

Financial Systems Development Services AG (FIDES)**OVERVIEW**

FIDES | FINANCIAL SYSTEMS DEVELOPMENT SERVICES AG (www.fidesgroup.org) is a company focusing on the development and management of sustainable rural microfinance institutions and related research and consulting activities. Created in 1996 in France and located in Fribourg, Switzerland since 2007, FIDES brings a long experience in the field of financial systems development and small business promotion. Together with its institutional partners (Deutschen Gesellschaft für Internationale Zusammenarbeit (GIZ), Kreditanstalt für Wiederaufbau (KfW), IFAD and Swiss Agency for Development and Cooperation (SDC), among others), FIDES has set up successful microfinance institutions in several countries in Africa and Eastern Europe, ranging from microfinance banks to savings and loan association networks and a Sharia-compliant financial services company in Algeria. FIDES has also provided expert support to a large number of other microfinance institutions.

FIDES' Vision

FIDES will be a leading private organization developing sustainable rural finance solutions. Together with its strategic partners, FIDES will make a significant and lasting contribution to poverty alleviation through an entrepreneurial approach, supporting a dedicated group of cutting edge financial institutions operating in the most challenging environments in the world.

FIDES' Mission

In the challenging context of pushing out the frontier of rural finance, FIDES' mission is to expand access to reliable, efficient and sustainable financial services for clients who are excluded from the formal banking system. With its operations located primarily in Africa and Eastern Europe, the core focus of FIDES is the creation and management of successful microfinance institutions in rural areas.

FIDES believes that these challenges can and must be met head on by investing in the understanding of client needs and by taking a realistic long-term view of what it takes to put viable solutions into place to meet those needs. This entails developing innovative approaches to rural finance (specialized products and technology) and investing in careful institutional development that is sound in terms of financial base, governance, management, systems and human capacity. The FIDES approach includes:

- Development of a sound understanding of local socio-economic environments and client demand
- Design and development of new microfinance institutions
- Management of, and investment in, microfinance institutions (MFIs)
- Design and implementation of research and development of MFIs
- Policy analysis and advocacy

The FIDES Approach

Creation of new microfinance institutions. The focus of FIDES is the creation of greenfield microfinance institutions in rural areas and in secondary towns. When targeting rural areas, adjustment to local conditions is a critical element of success, requiring innovative and environment-sensitive approaches that are at the same time based on international best practice in microfinance.

Where sufficient relevant experience can be brought from other countries, FIDES and its partners launch greenfield formal financial institutions directly. In more challenging contexts, FIDES develops the concept of the institution and confirms its feasibility through a pilot-testing phase that verifies the hypotheses on markets, products, clients and organizational setting. Pilot operations, supported by international donor agencies including GIZ, IFAD and the World Bank, are transformed into commercial equity-based formal financial institutions, with private social investments ensuring the sustainable long-term development of the institutions.

FIDES is currently investing in the development and implementation of new technologies for branchless banking (e.g. mobile phone banking, POS systems) to maintain and improve competitiveness as well as to accelerate outreach. FIDES is convinced that the success of rural microfinance will depend heavily on continued technological and organizational innovation.

Expertise. Beyond its own group, FIDES carries out feasibility studies and/or evaluations for donor agencies and investors, develops strategies for microfinance institutions and supports the introduction of technical and organizational innovations. On the macro-level, FIDES has provided expertise for sector analyses as a basis for the development and implementation of countrywide sector strategies and has been involved in policy, legal and regulatory assessments in view of the creation of conducive legal and regulatory frameworks for microfinance.

Training. FIDES considers that institutional capacity is the key issue for further expansion of microfinance institutions. It has organized a large number of training seminars and sessions in partner countries and provides significant support to building local training capacity. FIDES is the technical input provider for a Master of Science in Microfinance degree, a one-year postgraduate training program organized by the University of Montpellier, France.

Research and development. An important research component focusing on concrete development issues enables FIDES to innovate in its institution-building programs. FIDES conducts applied research on relevant topics throughout its MFI network to better understand clients, their household economy and businesses, and how they use products and services. The objective is to ensure that FIDES reaches its target clients and that its products and services are innovative and are adapted to client demand.

