDI in 2003

At 31 December 2003, SIDI's financial commitments to partners in the South stood at €3.8 million (up 18% on 2000), 62% of which was in the form of equity investment (and related claims) and 38% in the form of loans (see graph 2 and SIDI portfolio on page 27). The level of equity investment, which was higher than the level of loans granted by SIDI (both in terms of the overall amount and of the number of partners), is a reflection of SIDI's vision which is very much focused on a long-term commitment. Since last year, Africa has been benefiting from the largest financial support (39%), followed by Latin America (31%).

Investments and portfolio revenue for the year

This year's investments reached a total of €726,000, 67% of which was committed in loans, and 33% in equity investment. Despite the fact that the amount invested was more modest than that invested last year, thirteen partners still benefited from this financing (as compared to fifteen last year). Of these thirteen, six are new partners (KRK in Kosovo, La Florida and CONFIANZA in Peru, AMSSF in Morocco, AOPP and JEMENI in Mali). This year SIDI made an equity investment in two financing institutions in the rural sector: KRK in Kosovo and Kokari in Niger, as well as in a Peruvian urban microfinance institution called CONFIANZA. Last year's financing trend continued this year, with SIDI committing more finances in loans than in equity investment (€489 000 and €237 000 respectively). This illustrates a new dimension to SIDI's partnerships, for it enables SIDI to provide financial support

Graph 2: SIDI portfolio as of 31/12/03 (loans, equity investments and related claims)



to initiatives whose institutional structures do not allow for equity investment (producers' cooperatives, mutuals, associations...).

Furthermore, the majority of these investments were made with partners active in rural areas (8 partners: EMT and HATTHA KAKSEKAR in Cambodia, KRK in Kosovo, KOKARI in Niger, Cooperative Fund in Laos, La Florida in Peru, AMSSF in Morocco, AOPP in Mali), a further reflection of the strengthening of SIDI's priority commitment to financing the rural sector.

Whilst, in terms of the number of partners receiving finance, it is apparent that priority was given to Africa as far as new financing is concerned, the actual amount invested in Africa is almost identical to investment in Latin America (see graph 3).

A more diversified range of partners, credits for producers' organisations and for rural financing, an innovative approach to the financing of housing projects, all point to SIDI's new commitments in 2003.

The formalisation of the FID and SIDI's results

The exceptional profit level of €426,500 (up 82% on 2002) generated in 2003, enabled SIDI to absorb the negative carry-over, from previous years. This positive result may be explained by the increase in the financial results, amounting to € 611,000 (up 74% on 2002), thanks to the revenue generated by SIDI's activities and to the formalisation of the commitment of the main SIDI shareholders:

- This year the revenue generated by SIDI's portfolio amounted to €120,200 (up 24% on 2001). 47% of this revenue came from dividends distributed by BANCOSOL, EMT, INDES, PROFUND and CERUDEB, whilst 63% came from interest earned on loans.

- The religious congregations who are SIDI shareholders - the Sœurs auxiliaires and the Sœurs Ursulines de Jésus, together with the Sœurs de la Retraite, who have been involved in the creation of the FID (Development Incentive Fund), since 2000, formalised

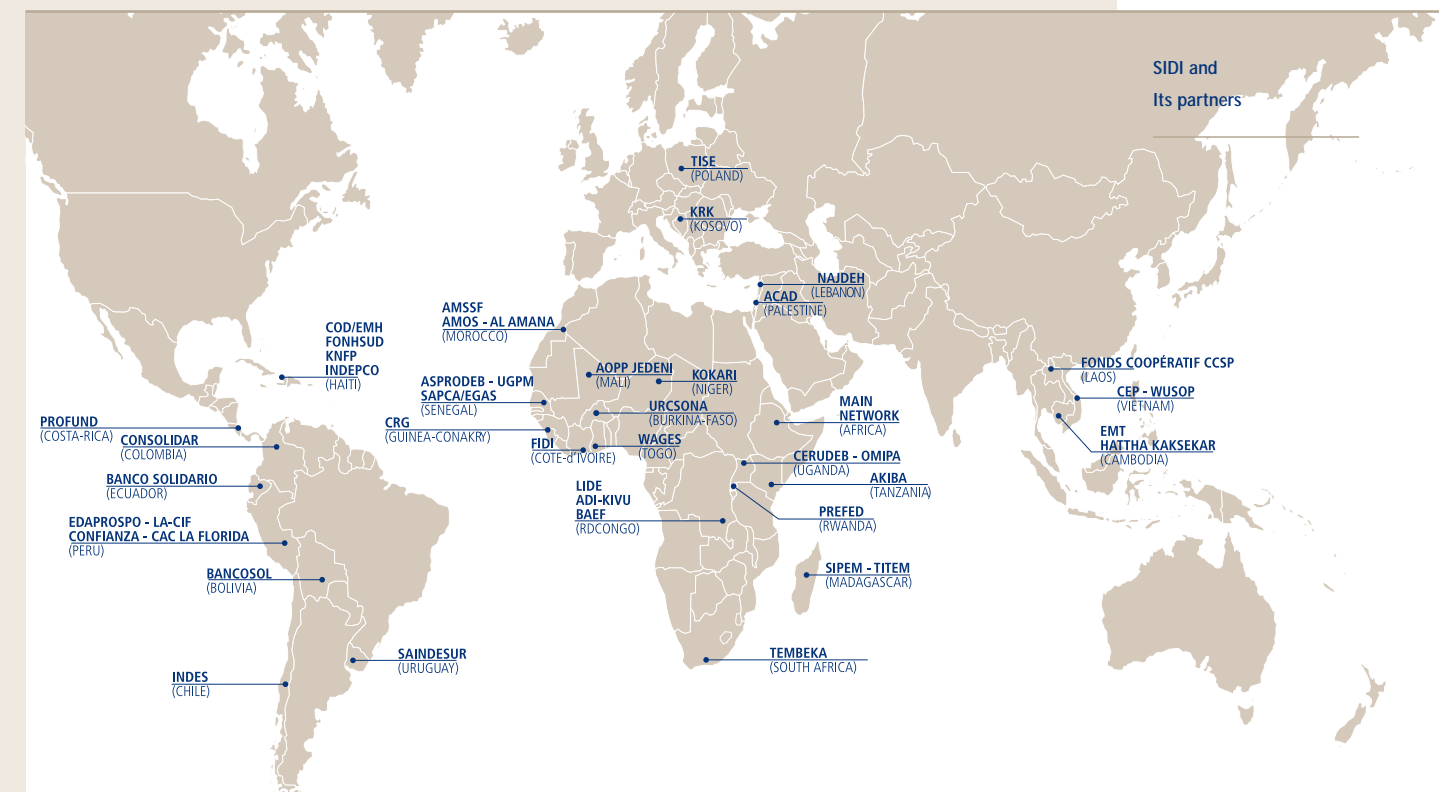
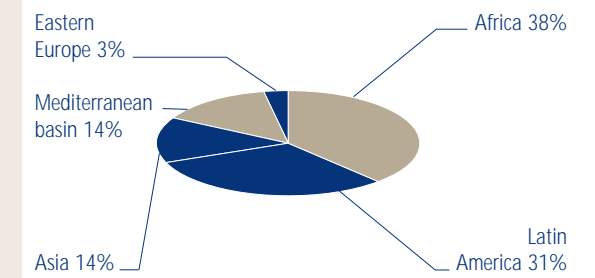
the use of this fund, this year. Part of the funds' resources were used to protect SIDI against the risks related to its core operations, as a solidarity investor (see page 22). The formalisation of the FID has had a significant impact on the results, since it has meant that SIDI does not have to allocate supplementary resources to cover risks from loans and equity investment, and exchange rate losses. Furthermore, all provisions for loans and equity investment have been reversed (except for the equity investment in LACIF, PRO-FUND and TISE).

- The CCFD also participated in this effort to secure SIDI's portfolio, by committing itself, over a five-year period, to cover certain definitive losses related to SIDI's financial activities. As a result of this agreement, these losses are no longer posted as an expense and thus help to maintain at reasonable levels the cost of the loans granted by SIDI to its partners in the South.

These financial resources were used to cover exchange rate losses of €140,000, which resulted from the strengthening of the Euro against the US Dollar and had a negative effect on SIDI's Dollar assets.

	Total in 2003 in K€	Total in 2002 in K€
Africa	274	597
Latin America	227	116
Asia	100	192
Mediterranean basin	100	220
Caribbean	0	103
Eastern Europe	25	-
Total	728	1228
loans	489	657
Equity investment - Related claims	237	571

Graph 3: Destination of SIDI's resources in 2003: new investments





ACCESS to financing in rural areas

SIDI provides supports to groups that offer sustainable financial services to disadvantaged populations, and has decided to pursue a range of approaches and support a variety of partners who tailor their operations to the socio-economic context of their area of intervention. In this way, SIDI seeks to develop a partnership strategy that goes beyond mere project financing and provision of services. Consequently, this activity report will present partners along thematic lines, rather than by geographic zones, as in past. The aim of this format is more to provide points of reference than to outline a complete vision of each partnership. In the same spirit, in order to illustrate the choices made relating to the partnerships, the emphasis is placed on the underlying dynamics of each partnership, instead of on a description of each one.

Today, more than 1 billion people live in rural areas, and more than 75% of them live on less than 1 Euro per day. The majority depend directly or indirectly on farming.

In response to this observation, SIDI, in consultation with its shareholders and sought after by its Southern partners, has made an effort to increase its contribution in rural areas, as highlighted in the 2003-2005 plan. During 2003, this approach was reinforced in relation with partners in Asia, Africa and Latin America.

Cambodia.



PHOTO SIDI

SIDI's partners contribute to rural financing through a range of models and products, such as seasonal credit to farmers for individual activities, medium-term loans, financing for the economic activities of farmers' organizations,

among others. SIDI encourages this diversity without advocating any particular model or methodology, in order to meet needs in rural areas more effectively.

Local institutions supply a range of credit

(Kokari, CRG, EMT, Hattha Kaksekar and KRK)

In West Africa, villages are generally small and far apart. The institutions operating in this context have to tackle the daunting challenge of village isolation. Attaining financial balance by vigorously expanding to new locations, is usually a long and slow process. In order to avert the destabilizing effect of ill-controlled expansion, existing agencies have to be consolidated, their governance stabilized and operations professionalized. That is one challenge that the KOKARI co-operative, a SIDI partner in Niger since 2000, has been working on. In 2003, thanks to loan facilities negotiated with its financial partners (SCAC, BAD, AFD and others), KOKARI managed to open two new branch offices and increase activities in 9 existing branch offices, dispersed across Niger's huge territory, to serve some 4,000 customers. SIDI has redoubled its efforts to provide support and counselling to KOKARI, in particular technical support in accountancy, and sizeable contribution to help it draw up its 2004-2007 business plan, which was the co-op's first attempt at strategic planning. This year, SIDI and ALTERFIN acquired a stake in the co-op and were represented at its annual shareholders' meeting, held in May.

