SOCIAL PERFORMANCE REPORT 2018

ECLOF KENYA

ECLOF INTERNATIONAL

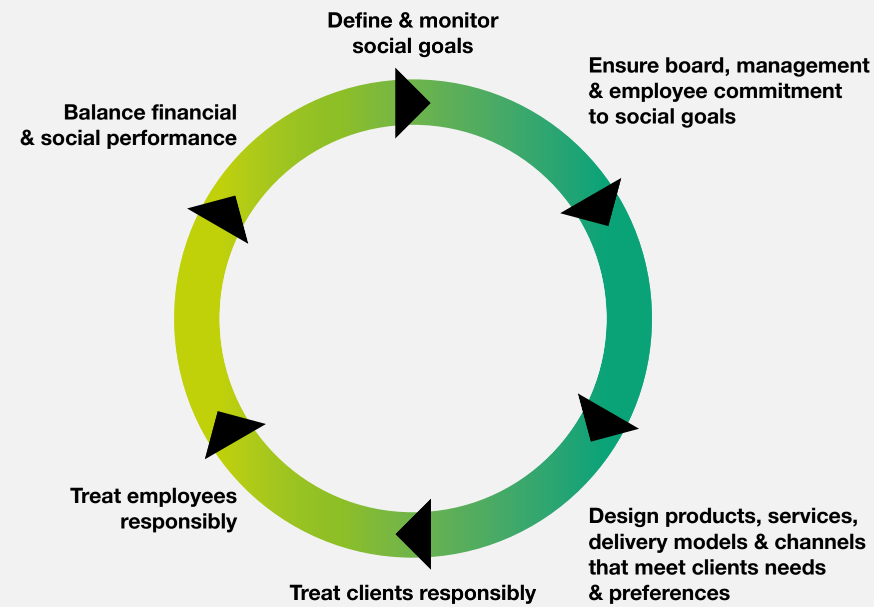
ECLOF INTERNATIONAL DEFINES SOCIAL PERFORMANCE AS THE EFFECTIVE TRANSLATION OF THE ECLOF MISSION INTO PRACTICE, IN LINE WITH ACCEPTED SOCIAL VALUES THAT RELATE TO:

- **Reaching our target market**
- **Delivering high-quality and appropriate services**
- **Responding to the needs of clients, their families and communities**
- **Protecting clients from negative effects of accessing financial services**
- **Ensuring responsibility towards our employees, clients, the communities we serve and the environment**

As part of its strategy to be accountable and transparent in meeting its financial and social goals, ECLOF International conducts social audits of its network members, supports capacity building in the members and monitors the social performance of members through a social performance reporting framework.

The framework applies 30 quantitative and qualitative metrics to measure the degree of success of network members in reaching ECLOF's social mission. This report is the result of applying the social performance reporting framework to ECLOF Kenya.

UNIVERSAL STANDARDS FOR SOCIAL PERFORMANCE MANAGEMENT



Source: Social Performance Task Force

SOCIAL PERFORMANCE MANAGEMENT AS A MEANS OF ATTAINING SOCIAL IMPACT

ECLOF attains social impact by targeting those in need and giving them access to financial and non-financial services that empower them and effect positive changes in their lives. Impact evaluations attempt to demonstrate the outcomes of microfinance. They tend to be onerous and costly. Because rigorous research methods like randomized control trials usually track a rather short time-frame of 12-18 months, their findings are often questioned. For obvious reasons it is difficult to clearly attribute improvements in clients' lives to a single (microfinance) intervention. Undertaken by researchers rather than practitioners, their results often are not used effectively to improve institutional performance. Social performance management on the other hand focuses on those recognized management practices that can be expected to lead an institution toward positive social changes in the lives of their clients, whether these can be "proven" or not.

It is ECLOF's goal to accompany its clients as they graduate, i.e. they rise on the economic ladder from ultra-poor over poor to vulnerable and beyond. Therefore, ECLOF has started to monitor the poverty level of its clients using tools like the Poverty Probability Index (PPI). With the collected data it will be possible to document how clients graduate over time. It will also help ECLOF to consistently target poor clients.

FACTS & FIGURES

ECLOF Kenya is a medium-sized MFI. Through a country-wide network of branches, it targets Kenya's working poor, particularly women, with financial and related non-financial services.