The FIDES Track Record

In many developing countries, financial institutions targeting farmers and small entrepreneurs have failed. Microfinance banks have proven to be a successful vehicle but mainly for urban clients. Only a few have succeeded in providing reliable services to rural and urban poor on a larger scale.

Firm in the belief that microfinance institutions can be sustainable and at the same time reach a considerable number of borrowers and savers, even in rural areas, FIDES has been innovative in developing approaches for clients in rural areas. The approaches have included technical and organizational innovations that allow the reduction of transaction costs and ensure careful risk management. An approach based on sustainable institution building and strong operations can lead to excellent repayment rates, outreach to under-served market segments, significant growth capacity and financial viability. Such institutions have had a considerable impact on income-generating activities and job creation.

FIDES has been involved in leading initiatives in Africa and in some of the most important rural microfinance systems in Eastern Europe. Examples of successful greenfield creations of microfinance institutions by FIDES are:

- ALBANIA: Initiated as a World Bank project (the Rural Finance Fund, building a network of the village-based Savings and Credit Associations), the Albanian Savings and Credit Union (ASCU) today represent one of the biggest microfinance systems in Eastern Europe, with more than 200 outlets covering most of the country. Targeted beneficiaries are farmers and small entrepreneurs who started their business after the dismantling of collective farms in 1992. FIDES was instrumental in the development of the Rural Finance Fund and its successor, the ASCU.
- CÔTE D'IVOIRE: FIDES was involved in the creation of savings and credit associations (SCAs) for women in the Northern Savannah Region, which subsequently grouped into a federation (FAFEC) under the provision of the Mutual Financial Organizations Act. While the FAFEC remained active in the beginning of the political crisis and military conflict, the program is currently inactive. The experience gained in the north has shown nonetheless that FIDES can be successful there.
- MOLDOVA: Created with technical assistance from FIDES, Moldova Microfinance Alliance (MMA), a non-governmental organization, was founded in 1997 with the mission to create and develop new institutions: credit and savings associations, cooperatives, micro and small-scale enterprises. MMA provided these institutions with on-site advice, training and assistance in obtaining financial resources in order to stimulate private initiative, social and economic development. In 2003, in recognition of innovation in financial services for very poor clients, MMA won The Rural Pro-Poor Innovation Award provided by The Consultative Group to Assist the Poorest (CGAP). In the same year, the Soros Foundation Moldova and the MMA went on to establish MICROINVEST to provide development finance to small business initiatives in rural and urban areas in the Republic of Moldova. MICROINVEST took over the regional staff and branch network of MMA, which during its lifetime, 1997-2003, formed 235 Savings and Credit Associations ("SCAs").
- MALI: FIDES supported a network of regional MFIs created in the North of the country. A significant effort was made to train staff and governing bodies in an environment where no banks existed previously. Expansion of the network was interrupted in 2009 due to a dramatically deteriorating security situation in

Northern Mali and the detection of a fraud case in one of the banks of the network, which FIDES has worked assiduously with its partners to resolve. In this context, plans to create “Mali Nord Finance” were put on hold.

- **ALGERIA:** FIDES created in 2008 FIDES Algeria, the first Algerian private company offering access to finance for very small enterprises excluded from the banking sector, designing Sharia-compliant financial products adapted to the values and the social organization of the Ghardaia region. This initiative is supported by GTZ within the Programme de Développement Economique Durable (DEVED). This service company was created in partnership with Bank al Baraka, an Algerian Islamic bank. The first credits were disbursed in November 2008. Credits are guaranteed by an international guarantee put into place by FIDES and international partners.
- **NAMIBIA:** FIDES Bank Namibia, the result of the transformation of the Ohangwena Pilot Program, received its banking license in February 2010. It targeted the needs of the rural population in the North of Namibia, which was excluded for the most part from access to the formal banking system. FIDES Bank Namibia is the first microfinance bank in Namibia, the first bank whose headquarters is in the North and the first bank created since independence. The Bank aims to contribute with reliable and sustainable solutions to facilitating economic development in Namibia by creating access to financial services for people living in rural areas in northern Namibia who are excluded from the formal banking system
- **SENEGAL:** St Louis Finances is a “Société anonyme” headquartered in St. Louis, Senegal, operating within the framework of the “Règlementation des Systèmes Financiers Décentralisés”. The company’s objective is to expand financial services to clients in rural and semi-urban areas of Senegal that are normally excluded from the formal financial sector by developing appropriate products and innovative marketing channels. Operations began in May 2011 and the ramping up of microfinance (group) operations is following the institution’s business plan.