One of the biggest players in rural financing in Guinea-Conakry, the Crédit Rural de Guinée (CRG), is active throughout the country through 104 village banks and an active portfolio of 3.3 million Euro to 100,000 customers. These customers are members of the village banks, as the CRG decided to involve them in the banks' management and governance in order to control costs and reduce risk, arising from the country's large territory. In Niger, where basic infrastructure, such as telephones, electricity, etc. is unreliable, the CRG faces the challenge of the completion of its computerization and the development of products that are well-tailored to the needs of its rural customers. This year, SIDI consolidated its part-

For an explanation of abbreviations, please see glossary on page 2.

nership with the CRG with active participation on the institution's board of directors, support for the introduction of an internal charter for the board and management of human resources, with the help of a consultant.

In Southeast Asia, while rural areas are not as isolated as those in West Africa and distances between villages not as great, during the rainy season, some villages in Cambodia are at times cut off by flooding. At the best of times, poor infrastructure hinders communications. The experiences of two SIDI partners, EMT and Hattha Kaksekar, have shown that a suitably tailored management organisation and operations help to optimize costs and secure repayments.

EMT's experience confirms that solidarity credit and professional management can make a success of a responsible approach, such as the one it promotes. Moreover, this method of granting loans strengthens solidarity and trust among the members of a group living in the same village (see focus on the 2002 "client monitoring study", page 14).

This year, EMT generated a net profit of more than US\$ 570,000 and began to lower interest rates charged to customers, in January 2003. The absence of a traditional financial sector, where EMT could satisfy its refinancing needs, means that lowering interest rates can only be undertaken gradually. EMT serves more than 92,000 customers and will have to continue looking for new sources of financing in order to improve the quality of its services if it is to stand up to competition from other microfinance institutions (MFIs), and will have to seek and involve Cambodians in its governing bodies.

HATTHA KAKSEKAR, another Cambodian partner, has pursued the important reorganization work drawn up in its 2002 action plan, in close co-operation with SIDI, and accepted by the regulatory authorities. In agreement the Agence Francaise de Développement (AFD), the principal donor institution, SIDI provided regular and continuous technical assistance, with the help of an experienced consultant. In addition, SIDI was able to successfully negotiate with the Mekong Project Development Facility, an initiative of the World Bank, to provide training for Hattha's staff in understanding and analysing accountancy data collected from customers. With support from CORDAID, the two members of the senior management undertook a study tour in

Indonesia to see the methodology of individual loans, successfully used by some MFIs.

Since 1983, SIDI has been playing a key role in the institutionalization of microfinance projects. This year, SIDI bolstered its commitment in Eastern Europe, a priority zone of intervention, for CCFD, by acquiring a participation in KRK, alongside ADIE International. KRK grew out of a RFPK, a project in Kosovo, implemented by ADIE International. KRK is a limited liability company with three shareholders: FIEK (active in rural areas), the federation of credit associations representing the members ADIE, and SIDI. KRK, with outstanding loans of 3 million Euros and 3,000 active customers, is now beginning a new stage in its recent business plan.

Producers' organizations offer loans to members

(AOPP, SAPCA-EGAS and the CAC la Florida co-op)

In the food-producing area of Sahelian West Africa, most crops are consumed by the farming families that produce them. Any surpluses are marketed to earn money for the families, to buy clothing, pay for schooling for the children, etc. The agricultural development problems in this area stem from harsh weather conditions that can deprive a family of money, and from government farm policies that can have a lasting impact on the production and marketing of a product.

CRG, Guinea.



PHOTO SIDI



SIDI and its partners

While the aforementioned rural financing institutions provide short-term, seasonal loans, farmers' organizations are also involved in providing financial services to their members. The Association des Organisations Paysannes et de Producteurs (AOPP) in Mali, a farmers' federation that covers the entire country, is working with SIDI to break new ground by helping to finance certified groundnut, millet, sorghum and maize seeds. This organization, with its 120 groups of local Malian producers, would like to produce seeds locally, in a sustainable fashion, in order to take up the challenge of food sovereignty.

In Senegal since 2001, SIDI and CORDAID have backed the production of quality groundnuts, the country's main cash crop, via SAPCA-EGAS, which markets groundnuts under conditions favourable to farmers. However, in 2003, the upstream privatization process of the sector caused difficulties for SAPCA-EGAS, requiring it to request more time for repayment. SAPCA would now like to diversify in order to overcome these difficulties. SIDI will be supporting SAPCA's new business plan in 2004.

In Latin America, the leading farm production issues relate to the marketing of cash crops, such as coffee (see focus on the CAC la Florida farm co-op, page 13).

Market in Laos.



Innovations in rural financing (BANCOSOLIDARIO, UGPM and KNFP/IMOFOR)

Efforts at innovation, which underpinned the development of microfinance, are sometimes hindered by an institution's profitability and risk-mitigation objectives. Nevertheless, innovation plays a key role in the development of financial services. Some institutions, whether national or local in scope, muster a great deal of creativity to adapt their products and services to the clientele. That was how BANCO SOLIDARIO, in Ecuador and a formal commercial bank with more than 95,000 clients, has developed its operations by offering tailor-made products to meet the needs of small entrepreneurs. After introducing savings products for Ecuadorian emigrants, the bank is now innovating in rural areas. In the wake of a pilot project conducted in the north of the country, where the population is mainly indigenous, BANCO SOLIDARIO is now extending its rural finance activities to other regions. Its loan officers are specialized in the agricultural sector, have a farming background and share the concerns of their farmer clients. In October 2003, the bank organized a seminar on rural financing, in Quito attended by SIDI.

Inset 1 **The Great Lakes Convention : an illustration of the complementarity that exists between SIDI and CCFD.**

Since May 2001, CCFD and SIDI have been collaborating closely within the framework of an objectives-driven convention signed between MAE (the French Ministry of Foreign Affairs) and CCFD, at whose request, SIDI is responsible for all issues related to microfinance.

CCFD's prior knowledge of the area made it easier to identify partners potentially interested in receiving support from SIDI.

SIDI has therefore been able to successfully build partnerships with several local organisations. By way of example, we can mention the BAEF (Bank Supporting Female Entrepreneurship) in Butembo, which requested help from SIDI and whose found-

In Senegal, SIDI developed an experimental financial support programme for family holdings with UGPM, a long-standing partner, for which it released a 61,000 Euro loan. This programme was expanded to include follow-up for social viability (see Chapter III, page 25) as well as for the production of a software package for analyzing the finances of family farms. Thanks to alliances with Action Carême Suisse, Inter-Réseaux and BOAD, UGPM has been gradually improving its financing and development tools to enable families to limit the effects of bridging loans.

Efforts at innovation were made both in the area of products and in training and management. In the field of management, in Haiti, SIDI has been supporting IMOFOR (institut mobile de formation – mobile training institute), since its founding by the Conseil National de Financement Populaire (KNFP), which coordinates the activities of member financial institutions. In Haiti, a country wracked by a deep political and economic crisis, the European Union, CORDAID, CCFD and CTA (EU-ACP) came up with an innovative response via IMOFOR for the development of financial activities and committed their financial support in 2003. That gave KNFP renewed courage, prompting it to organize a workshop on rural financing, in

November 2003, in order to continue to guide microfinance in the direction of development. The workshop was similar to the one held in Ouagadougou, in January 2003, and was the setting for exchanges among the financing networks and local farmers' organizations.

ding shareholder is an NGO, active in the area of development, COTEDER, which is a CCFD partner. Another example is ADI-Kivu, also a CCFD partner, which has developed savings and loan activities based on the model of MUSO, in southern Kivu. In other cases, SIDI's missions on the ground have identified new partners who are more in line with its usual partners, such as the credit and savings cooperative CODEFI in Butembo, or CAPES and PAIDEK in Bukavu.

Within the framework of this convention, CCFD's financial support is used for capacity-building of local organisations, the funding of training, the purchase of equipment (particularly IT equipment), or for the dissemination of educational materials (the MUSO manual in Swahili, for example).

SIDI's support, which is complementary to that of CCFD, focuses initially on technical support so as to help these institutions to consolidate their financial services that, in most cases, have only been in existence for a few years. Once it has achieved this, SIDI

can then begin to develop financial support by means of its traditional instruments of equity investment and loans.

As a result of the war, the partners working in the field of popular financing are still in a fragile situation (low repayment rate, modest equity levels, ...). This objectives-driven convention enables SIDI to combine its support and guidance mission with the provision of subsidies, so as to consolidate the institutional partner from a methodological point of view. Indeed, the combination of these two elements, together with the close monitoring and follow-up carried out by both SIDI and CCFD, go a long way towards explaining the success of this collaboration.

The achievements of 2003 are encouraging, despite the political context which continues to be difficult. The number of MUSO established in this region has exceeded initial forecasts (several thousand members). The LIDE, in northern Kivu in the Democratic Republic of the Congo, has commenced its first activities for the refinancing of the MUSO.



Photo SIDI

CAC La Florida, Peru.



partner in Morocco, the Association Marocaine de Solidarité Sans Frontière/Micro-crédit (AMSSF/MC), in addition to Al Amana and AMOS, is one of the results of this mission.

Set up and locate in Fez, AMSSF/MC works essentially in rural areas with solidarity groups. It is currently looking into the development of new products in rural areas with the aim of boosting the loyalty of its clientele, numbering around 6,000 people, in a market context dominated by three large microfinance institutions. AMSSF/MC benefited from a joint 200,000 Euro loan granted by SIDI and ALTERFIN and methodological support from SIDI for the granting individual loans. AMOS, a long-standing SIDI partner based in Morocco's Middle Atlas area, is similar to AMSSF/MC in size and its commitment to rural populations. In 2003, AMOS had some 4,000 customers. SIDI maintained its commitments with AMOS, in 2003, to take part in the "strategy", workshop held in February and to back AMOS' internal organization and financial analysis. AMOS' field of activity has become very competitive and it will either have to change its statutes to allow its customers to get involved, or it will have to design new products in order to maintain the loyalty of its clientele.

Local financing: solidarity credit unions and co-ops

(LIDE, BAEF, CODEFI, ADI-KIVU, VARENA in Burkina, FONSDUD in Haiti, TITEM... CCSP in Laos, OMIPA and COD EMH in Haiti)

Solidarity mutuals (MUSO)

Responding to the challenge of setting up financial services in far-flung and disadvantaged areas requires innovation in order to make best use of the means available in these regions and to overcome certain inherent obstacles. The MUSOs are exper-

imenting with a method of providing rural financial services that are managed by the local inhabitants themselves (see inset no. 3 on page 15).