Year of foundation: 1994

Legal form:
Company limited by guarantee

Number of clients: 55,428

Loan portfolio USD: 12.9 million

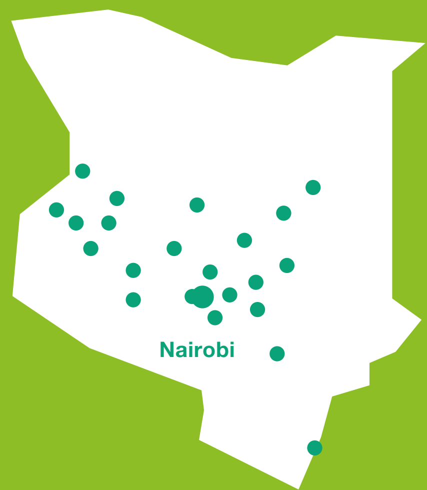
Number of branches: 45

Number of staff: 310

Operational self-sufficiency: 112 %

All information as per December 31, 2018

BRANCH NETWORK ECLOF KENYA



VISION, MISSION & VALUES OF ECLOF KENYA

VISION

A World of Human Dignity

MISSION

To enable clients realize their dreams and experience abundance of life through the provision of financial and related non-financial services

VALUES

Integrity
Community
Diligence
Stewardship

WHO DO WE REACH & EXCLUDE

INDICATOR	DATA POINT	COMMENT
Number of clients reached thereof women thereof men thereof rural thereof urban	**55,428** 31,594 23,834 33,257 22,171	ECLOF Kenya serves predominantly women and rural communities.
Number of people reached thereof rural thereof urban	**277,140** 166,284 110,856	ECLOF's work can have an exponential effect on the families and communities it serves. ECLOF builds local capacity in its clients and its staff, and it nurtures community ties through the solidarity group lending model. The average household size is Kenya is 5.
Geographically poor areas served		33 of the 45 outlets are located in small and mid-sized towns, covering mainly rural areas.
% of vulnerable clients	**57 %** are women **23 %** work in the agricultural sector	Because of limited access to education and assets, women tend to be more vulnerable than men. Because of precarious living conditions in rural areas and often unstable income, smallholder farmers tend to be more vulnerable to external shocks.
Average outstanding loan / Gross national income (GNI) per capita	**16 %**	This proxy indicator applied across the whole portfolio indicates that a financial institution reaches poorer clients. MIX Market defines that loans up to 20 % of GNI per capita are loans to the lowest income clients.
% of ultra-poor and poor clients	**30 %** live on less than 1.25 USD/day **60 %** live on less than 2.50 USD/day	Asking a sample of clients 10 simple questions, the Poverty Probability Index (PPI) computes the likelihood that a household is living below the poverty line. Data stems from ECLOF Kenya's PPI pilot branch Nyeri.

ECLOF defines its target market as "the economically active poor", i.e. people who are engaged in economic activities at the lowest level, both in urban and rural areas. But it's the rural areas where ECLOF's services are needed the most. In rural Kenya, one in two people are poor—compared to only three in 10 in urban Kenya. With its nationwide network of outlets, ECLOF Kenya serves 26 of the 47 counties in Kenya. 33 of the outlets are located in small and mid-sized towns, with just 12 outlets in or near cities.

ECLOF Kenya set out to enable the poor, especially women, to become economic agents of change. Women tend to be more concerned about their families' welfare in terms of food, child education, living conditions, and even health. Serving women has a direct effect on the society in that they are able to reinvest the profits of their businesses into their families and the community.

It is important to ECLOF Kenya to demonstrate client-level results to internal stakeholders (such as clients and employees) and external stakeholders (such as investors) not just with anecdotes but also through real data. Therefore ECLOF Kenya has begun to collect poverty data of its clients using the Poverty Probability Index. The data reveals that the target of serving poor and low-income clients is achieved: of the sampled clients, 60 % live on less than 2.50 dollars a day.

CUSTOMER EXPERIENCE

INDICATOR	DATA POINT	COMMENT
Client retention rate	**83 %**	Only 17 % of clients decided to leave the institution in 2018.
Client satisfaction score	**60 %**	From a random sample of 200 clients, 60 % would recommend ECLOF Kenya to their friends or business partners.

ECLOF Kenya puts clients at the center of all strategic and operational decisions. Well-designed and regularly reviewed products help clients cope with emergencies, invest in economic opportunities, build assets and manage their daily and life cycle financial needs. A specifically trained Product Development Committee meets bi-monthly to review and improve the products and delivery channels on the basis of client feedback.