Despite a persistently difficult political climate in the Great Lakes region, SIDI has continued to disseminate its MUSO model, within the framework of

the Great Lakes Convention, alongside the CCFD (see inset no. 1 on page 10).

In Haiti, despite the increasingly thorny situation, the MUSO and the co-ops are making headway. COD-EMH, which brings together more than 400 village banks with more than 6,000 members, has entered a phase that focuses more on consolidation than on expansion, in these difficult circumstances. Unfortunately, the network has been set with competition from the so-called 10% co-ops (pyramid scheme), which pay 10% interest per month on deposits but have caused customers to lose large sums of money. In addition, the network is grappling with internal problems. FONSHUD, however, has successfully undertaken the creation of its network of MUSOs (see study on page 15).

In Madagascar, TITEM has consolidated its loan methodology, based on the MUSO model. Thanks to an active partnership with the SAHA programme of Intercoopération Suisse, this little rural network in Madagascar is now better informed on rural matters. Against the backdrop of changes in microfinance legislation, this network would like to obtain certification enabling it to revive its activities and, furthermore, to seek financing to ensure its future operations.

The rural co-ops

OMIPA, located in southern Uganda, is a member-owned community financing institution. It was founded at the end of 2003, when 24 associations, with a total of 800 members and backed by a technical team of 3 full-time employees, decided to create OMIPA. It continued growing this year and generated positive results, without any subsidies. SIDI contributed to this partnership by reinforcing OMIPA's technical skills and building an exchange programme between OMIPA and other microfinance institutions, in this Southern African region.

Similarly in Laos, SIDI focused its work on consolidating the network of credit co-ops and on institutionalizing the co-op fund, which is an umbrella refinancing entity. A SIDI consultant provides regular assistance to the fund's management staff. The September General Assembly of members approved the co-op fund's new capital structure, 52% of which will be held by co-operatives (the CCSP group and local enterprises), with funds made available by MISE-REOR. The remaining 48% will be held by international partners, including SIDI.

FOCUS CAC La Florida, Peru.

The production of Peruvian coffee in the context of a depressed market

Peruvian coffee is produced by 136,000 « small » producers who still preserve a family-based farming sector. The sale of their coffee is highly dependent on traders who act as middlemen.

These small producers have felt the full impact of the world coffee crisis translated in a fall in prices, over the last few years (prices have been halved in five years), due to the liberalisation of trade in the agricultural sector. The arrival on the world markets of new coffee exporting countries (such as Vietnam) has led to a fall in world prices on a market where demand remains stagnant.

As things stand today, only 30% of the coffee producers in Peru are organised and the majority of them are under threat, as is the case in many other Latin American countries.

Focusing on quality

For many years local exporters focused on volume to the detriment of quality. This led to a significant depreciation of Peruvian coffee. The low quality standards in Peru have made it very difficult to develop high quality coffee. The time has now come to take a step backwards and to regain the lost ground by developing the production of quality coffee. Of course, this new approach will have significant consequences since the price of quality coffee is \$15 higher per quintal than the world coffee price.

The example of CAC La Florida, a community enterprise

The *Cooperativa Agraria Cafetalera La Florida* (CAC La Florida) was established in 1966 in the Chanchamayo region (in the Central Amazon region) and is one of the few Peruvian cooperatives to have consolidated its place on the market as a result of the way in which it manages to master all of the marketing requirements of a top of the range, organic coffee. The CAC La Florida has been successful in overcoming the social crisis caused by the Shining Path movement that devastated this region in the early 1990s, thanks to the will and desire of its leadership to pursue its mission. Moreover, the management team, together with the board, is made up almost entirely of the sons and daughters of the founders and they fervently uphold the original spirit and mission of the cooperative. The CAC La Florida defines itself as a « community enterprise », in other words the community lives thanks to, and through, its enterprise and it is

the community of coffee producers who decide whether or not to keep the enterprise alive.

There are 2,000 fully registered members of the cooperative, with almost another 5,000 occasional members. It has now returned to marketing levels that are close to those it achieved before the social crisis and has managed to do so in a fairly hostile world market environment. It sets great store by its slogan: « *Café de calidad, gente de calidad* » (Quality coffee, quality people).

The key elements of its current success

The marketing and financing instruments used by the CAC La Florida incorporate a significant element of development around issues which are of common interest to its members: how to reconcile the need to take into account the market constraints on the one hand and the development of the standards of living of its members? The services provided to its members may be summarised as follows:

1. Training

A training centre located near to the production areas enables the members to continue with their training and allows their children to continue the family business.

2. The choice of quality: organic and fair trade

An analysis of the market constraints led the CAC La Florida to make the strategic choice to produce and sell special coffees (organic and fair trade), starting in 1998. The CAC may be proud of the distinction it has earned through its labels that enjoy an excellent reputation and this in turn opens the door to the main markets in Europe and North America. Furthermore, at the same time, it has managed to maintain satisfactory conditions of payment for both the producers and the cooperative itself. Indeed, during its 2003 season, the CAC was able to sell organic coffee at almost US\$150 per quintal, enabling it to compensate for certain sales of conventional coffee at US\$53 per quintal (insufficient to cover production costs). A significant difference!

3. Funding for the management of family plots (known locally as « chacras »)

A credit fund has been set up to enable the CAC members to manage their chacras (agricultural land) in order to maintain the quality of the production of Arabica coffee. During its 2003 season, the CAC placed 42,000 quintals of coffee on the market, with a turnover of US\$3.6 million. Producers

need to fulfil certain requirements prior to receiving access to the land management fund.

4. Investment in infrastructure

The CAC has also contributed to the physical infrastructure of this region which had been lagging behind, until recently (bridges, access routes, etc.).

5. Lobby the national authorities

The CAC La Florida also plays an active role at the level of the national authorities whose aim is to facilitate the organisation of small producers. The stakes are certainly high, since coffee continues to represent the main source of income from the agricultural sector.

A loan to fund for making cash payments to the coffee producers

SIDI provided a loan in 2003 to finance the coffee season. This SIDI loan of €100,000, which was completed by other resources provided by SOS Faim and Alterfin, has enabled CAC La Florida to pay for the coffee produced by its members in cash and to cover some of the marketing costs. At the end of the season, the net marketing margin is redistributed to the members on a pro rata basis according to the value of the volumes they provided to the cooperative, following the sale of the coffee by the manager at the most favourable moment and conditions on the market. With this first loan, it was possible to cover the production of 1,675 quintals, in other words 4% of the volume of coffee placed on the market.

Other areas of collaboration have also been prepared for this year, such as the conditions of use of an old credit fund which has been converted into a Savings and Credit Fund under the name CREDIFLORIDA. Indeed, the general assembly of the CAC La Florida has decided to equip itself with its own credit savings instrument for its members. More than 700 members have already benefited from credits in 2003.

The CAC has also requested methodological support regarding the social viability of the cooperative and would like to develop its sales in France.

SIDI collaborates on the matter of seasonal credit to be provided by the CAC La Florida to its members, with SOS Faim, which has also been involved in the setting up of the CREDIFLORIDA cooperative, as well as with ALTERFIN in Belgium.

Despite its difficult past, today, the CAC La Florida has assets of US\$3.5 million with a turnover of a similar figure and generates a net surplus of US\$250,000, which contributes towards its capitalisation, to the financing of its seasonal activity and to the training centre for its members.

FONHSUD, Haiti.





EMT, Cambodia - Client satisfaction study

This study was carried out by EMT over a one-year period - from July 2001 to July 2002 - and published during 2003, after compiling and analysing the data collected. At the launch of the project, EMT already had more than 80,000 active clients, in 9 Cambodian provinces and had a staff of 160, with an average loan of US\$50. Five villages (out of the 937 in which EMT operates) were selected for the purposes of this study and 558 people were interviewed (this included both EMT clients and non-clients).

The reasons for a « Client monitoring study»¹ rather than an « Impact study»?

At this stage it would be appropriate to provide a brief review of the difficulties encountered in trying to evaluate the impact of the services provided by a microfinance institution, on its clients. We will limit ourselves to the main difficulties (enumerated in the weekly Information Bulletin of Espacefinance, dated 4 July 2000):

- Impact studies are expensive.
- They are complicated (problems with fungibility of credit, multiple effects, the lack of statistics over significant periods of time, the impossibility of isolating the effects of exogenous events - whether political, climatic or economic - within which the client operates).
- The limits imposed by any system based on sampling.

Insert No. 2 : The point of view of a SIDI/CCFD donor on the EMT client monitoring study

« I was particularly interested in the impact report. I liked the modesty displayed in the observations made in the study, and would just like to highlight one or two of the points that struck me most:

- the degree of satisfaction of the clients, particularly of those on the solidarity guarantee system, in terms of the lower financial cost (in comparison to money-lenders), in terms of a reduced social or family dependence, and of the cost in terms of the perceived improvement in the standard of living.
- Female clients would essentially like to see a lower rate and would prefer not to have to provide so much paperwork. Nevertheless, it does not appear that they wish to borrow larger sums (although I perceived the opposite to be the case, during my visits).
- The solidarity which exists within the group fosters better communication among the group members, even though they say that they would prefer a greater degree of solidarity (which would seem to be something of a paradox!).

Individual credit generates different results and at EMT, has yet to reach the same level of methodological maturity as the solidarity guarantee schemes. Of course, this is quite normal ».

J. Gautheron, May 2003 (extract).

- The results are often adjusted according to the wishes of the people who commissioned the study. These type of studies are generally commissioned by donor agencies who need to justify their investments, or by people acting in good faith who do not necessarily fully appreciate the complexity of the task.

- An evaluation of the institution's performance is generally sufficient to establish whether the clients are interested in the services offered and whether these same services are sustainable in the long-term.

A study to improve the response to the clients' needs

The need for this study was identified from within the institution itself. The issue at stake was to reconcile the contradictions inherent in an impact study and to make good use of the work undertaken in order to improve the institutions response to clients' needs.

Therefore, it was not an impact study *stricto sensu*, even though it did provide valuable information. The study displays a certain degree of « modesty », as noted by an individual donor (SIDI/CCFD) who shares his view on this study (see insert No.2).

EMT's loans, a source of funds

The study highlights major disparities in household income, which may vary by as much as 300%, and the need for cash-flow, linked to the seasonal nature of the production cycle. Therefore, credit is required by the families to bridge a gap, by making up for cash-flow shortfalls, since liquid savings remain insufficient and the families prefer not to touch their *hard savings* (livestock). The EMT loan therefore falls within a range of choices that these families have in terms of sources of credit: money-lenders - whose interest rates continue to be prohibitive, ranging from 1% per day to 20% per month; tradesmen for small credits in kind over a short period of time - 2 days to one week; other family members (or neighbours), with repayment in kind or through working-sharing in their fields; and finally, institutions such as EMT.

The use of the credit - a combination of productive and personal needs

Solidarity credit, which is the main credit product offered by EMT, represents more than 90% of EMT's portfolio. It is based on a system of solidarity groups that are freely established through self-selection, by the members, in the villages.

It would appear that solidarity credit is more suited to women, since they continue to constitute the majority (75%) of EMT's clients. They are to be found more

regularly in the village and appear to be more prepared to accept the constraints related to this product (time, knowing the inhabitants, availability). Women are also generally responsible for managing the family's budget.

Although the study identifies twelve uses for these loans, more often than not the clients combine two uses, one of which is productive (purchase of stocks, seed...) and the other personal.

Information on the strategy regarding the use of the credit

Whilst it is difficult to draw any conclusions backed up by figures on a quantifiable improvement in the living conditions of the clients, the study does provide a mass of information on the clients' strategies regarding the usage of the credit: increase in activity, diversification of activities, improvement in the output of these activities through the purchase of equipment or a higher volume of input or through an increase in the selling price, replacement of the supplier credit, reduction in financial charges (by replacing the source of the funds), establishing a good cash-flow. All of these factors go to show (albeit indirectly) that EMT's financial services are highly useful within the Cambodian rural environment.

An essential contribution to development

This study was undertaken at the request of EMT's shareholders, whose involvement in EMT is fundamentally driven by the will and desire to support development. It reinforces the idea that the credit provided by EMT plays a role in improving the living conditions of the borrowers. It also validates the soundness of the methodology used by EMT that combines the proximity of the agents and the involvement of the clients. SIDI has been present within EMT, both as a shareholder and as an administrator, since the beginning of 2000, when the initial rural funding project was transformed into a private limited company, operating with a license granted by the country's financial authorities. At this important stage in the life of EMT, SIDI provided its support during the transformation process, helping to draft the articles of association, to set up the company... Today, it plays an active role on EMT's governing bodies: the shareholders' general assembly and the secretariat of the board of directors. SIDI is also engaged in the seeking further funding in order to keep pace with EMT's strong growth.

Since its incorporation, three new shareholders have joined EMT's capital.

¹ - EMT Client monitoring study, by Lamy Benkirane, May 2003.

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Solidarity-based cooperatives (MUSO) in Haiti, the example of FONHSUD, THE HAITIAN FUND FOR DEVELOPMENT SUPPORT IN THE SOUTH

FONHSUD was created on 25 September 1995 and provides support to farming organisations and village groups in southern Haiti.

It is active in three main areas:

- Environmental protection, where it is involved in reforestation projects, soil conservation and the distribution of kerosene stoves.
- The solidarity economy, where it essentially provides support activities for the organisation of the populations, notably through the establishment of MUSO (see insert No. 3) and their financing.
- Local democracy. Here FONHSUD provides guidance and assistance with regard to decentralised cooperation.

Although these are the three main areas of FONHSUD activities, we should also add training and the funding of collective structures for the farming organisations. FONHSUD has a long-standing partnership with CCFD based on these activities.

SIDI provides support to FONHSUD with regard to the activities it undertakes with the MUSO. This support includes a loan for the refinancing of the MUSO network, as well as regular technical assistance, particularly with regard to the instruments used to monitor the FONHSUD credit portfolio and the production of data on the MUSOs.

The major concern is to strengthen solidarity amongst the communities

A concern for FONHSUD since it began its activities has always been the structuring of the beneficiary communities and the financing of its members' economic projects. In 1988, it became interested in the financial instrument called the MUSO following a training session on the subject held by SIDI, for its various partners in Haiti. As a result of this interest, the first such mutual was set up in the same year, in Bidouze, with FONHSUD's support at the request of the committee whose task it is to organise women in the area.

Initially, FONHSUD organises a three-day training course for the groups interested in setting up a MUSO. In the weeks following the training course, FONHSUD provides support to the groups in order to help them set up their MUSO (drafting of the internal rules of procedure, selection of the board members...). Finally, FONHSUD regularly visits the mutuals that have been created to accompany its developments, ensure that the members fully understand the financial instrument and to analyse its functioning.

Once the MUSO has been up and running for a certain period of time with the money it has collected

from its members (known as the "green account"), without encountering any particular problem, then FONHSUD refinances the solidarity bank at an interest rate of 1,5% per month, since the amount of money collected in the "green account" is generally insufficient to satisfy all of the credit requirements. These additional resources are then loaned out by the mutual to its members at an interest rate that varies between 2% and 5% per month (the rate is fixed by the members of the MUSO themselves). As well as providing a source of financing in the form of microcredit, the MUSO also represents an excellent tool that may be used to inform and raise the awareness of its members on subjects such as reforestation and adult literacy campaigns.

A popular financing provision which is making great progress

Since this instrument was introduced in the region, the number of MUSOs and its members has continued to increase. Today, FONHSUD supports 96 MUSOs that have 1,395 members, 63% of whom are women.

The outstanding loans for refinancing provided by FONHSUD stood at US\$40,000 on 31 December 2003 and at that date 50 MUSOs had benefited from these loans (the remaining - out of a total of 96 - had not received a loan due to a lack of funds). For the time being, none of the MUSOs has had any repayment problems. The equity of these MUSOs has now reached a fairly significant level (at about

Insert 3: The solidarity mutuals: a three-coloured form of community-based financing

A solidarity mutual is a group of people who know one another and who decide to pool their resources with a view to converting the amounts thus collected into credit for the members. The management of the mutual is made as simple as possible and is based on a system of three colour-coded accounts (eg. green, red and blue) so as to ensure that there is no confusion amongst the members as to the origin or the ultimate purpose of the funds the mutual has at its disposal.

The first account, known as the "green account", is used to grant small loans. It is financed by the contributions paid by the members. These contributions are recoverable by the members should they decide to leave the solidarity mutual. The second

US\$22,500) and full use is made of this in the form of internal loans to the members. The equity has been gradually built up by the members' contributions and by part of the interest received on the loans granted to members. FONHSUD has also made a significant contribution to the accumulation of this equity through its refinancing policy. These funds are used to finance the economic activities of members, such as small shops, livestock breeding, local crafts, farming and social activities (schooling for children).

According to an evaluation report carried out in July 2003, the activities undertaken by FONHSUD have allowed a significant number of beneficiaries, the majority of whom were women, to either begin or to increase income-generating activities, thereby enabling them to make a profit which, despite being fairly modest (US\$7.5 per month on average), is nevertheless sufficient to improve certain aspects of their everyday lives.

A high demand yet to be fully satisfied

As a result of galloping inflation, the funds allocated are no longer sufficient to enable the beneficiaries to deal with the high cost of products and this means that they are now asking for higher loans that FONHSUD is not always in a position to satisfy. Finally, it is difficult today to measure the potential impact of the political crisis at the beginning of 2004, on the viability and development of these MUSOs.

account is called the solidarity account and is used for health or emergency expenditure. It is constituted by the members' non-recoverable contributions. The third account, the blue or refinancing account, is replenished from external resources which have been made available by other members of the village, a financial institution, an association, a project...

The members of the mutual are free to establish all of the rules that govern the running of the mutual. These rules may evolve over time in order to take into account the increase in resources.

As well as providing access to credit, MUSO is also concerned with the life of its members and their difficulties. It provides people with the opportunity to regularly discuss subjects such as living in a community, the economic difficulties they encounter, etc. The MUSO represents a local facility for the management of external refinancing, managed by the local people themselves.



ACCESS to financing in urban centres

The development of an entrepreneurial spirit is a key element to income-generation, in urban areas.

Financing microentrepreneurs via community financial vehicles: an experience pioneered by SIPEM and INDES and, more recently by Al Amana (SIPEM, INDES and AL AMANA)

From its very beginnings in 1983, SIDI acted to transform private initiatives into structured and sustainable enterprises. In Chile, INDES is an initiative set up in June 1987 in co-operation with the Banco del Desarrollo, with the aim of creating a local investment company. Furthermore, in Madagascar, a local association, APEM, asked SIDI to set up a company in Madagascar, in 1990, called the Société d'Investissement pour la Promotion des Entreprises à Madagascar (SIPEM).

These two long-standing SIDI partners are a good example of how SIDI turns its visions into reality, by supporting the start of an initiative, accompanying motivated partners who share that vision and then gradually stepping back, as new local shareholders are brought in.

Starting in 1992, following a difficult period, INDES managed to convert its business model as a local investment company into an local finance company (LFC) and developed microleasing and equipment loan products, to meet the needs of its customers and ensure its financial future: a turnaround that required strong motivation and commitment from its board members, which includes SIDI's long-standing representative. For the third year in a row, INDES distributed dividends to its shareholders with the goal of attracting new investors, in particular Chilean. As of now, SIDI's investment in INDES has reached a point of maturity. In the wake of negotiations with the Banco del Desarrollo, a bank with close ties to INDES to whom it provided operational support, SIDI received a joint-offer to sell a little over half its participation at a price calculated at a premium of 10% to book-value. When this agreement materialises in 2004, SIDI will have the satisfaction of having begun a process of retreat and handing over (part of) its stake to a local shareholder whose aim is to continue to support the future development of INDES.

SIPEM, an organization similar to INDES but located in far-flung Madagascar, is today an institution that is recognized locally for its high-quality relations with customers and its profitability. In keeping with its original mission, SIDI is planning to support SIPEM's capital increase. That will enable SIPEM to expand its geographical coverage and make room for more shareholders and directors. The capital increase will take place through incorporation of reserves, which will have the effect of doubling SIPEM's subscribed capital.

Although the partnership with Al Amana, a Moroccan institution, began in 2002, SIDI has known it since its creation. These enduring relations would have led SIDI to acquire a stake in Al Amana's capital, had Moroccan legislation on MFIs so permitted.

This institution differs from the two other SIDI partners in Morocco, in its size, national scope and degree of development. AL AMANA is the biggest microfinance institution in Morocco by volume of activity, has a loan portfolio of US\$ 25 million and more than 20,000 customers. In 2003, SIDI organized a workshop on governance for AL AMANA's board of directors (see focus on AL AMANA, page 19) and has participated in the board's finance committee. AL AMANA is a forum for reflection and innovation and plays a significant role in the regulatory policy-making in Morocco, as well as in product diversification (subsidized housing loans, rural electrification and business training, among others).

Financing by MFIs that have upgraded as commercial banks (CERUDEB, AKIBA, BANCO SOLIDARIO and BANCOSOL)

While the institutions described above have shown that it is possible to succeed in the provision of financial services, certain commercial banks are taking up the challenge of attracting more low-income customers and offering a diversified and tailor-made range of savings and loan products.