Client retention is a proxy indicator for the quality and relevance of ECLOF's service to its clients. There is evidence that a stable long-term relationship with a finance provider can facilitate the graduation of poor clients to higher income levels.

DIVERSIFYING THE PRODUCT RANGE: MICRO LOANS FOR WATER & SANITATION (WASH) AND CLEAN ENERGY

ECLOF Kenya believes in empowering people who live in poverty to transform their lives for the better. But for many of its clients – most of whom are women and live in rural areas – access to basic necessities such as clean water, proper sanitary facilities and safe hygiene practices is not granted. Often, the big lump-sum investment needed to install a hygienic toilet or water tank deters poor households from taking the step. ECLOF Kenya offers training and specific loan products to change that. First, clients learn about the health consequences of low hygiene and the value addition possibilities from water, e.g. through irrigation, animal farming or water vending. They can then access loans for domestic or farm water connections, standard toilets, water purifiers, tanks and collectors, or shallow wells.

Since 2011, ECLOF Kenya has disbursed loans worth over 2.6 million dollars to over 6,200 clients (the average loan size is around 400 USD). As a result, some clients enjoy greater comfort and hygiene; others collect water for farm or family use while yet others start a small business as water vendors.

Despite great progress in recent years, only half of rural Kenyans have access to the electricity grid. In partnership with trusted local providers, ECLOF Kenya offers its clients financing for clean energy cook stoves (“jikos”), solar lighting and heating. The most popular products among clients have been solar panels for charging phones and operating a lamp or a small radio and the solar powered TV.

Children now have light to do their homework. Kerosene lamps and stoves don’t spoil the air anymore, and the family feels connected to the rest of the country through phone, radio and TV.

WASH and clean energy loans have had tremendous impact on the well-being of ECLOF’s clients and their families because they address basic human needs.

CLIENT PROTECTION

INDICATOR	DATA POINT	COMMENT
Adherence to the client protection principles	**7**	This indicator shows for which of the 7 CPPs (Client protection principles) explicit policies and procedures are in place.
Number of complaints received	**1,208**	Clients can submit queries through suggestion boxes in the branches, the complaints books, and a central customer hotline.

Client protection—doing no harm to clients—is the foundation of and an integral part of social performance. There are 7 accepted client protection principles. They range from offering suitable products over preventing client over-indebtedness to transparently disclosing information to clients. ECLOF Kenya has policies and procedures in place for all 7 principles. For example, to recognize other financial obligations clients have and consider them appropriately in the credit decision, ECLOF Kenya obtains information from two major credit bureaus for every credit application. Loan conditions are communicated actively and transparently to clients. Loan officers even conduct exercises in computing their interest and fees with all new clients.

ECLOF’s corporate culture values high ethical standards. ECLOF rates its loan officers on their ethical conduct towards clients as part of the regular performance evaluation.

Actively listening to clients is part of client protection. To respond swiftly to client complaints and use the feedback to improve services and products, ECLOF Kenya has introduced a central customer care desk and complaints hotline in addition to the complaints boxes and books in the branches. In 2018, 1,348 of ECLOF Kenya’s over 55,000 clients used one of these channels to express queries or complaints.

RESPONSIBILITY TO STAFF

INDICATOR	DATA POINT	COMMENT
Staff turnover rate	**17 %**	In a competitive labor market, ECLOF Kenya is a rather attractive employer.
Staff satisfaction survey process established	**Yes**	ECLOF Kenya regularly surveys staff about their job satisfaction.
Staff exit interview process established	**Yes**	When staff leave, they are asked the reasons why.
Share of women in staff/ management/board	**53 %** in staff **50 %** in management **45 %** in board	Women take responsibility in positions across the institution.
% of staff benefiting from training	**88 %**	Most staff benefit from professional training over the year.

In microfinance, employees are an organization's main asset. They have rights, and if treated well they are more likely to treat clients responsibly. Treating staff well also improves service quality and sustainability because more satisfied staff treat clients better; and well treated clients are loyal to the institution. ECLOF Kenya regularly tracks staff turnover and conducts exist interviews with departing staff. There are regular satisfaction surveys among staff.

In an institution like ECLOF Kenya that targets specifically women, women need to be represented at all levels of the institution. More than half of ECLOF Kenya's staff and managers are women. Even at the board level, women participate at an equal rate to men. The share of women managers has actually increased from 30 % to 50 % in the last two years. To increase the attractiveness of working for ECLOF Kenya, training is essential: 95 % of all staff benefited from professional training in 2018.