Created by the social services section of the Ugandan Catholic dioceses, CERUDEB, which at the start was a private local institution, became a bank

in 1994. Thanks to favourable Ugandan banking laws, the institution grew considerably. In 2003, when it opened 3 new branches, CERUDEB had more than 45,000 borrowers and 398,000 depositors. A contribution by SIDI, a partner of the bank since 1997, has helped to safeguard its social goals. In February 2003, a strategy workshop, in which SIDI was greatly involved, focused on the need to develop new products that are better adapted to the needs of target customers and to streamline costs in order to lower interest rates and maintain a leading position for all Ugandans, in an increasingly competitive environment.

Turning to Latin America, SIDI's partnership with BANCO SOLIDARIO, a full-fledged commercial bank in Ecuador, is described in the section on financing rural innovation.

Articulating financing and development (CEP, WUSOP, CONFIANZA, EDAPROSPRO, CONSOLIDAR, INDEPCO and Wages)

In Vietnam, a country with a multitude of individual, family-related and business initiatives, the microfinance field has fallen short and has offered few microcredit schemes for financing microenterprises. This is because the legal and regulatory setting does not permit the development of private and autonomous microfinance initiatives. The many initiatives in Vietnam are directly or indirectly managed by state-run bodies whose main objective is to comply with the government policies.

In this context, SIDI's board of directors renewed its loan to its two partners, the Capital Aid Fund for Employment of the Poor (CEP) and the Union des Femmes de la Province de Soc Trang (WUSOP), two social organizations that have developed credit activities. Today, neither organization appears to be moving towards organisational independence. A project to draw up a regulatory framework, backed by the Asian Development Bank, is apparently under study, and the government is looking into the possibility of providing a legal and regulatory framework to support microfinance initiatives.

At the other end of the spectrum, the situation in Latin America has taken a different tack and is flourishing - the development of the sector has led to the

standardization of services. The supply of microcredit has even reached the level of saturation in the larger cities of certain countries, where credit is available from two main sources. The first source is experienced MFIs, whose aim is to promote self-employment in the small business sector in the cities. These MFIs decided to forgo their NGO status and constitute themselves under a hybrid structure - EPYDME, an officially recognized financial intermediary, in Peru. In close partnership with ALTERFIN, SIDI has been supporting CONFIANZA, located in Huancayo, a medium-sized city in Peru. Originally active in rural areas, this EPYDME has developed services focusing on urban areas in order to balance costs. SIDI acquired a stake in CONFIANZA's capital, with the aim of stepping up its provision of financial services to farmers in the Mantaro Valley. EDAPROSPRO, another SIDI partner in Peru, has made the choice not to convert to an EPYDME, because it wished to continue offering a wide range of both financial and non-financial services to its clients. SIDI's loan to EDAPROSPRO was renewed and even increased in order to meet the demands of village banks, in the outlying areas of the capital city.

In Colombia, the detrimental impact of Plan Colombia is being felt, not only in Colombia but in neighbouring countries as well. In 2001 SIDI began its first partnership in the field of co-ops on this continent with the Colombian co-op CONSOLIDAR. Although SIDI acquired a stake in its capital, this co-op has still not managed to overcome its severe lack of working capital and its results have from year on year, remained stagnant. This co-op will require a thorough overhaul, for which purpose CORDAID and SIDI have agreed to work together.

In Haiti, SIDI lent US\$ 100,000 to INDEPCO, an informal association of tailors. This association, backed by a development mission, assists in training tailors and negotiating contracts. Unfortunately, the savings and loan that acted as financial intermediary failed to keep its commitments.



Photo SIDI

Edaprospro, Peru.



Jemeni,
Mali.



Photo SIDI

In Africa, many microfinance institutions focus on the development of small formal and informal enterprises in order to ensure revenue. The availability of consulting and training services is currently suffering as a result of the high priority given to financing. Some institutions, such as WAGES in Togo, which provide financing, also offer their customers training programmes on savings and the management of associations. Thanks to a partnership with SIDI and ALTERFIN that began in July 2002, WAGES managed to increase its loan portfolio by 2.5 times in 18 months, thereby serving more than 3,000 customers. SIDI is currently supporting the development of long-term financing and subsidies to finance the development of WAGES. In Guinea, SIDI has provided support to the Centre de l'Entrepreneur, a CCFD partner which trains young entrepreneurs and provides them with start-up capital.

Access to home financing (JEMENI)

JEMENI, SIDI's new partner in Mali, is a grouping of credit unions that originally serviced urban areas. The network consists of 14 urban banks in Bamako and 10 rural banks, with a total of 30,000 members. Its rural financing and housing services were reinforced by a 152,000 Euro loan from SIDI in 2003 (see highlight on JEMENI in Mali, page 20).

FOCUS AL AMANA: an improving performance

The Al Amana microfinance institution was created in 1997, at the instigation of the Moroccan government, represented by the Ministry for Trade, USAID - the American development agency, and technical support from VITA, an American NGO. The aim was to promote the development of micro-enterprises through the provision of a specially adapted financial instrument.

A highly effective structure capable of coping with rapid portfolio growth

Six years since its creation, Al Amana has achieved results that certainly go beyond the hopes and expectations of its founders. Indeed, by the end of 2003, the loan portfolio stood at US\$24 million, with 101,610 active clients, served through 125 branch agencies, throughout Morocco. The portfolio is of excellent quality, with a late payment rate of less than 0.5%, thanks to a very strict client screening system. The interest rate to the clients has fallen over the last two years, from 36% p.a. to the current rate of less than 30%. As well as providing loans to solidarity groups, over the last two years Al Amana has experimented with other financial products such as: individual loans, housing loans, loans to finance solar panels, etc.

Initially, since it had been set up under the aegis of the government and because of its institutional background (the Chairmanship of the association was held at ministerial level) the Chairman of the association was the Minister for Trade, followed by the Prime Minister. Royal advisors to the King were also appointed to the board. The institution has evolved and

adapted its institutional composition over time so as to promote development and the good management of an autonomous and ambitious microfinance institution. Indeed, Al Amana has invited to sit alongside the senior State officials in its general assembly, individuals who have specific skills and enjoy greater availability, so as to continue its development and strategic reflection. A new chairman and board was appointed at the end of 2002, and various specialised commissions were set up to focus on strategy, monitoring of finances and human resources. These commissions began to meet in 2003 in order to establish a monitoring and reporting system so as to support the work carried out by the board that meets 2 to 3 times a year.

An example of an institutional contribution made by SIDI

SIDI's partnership with Al Amana began in March 2002, even though Al Amana's progress had been monitored by SIDI since the beginning of its activities, thanks to its Director known to SIDI since the 1990s. SIDI's partnership with Al Amana takes place in two areas, one financial, the other institutional. From a financial point of view, SIDI has granted a €220,000 loan to Al Amana over a four-year period. At an institutional level, SIDI has responded positively to Al Amana's request for support for its institutional development. It has become a member of the Al Amana association and is a member of the finance commission. It will also participate on a regular basis in the meetings of the association's general assembly. SIDI's contribution to the institutional development of the association was also demonstrated in

its support for the organisation of a workshop on governance that took place in June 2003. The workshop was led by two SIDI representatives and it provided the Al Amana board members with the opportunity to meet in a working session which touched upon a range of topics: an overview of the various MFI institutional structures that exist throughout the world, a reminder of the responsibilities of a board member, the role of the trustees, of the chairman and of the director, a study on how a board functions, and an analysis of the concrete issues for which the board is responsible, such as annual budget.

A favourable regulatory environment

Thus far, those involved in microfinance in Morocco have benefited from an extremely favourable working context and have restricted themselves to the use of standard provisions and instruments (associative statutes, large-scale capital grants, external technical assistance, the provision of standard products - short-term, small amount solidarity loans in urban and peri-urban areas). In this context, Al Amana is by no means an exception to the rule. However, new challenges are looming on the horizon: matching supply to demand, the funding of medium-term projects. Other questions remain pending, such as the legal framework regarding ownership and long-term institutional viability.

From this point of view, Al Amana will certainly be one of the institutions in the vanguard of this process and will be at the forefront of reflections on the development of regulatory provisions and institutional structure.



An approach to housing finance: a partnership with JEMENI in Mali

FOCUS

Since its creation in 1995, JEMENI, the network of credit and savings unions, has consistently displayed a fierce desire to exist... Originally set up for a three year period under an agreement with AFD, the National Bank for Agricultural Development (BNDA) in Mali and a technical operator, from its very inception, JEMENI has sought to create mutual credit and savings unions, in an effort to live up to its name which means "small money-purse carried by the elderly".

Since 1997, following a fairly difficult period of collaboration between the parties to the agreement, JEMENI decided to continue on its own, without any financial means and without any external technical assistance. However, it did have a strong desire to move forward since "out of respect for the local people who had placed their trust in us, we, the promoters and the elected representatives, could not possibly stop the work that had been started". This was the spirit, together with the will and desire of the elected representatives and the professionalism and flexibility of the network's technicians to work in minimalist conditions, which enabled JEMENI to continue its work. In 2000, a decision was taken to convert the network into an institution, thereby creating the Credit and Savings Union.

Treading a mutualist path

Between 1995 and 2003, the number of unions within the network has increased from 5 to 14 urban unions in Bamako, and there are now 30,000 members and a total loan portfolio of €410,000 and outstanding savings of €390,000. In this country which has a long-standing tradition for the sound organisation of microfinance, JEMENI is one of the medium-sized organisations, within which the value of each person, of each ethnic group and of each microfinance network appears to be well respected, and quality networks have played an important part in strengthening the professionalisation of the sector. A partnership agreement signed in December 2000 with the CICM provided for training for the management team and the elected representatives, the computerisation of the network and audit procedures.

JEMENI is very much focused on the principles of mutuality, with regard to both the methods it

uses to grant loans (based on the mobilisation of prior savings) and also its vision (cohesion of the network as a whole).

A presence in the rural areas as well

In a country dominated by farming, it was no surprise when rural communities, who had learnt about JEMENI's success amongst the local communities in the Koulikoro region, came knocking on the organisation's door to see whether or not they too could benefit from the credit and savings services. At a time when the network still had to absorb the losses generated by start-up costs, how were the JEMENI elected representatives going to react to these requests? They encouraged the rural communities to start up with their own resources: first they had to construct a building to house the credit and savings union, then they had to recruit a manager from amongst the members of the community... They did all of this and within the space of two years the network has been joined by 15 rural credit and savings unions, initiated and built by the rural communities themselves, organised into village associations within which JEMENI has found a powerful ally.

« A single finger cannot lift a boulder (Bambara proverb) »

It was the ADER, which was established by the Abbé Pierre Foundation (France) and which specialises in housing related issues, that encouraged JEMENI to become involved in the financing of housing for the disadvantaged sections of the population. First of all, it assisted JEMENI, in 1999, in the creation of a credit and savings union in a working-class area and then showed a great deal of trust in this organisation at a difficult period in its history.

BAMAKO is the capital of Mali and has more than one million inhabitants. It is currently suffering from a demographic explosion that has generated a rampant phenomenon of the spontaneous and illegal occupation of land. Out of the 65 districts in Bamako, 34 were established on a spontaneously and approximately half of the city's inhabitants live there. Under these circumstances, granting the members of the local population access to a plot of land, together with title deeds that prove that they are the rightful owners of this land, becomes a really

important issue. As part of a funding programme put together by the French Ministry for Foreign Affairs and the European Union, the FAP, ADER and its local representative ANDEFAR, established a programme for the construction of social housing, a programme to secure land with title deeds for the local populations and to improve housing.

ANDEFAR plays an important role as an intermediary between the clients, who are organised within housing cooperatives (this type of association is recognised by law in Mali) and the microfinance institution. This essential work includes the provision of economic and social counselling and guidance, together with awareness-raising with regard to savings for potential clients and also follow-up. It is the cooperative which enters into a loan contract with JEMENI and which assumes responsibility for repayments should a debtor default. In 2003, two operations to secure land were undertaken: the Sissokano housing cooperative in the Baco Bjicoroni working-class district, composed of 265 members, received a loan of 13 million CFA Francs from JEMENI to purchase five hectares of land, divided among 30 members, who are repaying the cooperative on a monthly basis.

A promising partnership

It was the ADER association that put JEMENI on SIDI's path. JEMENI's programme to build social housing for the destitute, its openness towards the financing of housing and the rural areas, the involvement and motivation of its elected representatives, the professionalism of its management team, as well as the positive results which have consolidated the institution's position, have all been a major asset in the efforts made to cement the partnership. Nevertheless, SIDI has still had to adjust the conditions for the duration of its five-year loan. After that, it was able to release a loan of €152,000 in 2003 for the financing of housing and of the rural areas. In order to support both the institution's human and institutional capacities, SIDI will seek leverage effects (for the rural areas in particular), adapted to housing loans, as well as the development of new products, particularly in the rural areas.

SIDI and its partners



ACCESS to refinancing and the consolidation of shareholders' equity

(PROFUND, LACIF, TEMBEKA and DABA)

PROFUND was created in 1995 for a ten-year period as an international financing entity to help consolidate the equity of Latin American MFIs. In 2003, this fund began its partial disinvestment, which enabled SIDI to recoup part of its participation. Today PROFUND has 8 holdings and a quasi equity loan in an investment company serving, on a consolidated basis, some 520,000 clients. PROFUND's manager and shareholders are thinking of continuing their activities in order to meet the needs of MFIs, all of which are grappling with a slow economic and an uneasy political situation.

For its part, LACIF, a loan fund to which SIDI contributed US\$ 80,000, continues to grow with a total consolidated portfolio of the beneficiaries of its loans of more than US\$ 400 million and 400,000 customers (a portfolio of 16 MFIs). Thanks to these good results, LACIF qualified to receive a loan from Peru's largest commercial bank, enabling it to on-lend in local currency and thus avoid exchange rate risks.

In South Africa, TEMBEKA has finally found its rightful place in the South African refinancing sector. It is the country's largest refinancing entity for economic initiatives and is now beginning its second year of operations with the vital support of SIDI.

ACCESS to financing amid precarious circumstances

(Najdeh and ACAD)

SIDI was encouraged by its shareholders to work in areas of uncertain political situation, such as in violent and insecure areas of Palestine and in the refugee camps in Lebanon and in Algeria. SIDI made this choice because of its deep commitment to solidarity.

NAJDEH operates in Palestinian refugee camps located in southern Lebanon to finance economic activities. This year, NAJDEH became part of a close partnership with SIDI, receiving counselling for its microcredit programme, and CCFD, which backed its technical training programme for adults. This joint effort led to the programming of an evaluation mis-

sion to assess the microcredit project. The study, funded by Christian Aid, will help to evaluate the impact, and the possibility of extending the project to other camps.

In Palestine, SIDI is working with ACAD, an institution that grants loans to entrepreneurs and farmers in the West Bank and the Gaza Strip. SIDI and ACAD are looking into how they could cover risks relating to Israel's decision to seal off the Occupied Territories. A study, funded by F3E, assisted SIDI and its partner in studying innovative means to provide financial solidarity.

In Conclusion

SIDI acts in collaboration with CCFD to promote a solidarity society and economy. The Solidarity Chain for Financing is a unique partnership in the field of solidarity financing and is based on a durable commitment by several partners. Thanks to the diversity of its human resource skills, to the wide range of its

financing and support services, SIDI has managed to set up partnerships with some 40 initiatives in the South. In 2004, SIDI will continue to strengthen its partnerships by providing priority support for governance, the setting up of community-based entities and financing for rural production.



SIDI's institutional and across-the-board activities

Formalizing the FID to consolidate the Solidarity Chain

The Solidarity Chain for Financing helps to shape North-South partnership and solidarity relations. In the South and the East, community financial institutions, who are SIDI's partners, constitute the core of SIDI's operations. These partners provide disadvantaged populations access to financial services.

In the North, there are many individual and institutional shareholders in this Chain who, with their financial resources, constitute SIDI's capital (see graphic no. 4), along with solidarity-conscious savers, who agree to share the returns on their savings, and finance SIDI's development activities.

Solidarity investment

This year, in order to reinforce their commitment to help countries in the South, SIDI's main shareholders formalized the conditions of use of the Development Incentive Fund (FID), created in 2001. The two religious congregations that hold shares in SIDI (see graphic no. 4) are the Sœurs Ursulines de Jésus and the Sœurs Auxiliatrices, with whom the Congrégation des Sœurs de la Retraite is associated. They signed an

agreement with SIDI to cover the main risks arising from solidarity investment, i.e. political risks in countries, inherent operational risks, exchange rate risks, and others. The formalization of the FID in 2003 had a notable impact on this year's results (see Chapter I).

Insert No. 4 : A statement from the Sœurs Auxiliatrices and the Sœurs Ursulines de Jésus on their commitment to SIDI's capital and the FID

"A paramount concern for sharing and solidarity" in order "to take notice of those we often forget".

"Our work with CCFD goes back to the year 1979, after which get-togethers for exchange and reflection increased greatly in the regions : this helped us to evolve towards our goal of investing in SIDI". "At the 1999 regional chapter, a meeting that brought together the sœurs de la Province France and that preceded the 2000 general chapter, we suggested that some financial capital should be taken from the banks and entrusted to SIDI". By contributing to SIDI's capital, the congregations of the Sœurs Auxiliatrices and the Sœurs Ursulines de Jésus decided, after a long period of community reflection, "to show more solidarity in order to meet the needs of the disadvantaged in areas and countries where we have not yet present, and to make some economic gestures that would further development and offer an alternative to seeking better opportunities elsewhere" (excerpt from the 2000 Assembly of Chapters of the Sœurs Ursulines de Jésus)

A gesture that commits us individually and collectively

"The investment in SIDI's capital is not at all a surplus but rather the fruit of our work and the assets of the Sisters." "This choice is a difficult one for the ageing communities." In light of the ageing of the Sisters, and the increasing payroll, which has grown in size in order to continue handling tasks that in the past were carried out by nuns, "this commitment has led us to ask questions about our individual and community needs." "We wanted this commitment to be the result of personal and community gestures that commit us personally and collectively."

These two congregations explain the path that led to their commitment (see insert no. 4).

The CCFD also made a similar commitment by setting up a 5-year agreement on the use of guarantee funds (see Chapter 1).

Since the October 2001 capital increase, Epargne Solidarité Développement has sold more than 1,200 shares to private individuals, thereby increasing the number of shareholders who provide financial support to SIDI.

Solidarity savings

Also in the North, twenty regional SIDI/CCFD correspondents, in liaison with the Diocesan Committees, are promoting the Faim et Développement investment fund, to encourage new subscribers to get participate in this solidarity savings vehicle.

The shared proceeds from this investment fund enable SIDI to provide support to its partners. At the end of 2003, the loan portfolio of the investment fund, managed by Crédit Coopératif, reached 49.3 million Euros with 4,900 subscribers, a 4 % increase over 2002 in terms of portfolio and a 40 % increase in the number of subscribers.

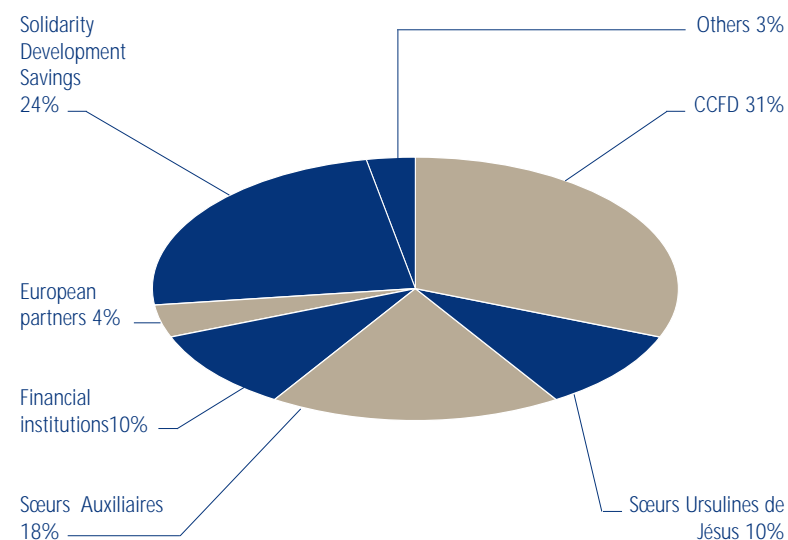
Furthermore, the first solidarity finance survey was conducted by CREDOC. It was held in December 2003 at the Caisse des Dépôts et Consignations at the initiative of FINANSOL (a French solidarity finance network) as well as the La Croix newspaper. The gathering underscored the importance of solidarity finance networks.

Alliances and leverage for our partners

In order to provide leverage to its partners, SIDI seeks funding from its Northern alliances to add to its own support and financing capacity for its partners, and to seek risk coverage with the aim of safeguarding these resources. This year SIDI committed more than 372,000 Euros in complementary financing for specific activities set in motion by SIDI for its partners (see Chapter I). Furthermore, an amount of 1'115,000 Euros (excluding the loan granted in 2001 for BANCOSOLIDARIO) was negotiated for the direct benefit of partners in the form of subsidies, loans or holdings (see graph no. 5 on the geographical breakdown of financing transferred directly to partners).

1 - Government funding agencies (UE, MAE, AFD...), private funding agencies (Gilles Foundation, Progres de l'Homme Foundation, Intercooperation Suisse, NGO like CORDAID, MISEREOR...).