BENEFITS TO CLIENTS

INDICATOR	DATA POINT	COMMENT
Number of clients trained	**52,200**	Clients trained on financial literacy (goal setting, budgeting, savings, investment) and on agribusiness (fodder and silage, recognizing weather patterns and accessing climate insurance, reading cow signals, and soil irrigation).
% of clients trained	**95 %**	
Number of services addressing basic client needs	**6 loan products** **2 insurance products**	Loan products: Health, Education, Water & Sanitation, Green energy, Home improvement, Emergency loans. Insurance products: Last expense cover, Micro health insurance.
% of loan portfolio in those products	**6 %**	
Number of clients benefiting	**6,179**	

For a socially motivated provider of financial services like ECLOF, it is not enough to protect clients from harm. We actively seek positive impact on the lives of our clients: their economic wellbeing, their community integration, and their ability to cover basic human needs. This is achieved by building clients' capacity and through dedicated financial products.

Research has shown that the effectiveness of microfinance to reduce poverty is greatly increased when loans are combined with capacity building. ECLOF Kenya regularly trains clients in areas such as financial literacy and budgeting. Because most clients take out loans together in solidarity groups, these training services are provided very efficiently through the weekly group meetings. ECLOF trains the group leaders as trainers and they in turn train their group members. There are numerous examples of clients who have improved their business record keeping and their service offering to their customers as a result of the training.

INVESTING IN SMALLHOLDER PROFITABILITY IN THE DAIRY VALUE-CHAIN

For many years ECLOF Kenya has been financing small dairy farmers in the villages around Embu, Bomet and Nyandarua who used to earn meagre incomes from selling the milk of their low-yielding cows to local hawkers. To increase the stability and amount of income those farmers make, ECLOF Kenya has been piloting an innovative agricultural value-chain financing scheme: financing and training embedded in a service-delivery model encompassing a financial service provider (ECLOF), an aggregator (a local dairy plant) and the farmers. The dairy plant offers them a reliable sales channel for their milk. They prefer selling their milk to the value chain partner, despite a slightly lower price, because they are guaranteed to receive their money. From ECLOF, they can take up a loan to replace traditional breed cows with high yielding breeds, to invest in chaff cutters for making fodder, sheds or water tanks. At the same time, the plant and ECLOF provide training to the farmers on financial literacy, on running their farm as a business, and on farming diversification. Farmers learn how to budget and access climate insurance, how to make fodder and silage, recognize weather patterns and read cow signals. Farmers can also attend demo farms run within the program by selected local farmers where they can get hands-on assistance and support in their dairy activities.

The loans are made to groups of farmers without the need for collateral. Rather, they are secured through the group guarantee and the payment structure: the dairy plant disburses loans to farmers for feed or purchase of a new cow and it directly repays the loan to ECLOF after receiving milk deliveries.

Everyone in the scheme is a winner: The aggregator benefits from the regularity and quality of the milk. Farmers earn better and steadier incomes driven by higher yields per cow: research showed that the annual revenue per farmer was up to three times greater than that of the average farmer. Training on diversification encourages farmers to establish secondary and tertiary revenue streams, thereby increasing their resilience to external shocks. ECLOF gets access to a 7,000 farmer target market and reduces the cost and risk of serving farmers. And the strong interdependency among the three value chain partners means the loans are repaid in time.

As of December 2018, ECLOF was serving over 259 farmers and had a portfolio of nearly 300,000 dollars in dairy loans. So far, this successful pilot has been financed in part by concessions and grants from ECLOF's partners. In order for the product to be sustainable in the long run, ECLOF will need to increase the scale fivefold to at least 1,400 customers. Then this unique project can become a viable business model delivering finance and other services to smallholder farmers.

Besides loans for micro enterprise and agriculture, ECLOF Kenya offers six loan products addressing basic needs of clients: health, water & sanitation, home improvement, green energy, education and emergency loans. Albeit not in the traditional sense directed at “productive purposes”, such loans can facilitate greater social impact beyond the income-smoothing effects of conventional microfinance. For example, education loans permit rural families with seasonal income streams to pay school fees and buy school uniforms and stationery for their children at the time it is needed. A health insurance offered by ECLOF (Afya) covers the client and their immediate family members. Specific health care emergency loans bridge the immediate need for money after a client experiences a medical emergency. We found that offering such products increases client loyalty because clients feel that ECLOF is not just supporting their business but also looking after their personal and family well-being. These loan products make up around 6 % of the portfolio, benefiting more than 6,000 clients annually.

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