Graph 4: breakdown of SIDI's capital at December 31, 2003





SIDI's institutional and across-the-board activities

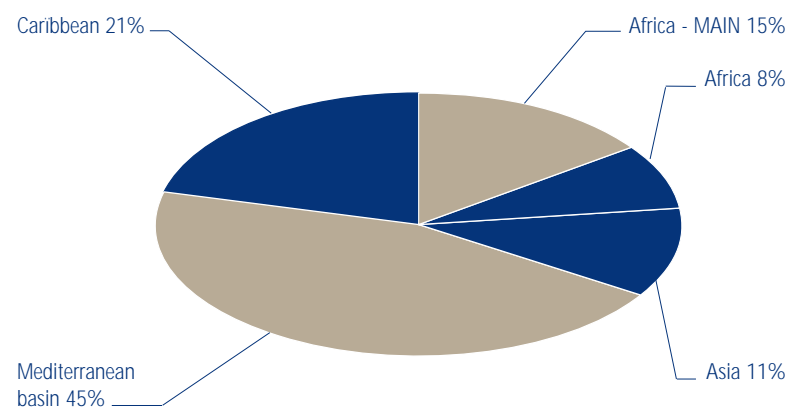
Apart from a financial impact, SIDI also seeks to create a network of Northern institutions that share the same vision of a solidarity economy. These institutions are ALTERFIN in Belgium (joint commitments in Togo, Morocco, Niger, Cambodia, Laos and elsewhere), CORDAID in the Netherlands (joint commitments in Colombia, Cambodia and elsewhere) and others. In addition, in 2003, SIDI motivated the creation of a special loan committee within the Nord-Sud Développement investment company, managed by CDC IXIS, to evaluate applications from microfinance institutions. The committee's first meeting was held in July 2003, during which a US\$ 1 million loan to BANCO SOLIDARIO in Ecuador and a US \$ 400,000 loan to EMT in Cambodia were approved.

Networking

2003, via the following actions:

- Technical assistance for the MAIN network, to organize four training sessions in Africa: Madagascar, Rwanda, Uganda and Togo, and to set in motion the capitalization of the work previously carried out.
- The start of a partnership with the FORO LAC network in Latin America
- The realization of a link with the SANABEL network in the Mediterranean countries
- The preparation of a seminar in Southeast Asia for SIDI's Asian partners.

Graph 5:
Geographical
breakdown
of all financial
resources
mobilized
in 2003
via alliances



Inset no. 5 Social viability of family holdings in the Méchké Region: a new stage in rebuilding a farming economy in Senegal.

D. has been a member of the UGPM team for more than 15 years. He was there during its initial stages, and was present when the image of farmers was enhanced and when the main agri-ecological projects were set in motion to devise a new approach to rural financing.

The Kiirayu Kër Gi (KKG) programme was a new challenge for him and other leaders. His own family and those of other members of UGPM were the focus of social viability experiments conducted with SIDI. His family holding comprises 7 members, 5 of whom are "active, and keep the pot boiling": two elderly parents, his wife, a nephew, his son, his niece and himself.

The holding was granted a KKG loan of 1 million CFA Francs (1,520 Euros) to boost existing activities and introduce new ones, e.g. financing for breeding cattle, a horse and a ram, replenishment of working capital to pay for cattle fattening and processing and, lastly, a loan facility to meet shortfalls in cash during the bridging time.

Diversification of activities: "Our project (Kër Kéri) consisted not of investing directly in farming, despite the fact that farming was the family's main activity, but rather in worthwhile related activities during the off-season, such as cattle fattening, cattle and sheep raising."

Individual responsibility: "But the programme's originality was in providing an opportunity to explain to each active member of the household his responsibility and tasks."

The inclusion of other family members: "Another idea the family came up with is that at time of abundant work, i.e., at peak times, and during the winter, the family's younger members who do not live on the farm should come and spend their holidays with us. For example, the elder son of my sister, who is in his last year of secondary school, needs something to keep him busy. He can come and sow a hectare of ground nuts, a half-hectare of niébé (a variety of bean) and some millet. What he produces will be for his family. That's one way of helping out his mother."

"The biggest impact is that today in the family home we are beginning to understand that we need complementary activities to help meet the overall needs of the family."

What kind of economic viability does the family holding need?

This holding's economic project is built around farming and breeding diversification, complementary activities and controlling consumption.

"In the current circumstances, if we have a good foundation in livestock raising, and if we manage it well, it can last into the future."

"Today, the core of diversification is, without doubt, farming and livestock breeding and fattening. That is how we were able to innovate- using organic manure, and succeed with a new variety of millet in spite of the fact that it usually requires large amounts of chemical fertilizers. That was the direct impact of introducing livestock breeding in addition to farming." "Small-scale trading and processing are supplementary activities and a way of improving our supply of cash."

Reducing consumption: "We made some estimates and changes in the way we consume soap and natural gas and we have been combining gas and firewood; we reduced our monthly gas consumption from 6 to 4 cylinders. We use firewood to prepare couscous, which requires a lot of gas, and we use coal to boil water for tea."

"But everyone in the family needs to provide the information needed to monitor and drive the various activities; having the right figures is essential."

What kind of social viability do we need?

According to D., social viability becomes apparent through the notions of **ownership and structuring**. "The family is very close-knit because KKG came to strengthen what we were already doing, such as to bring the nephew from Dakar into the family."

"What we really sensed was everybody's resolve to stay together, but it is still a problem because African families are very complex."

"We introduced a procedure that fits in with African family culture, especially as regards the family council, which is and must remain the basis of decision-making within the family."

"My father is the head of the family, he safeguards values and rules and he is the one who keeps the family together."

Excerpts from a SIDI interview with a leader done at Méchké in October 2003



Social viability and the customers

The debate on impact and social viability progressed, thanks to the application of a new methodology and related experiments conducted with UGPM, a SIDI partner in the region of Méchke, in Senegal. This new methodology includes the application of the concept social fecundity and development, devised at the SIDI workshops, and featuring the following:

- the visions and objectives of rural communities
- integrating economic considerations at different levels: the individual, family holdings and producers' organizations
- the community.

During the experimental phase in Senegal, the analysis was based on the criteria of ownership, accumulation, organisation and harmony, which enabled us to assess the impact and social changes brought about by loans to individual families. The story of a farmer and long-time UGPM associate describes the first results of the initiative (see inset no. 5).

This work also included capitalizing on partners' practices (EMT in Cambodia), and field visits (Haiti and Ecuador).

Plenary, after working group sessions, held in conjunction with the first annual conference of the SANABEL network, in Amman, Jordan, in December 2003.

2 - A new SIDI endeavour, introduced in 2002.



SIDI's financial statements as of 31 december 2003

SIDI'S FINANCIAL STATEMENTS AS OF 31 DECEMBER 2002

ASSETS	2003	2002	2001	LIABILITIES	2003	2002	2001
Uncalled subscribed capital	22	441	574	Capital	5 320	5 320	5 320
Net tangible assets	156	41	37	Balance carried forward	-319	-397	-410
Net financial assets	3 875	2 801	2 174	Profit/loss for the year	426	78	13
of which shares				Total equities	5 427	5 001	4 923
and claims	2 479	2 317	1 861	Provisions risks and charges	98	127	164
of which loans	1 475	1 055	935				
- Provisions on shares				Loans for activities	451	516	635
and loans	-79	-571	-621	Other debt	756	805	797
Total fixed assets	4 054	3 282	2 785	FID- Internal guarantee fund	2 592	2 592	2 592
				C.D.C funds	320	313	305
				CCFD-guarantee	432	507	507
Claims (net value)	872	1 101	1 091				
Cash assets	5 150	5 477	6 047	TOTAL	10 076	9 860	9 923
TOTAL	10 076	9 860	9 923				

SIDI INCOME STATEMENT AS AT 31 DECEMBER in thousands of euro

	2003	2002	2001
Income	1 581	1 340	1 354
Total	1 581	1 340	1 354
Services (CCFD and additional financing)	1 502	1 315	1 343
Other products and provision reversal	80	25	11
Charges	1 730	1 492	1 400
Total	1 730	1 492	1 400
Current operating charges	588	548	654
Wages and salaries	868	737	621
Depreciation expense	21	16	15
Additional financing transferred to partners	254	190	109
Operating profit / loss	-149	-152	-46
Income	796	518	872
Total	796	518	872
Income from portfolio (loans and shares)	120	91	88
income from current assets	44	67	100
FID resources	87	86	137
Exchange rate gains	1	10	80
Provisions reversal	544	264	467
Charges	185	362	566
Total	185	362	566
Provisions for risks on shares and loans	-	135	290
Interest on loans	18	29	23
Loss on loans		13	160
Conversion rate adjustment	5	51	91
Exchange rate losses	140	134	2
Other charges	23		
Financial profit / loss	611	156	306
Total	611	156	306
Exceptional income	25	102	89
Exceptional charges	19	28	273
Exceptional profit / loss	6	73	-184
Total	6	73	-184
Income taxes	41	-	63
net profit / loss	426	78	13
Total	426	78	13

"SOFIDEEC BAKER TILLY Agency, external auditor, member of the Paris CRCC, represented by his chairman, Mr Fouad EL M'GHAZLI, certified without reservations financial statements of SIDI for the fiscal year ended December 31, 2003."

CROSS PORTFOLIO AS OF 31 DECEMBER 2003, IN THOUSANDS OF EUROS

Country	Partner	Equity investments	Loans	Total portfolio at 31/12/03
LEBANON	NAJDEH		27	27
MAROCCO	AMOS		15	15
MAROCCO	AMSSF		100	100
MAROCCO	AL AMANA		220	220
Mediterranean basin			362	362
SOUTH AFRICA	TEMBEKA	153	67	220
MADAGASCAR	SIPEM	176		176
MALI	AOPP		15	15
MALI	JEMENI		76	76
NIGER	KOKARI	3	10	13
UGANDA	CERUDEB	354		354
UGANDA	OMIPA		25	25
SENEGAL	UGPM		91	91
SENEGAL	SAPCA/EGAS		114	114
TOGO	WAGES		136	136
GUINEA	CRG	18		18
TANZANIA	SELFINA	45		45
TANZANIA	AKIBA	224		224
Africa		974	534	1 508
HAITI	FONHSUD		24	24
HAITI	CCG/INDEPCO		103	103
HAITI	COD-EMH		158	158
Caribbeans			285	285
BOLIVIA	BANCOSOL	77		77
CHILE	INDES	126		126
COLOMBIA	CONSOLIDAR	79		79
COSTA RICA	PROFUND	245		245
ECUADOR	BANCO SOLIDARIO	165		165
URUGUAY	SAINDESUR	109		109
PANAMA	LA-CIF	102		102
PERU	CONFianza	96		96
PERU	EDAPROPO		104	104
PERU	LA FLORIDA		100	100
Latin America		1 000	204	1 203
CAMBODIA	EMT	54		54
CAMBODIA	HATTHA KAKSEKAR	51		51
LAOS	FONDS COOPERATIF	150	38	188
VIETNAM	CEP		30	30
VIETNAM	WUSOP		22	22
Asia		256	90	346
KOSOVO	KRK	25		25
POLAND	TISE	111		111
Europe		136		136
Total portfolio in €K		2 366	1 475	3 841
% of total		62%	38%	100%

The book value shown in this table includes currency differentials

Participation in european institutions are not reported in this table



Adress-book

AFRICA

MAIN

Abidjan Offices - Ivory Coast
20 B.P. 1359 - ABIDJAN 20
Addis Ababba – Ethiopia Offices
P.O. Box 278 - Addis Ababba
E-mail : mainafrica@aol.com /
fantaw@telecom.net.et

SOUTH AFRICA - TEMBEKA

P.O. Box 13859
Mowbray 7705
CAPE TOWN
Phone : 00 27 21 68 66 640
Fax : 00 27 21 447 81 38
Email : tembeka@metroweb.co.za

BURKINA FASO – MUFEDE

Immeuble Le Walkoye
Avenue de la Résistance du 17 mai
Ouagadougou
Phone : 00 226 318 827
E-mail : mufede@senatrim.bf

BURKINA FASO – URCSONA

P.O. Box 171 - Tougan
Phone : 00 226 53 41 13
E-mail : wupakwe@fasonet.bf

IVORY COAST - FIDI

Les jardins de la Rivière – Ilot B5
Villa 381
04 B.P. 2237 - Abidjan 04
Phone : 00 225 22 43 52 23
Fax : 00 225 22 43 61 89
E-mail : fidi-ong@globeaccess.net

GUINEE – Crédit Rural de Guinée

B.P. 3790 Conakry
Phone : 00 224 41 35 71/45 43 38
Fax : 00 224 41 12 78
E-mail : crg@mirinet.net.gn

MADAGASCAR - SIPEM

Immeuble SANTA LOT III
24, rue Naka Rabemanantsoa
Antanimena
B.P. 8616
Antananarivo 101
Phone : 00 261 20 22 300 98
Fax : 00 261 20 22 355 34
Email : sipem@wanadoo.mg

MADAGASCAR - TITEM

Lot IVM 7 - Ambodivona

B.P. 1291

Antananarivo 101
Phone : 00 261 20 22 658 67
Fax : 00 261 20 22 658 67
Email : titem@bow.dts.mg

MALI – AOPP

B.P. 3066 – Bamako
Phone : 00 223 228 67 81
E-mail : aopp@cefib.com

MALI – JEMENI

Immeuble Gadjaba Kadjel
face place OMVS – Marché Dibida
B.P.E. 2100
Phone : 00 223 223 4755
Fax : 00 223 223 9405
E-mail : jemeni@cefib.com

NIGER – KOKARI

B.P. 473 - Niamey
Phone/Fax : 00 227 75 25 12
E-mail : kokaris@intnet.ne

UGANDA - CERUDEB

Plot 7, Entebbe Road
P.O. Box 1892
Kampala
Phone : 00 256 41 232 393
Fax : 00 256 41 251 273

UGANDA - OMIPA

B.P. 1240
KABINGO - MBARARA
Phone : 00 256 48 52 08 77
E-mail : necdp@africaonline.co.ug

SENEGAL – UGPM

B.P. 43 - Meckhé
Phone : 00 221 955 51 13
Fax : 00 221 955 52 86
E-mail : ugpm@sentoo.sn

SENEGAL - ASPRODEB

8, boulevard de l'Est X
rue 2 bis - Dakar
Phone : 00 221 825 56 65
Fax : 00 221 824 48 73
E-mail : fkdiop@cyg.sn

SENEGAL – SAPCA-EGAS (ex UGIE-EGAS)

Quartier Diamagueune 1
B.P. 1120 M'Bour
Phone : 00 221 957 49 57/ 639 26 24
Fax : 00 221 957 40 07
E-mail : ugiegas@sentoo.sn

TANZANIE - AKIBA Commercial Bank

TDFL Building (Phase II)
B.P. 669
Dar es Salaam
Phone : 00 255 222 11 83 40
Fax : 00 255 222 11 41 73
Email : akiba@cats-net.com

TOGO – WAGES

Angle rue Aniko Palako et
Avenue Maman N'Danida
B.P. 1339 – Lomé
Phone : 00 228 22 54 71
Fax : 00 228 22 78 99
E-mail : wages@cafe.tg

MEDITERRANEAN BASIN

ALGERIE – TOUIZA

18, rue Abdelaziz Mouzaoui
16027 Alger
Phone : 00 213 2 64 99 92
Fax : 00 213 2 61 81 05
E-mail : Touiza.Solidarite@wanadoo.fr
(Marseille)
touiza@wissal.dz

LEBANON - ASSOCIATION NAJDEH

B.P. 113-6099
Beirut
Phone : 00 961 1 30 20 79
Fax : 00 961 1 70 33 58
E-mail : najdeh@cyberia.net.lb

MAROCCO – ALAMANA

28 rue Oum Errabia – Agdal
Rabat
Phone : 00 212 37 77 01 41
Fax : 00 212 37 68 67 12
E-mail : fouad@alamana.org.ma
Site : www.alamana.org

MAROCCO – AMOS

2, rue 26, Quartier Amalou - Khénifra
Phone /Fax : 00 212 55 38 23 71
E-mail : aosmck@iam.net.ma

MAROCCO – AMSSF

33 résidence Essalam
Avenue Al Mohads – Appt. 1
Quartier de la Gare – Fès
Phone : 00 212 55 626 764
Fax : 00 212 55 733 431
E-mail : amssf@menara.ma

PALESTINIAN TERRITORIES - ACAD

P.O.Box 3816 Al-Bireh
Via Israël
Phone : 00 972 2 298 93 50
Fax : 00 972 2 298 93 52
Email : acad@palnet.com

CARIBBEAN

HAITI – COD/EMH

Delmas 95 - # 15 Frères - P.O.Box 6 -
Port-au-Prince
Phone : 00 509 257 75 44
Fax : 00 509 257 92 28
E-mail : edurandis@cod-emh.org

HAITI – FONHSUD

Rue Egalité - AQUIN
E-mail : fonsud@hotmail.com

HAITI – KNFP/IMOFOR

173 bis Avenue Jean Paul II – Turgeau
Port-au-Prince
Phone : 00 509 244 07 35
E-mail : knfphaiti@transnethaiti.com

SOUTH AMERICA

BOLIVIA – BANCOSOL

Casilla 13176
Calle Nicolás Acosta N° 289
Esq. Cañada Strongest/Plaza San Pedro
La Paz
Phone : 00 591 2 39 28 10
Fax : 00 591 2 39 19 41
E-mail : Kkoenigsfest@bancosol.com.bo

CHILE – INDES

José Miguel Carrera N° 143
Santiago de Chile
Phone/Fax : 00 562 696 09 16
E-mail : indes@terra.cl

COLOMBIA - CONSOLIDAR

Calle 54 # 10-81 - Piso 2nd
Santa Fé de Bogotá
Phone : 00 571 212 10 88
Fax : 00 571 348 14 06
Email : consolid@aolpremium.com

COSTA RICA – PROFUND

P.O.Box 769-1005 - San José
de Costa Rica

Phone : 00 506 220 4122 / 290 2404 /
296 8004
Fax : 00 506 290 2345
E-mail : asilva@intercentro.com

ECUADOR – BANCO SOLIDARIO

Av. Amazonas 3887 y Corea - Edificio
Grupo Enlace - PBX : 260260
Phone : 00 593 2 26 85 34
Fax : 00 593 2 26 88 43
E-mail : bsolidario@enlace.fin.ec

PERU – LA-CIF

Bolívar # 472 - bureau 702/703
Lima 18
Phone : 00 511 446 8877
Fax : 00 511 446 8585
E-mail : lacifluc@amauta.rcp.net.pe
fernandol@cyrano-management.com

PERU – EDAPROSPRO

Octavio Bernal 598 - Jesús María
Apartado Postal : 110325 - Lima 11
Phone : 00 511 463 4173 / 00 511 461
6014
Fax : 00 511 463 0776
E-mail : david@edapr.org.pe

PERU – Cooperativa Agraria LA FLORIDA

Jr Arequipa N° 284
La Merced – Chanchamayo
Phone/Fax : 00 5164 531 337
E-mail : dar1@terraemail.com.pe

PERU – Edpyme CONFIANZA

Avenida Centenario N° 356
San Carlos
Apartado 125 – Huancayo
Phone : 00 5164 217 000
Fax : 00 5164 212 417
E-mail : confian@terra.com.pe

URUGUAY – SAINDESUR

Bulevar Artigas 1119 - SUBSUELO -
Montevideo
Phone/Fax : 00 598 2 402 27 80
indesur@adinet.com.uy

ASIA

CAMBODIA - EMT

72/74, rue 598
Boeng Kok II - Toul Kok
BP 57

Phnom Penh
Phone : 00 855 23 881 342
Fax : 00 855 23 211 594
Email : phalarin@emt.com.kh

CAMBODIA - HATTHA KAKSEKAR

39, Road 432
Songkat Bouen Trabek
Khann Chamkarmorn
Phnom Penh
Phone : 00 855 23 994 304
fax : 00 855 23 994 303
Email : kaksekar@camintel.com

LAOS - FC

Rue T2 B, Sibounheuang
Muang Chanthabury
VIENTIANE
Phone/Fax : 00 856 21 26 18 25
Fax: 00 856 21 26 18 25
Email : ccsp@laotel.com

VIETNAM - CEP Fund

14, Cach Mang Thang Tam
Dist. 1 - Ho Chi Minh Ville
Phone : 00 848 822 33 21
Fax : 00 848 824 56 20
Email : cep@saigonet.vn

VIETNAM - WUSOP

09 Tran Hung Dao - Ward 3
Soctrang Town
Soctrang Province
Phone : 00 84 79 82 42 41
Fax : 00 84 79 82 10 28

EASTERN EUROPE

POLAND - TISE

UL. Nalewki 8/27
00-158 Varsovie
Phone : 00 48 22 636 07 40
Fax : 00 48 22 636 29 02
E-mail : inwestycje@tise.com.pl

KOSOVO - Kreditimi Rural

I Kosoves LLC
MEB Building 3rd Floor
UCK Street
Pristina - Kosovo
Phone : 00 381 38 24 35 54



SUPERVISORY BOARD

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MESNY Philippe

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SOFIDEEC BAKER TILLY



**INTERNATIONAL
SOLIDARITY
FOR DEVELOPMENT
AND INVESTMENT**

12, rue Guy-de-la-Brosse
75005 Paris - France
Phone : 33(0) 1 40 46 70 00
Fax : 33(0) 1 46 34 81 18
site : www.sidi.fr