All the programs developed with FIDES participation put a focus on achieving repayment rates close to 100%; strong client outreach capacity; financial sustainability as a main objective after an initial growth stage; reliable institution-building strategy; clear governance structures; and strong links with the commercial banking sector.

The Pipeline

The FIDES pipeline includes the following initiatives in preparation:

- **GHANA:** FIDES is in the process of creating a rural finance institution in northern Ghana: FIDES Ghana Savings and Loan Company. The objective of this initiative is to create an MFI capitalized by institutional investors whose mission is to expand financial services in the under-served market of northern Ghana. Under the sponsorship of SMH, the Business Plan has been submitted to investors for due diligence. The licensing process with the Bank of Ghana is foreseen to begin as soon as technical assistance and equity funding have been secured.

- **NAMIBIA:** FIDES is preparing the launch of an initiative introducing basic insurance services to the low-income populations of northern Namibia and beyond. An eighteen-month pilot program started in the second quarter of 2011. The longer-term goal is the establishment of an autonomous insurance company, FIDES Insurance Namibia, serving the low-income market in Namibia with an increasing range of appropriate products.
- **ALBANIA:** FIDES is supporting ASCU in preparations to launch a rural bank specializing in rural and semi-urban microfinance. The bank will work through the ASCU Savings and Credit Associations (SCAs) to refinance the SCAs and to sell more complex products, with the SCAs acting as agents on behalf of the bank. The five year Business Plan has been submitted to SMH and other potential investors. FIDES will provide management capacity to the bank through a Management Services Contract. The biggest challenge is at present the securing of the banking license.
- **PALESTINE:** FIDES will launch a 12-months pilot test of savings products in a MFI in Palestine in the fourth quarter of 2011. This market is evolving, with new donor policies pushing the institutions towards commercialization and sustainability. A new banking legislation and regulation to be finalized is including microfinance and providing a route for deposit collection. The pilot project of FIDES has the objective to support institutions not only to increase their outreach and financial sustainability but also to develop new products allowing them to respond to the client needs, notably savings products.
- **SENEGAL:** FIDES will conduct a pilot project to introduce better and more inclusive financial services in rural areas of Senegal through the use of mobile phone technology. During the 12-month pilot phase in 2011/2012, the necessary infrastructure will be put into place on a limited scale, front office and back office systems as well as products will be modified to accommodate the test, staff training will take place and client capability support will be provided. The project will be implemented in two MFIs in Senegal, one of them being Saint Louis Finances SA.
- **MOZAMBIQUE:** FIDES is in the process to prepare the business plan for a new rural MFI to be started in 2012. On one side the uncovered demand for financial services in rural areas is considerable; on the other side Bank of Mozambique is favorable to the creation of a more inclusive financial system.

FIDES Organization, Management and Staffing

As of end May 2010, FIDES staff included 20 highly qualified permanent staff members (local staff in countries of intervention not included), functioning as a close-knit and mutually supportive team with long-term career perspectives at FIDES. The team covers the fields of competence necessary for successful greenfield creation and management of microfinance institutions and microfinance banks.

FIDES President and Managing Director Konrad Ellsäcker and Co-Director Markus Schär lead the company. Markus Schär has taken over parts of the every day management of FIDES and Konrad Ellsäcker concentrates on the strategy of the company and its implementation. In this context, he is also coordinating the relations with partners of FIDES and SMH.

FIDES Perspectives

FIDES, SMH and its partners are well on their way to developing a network of ten microfinance institutions by 2020, while engaging at the same time in other strategically important initiatives in the realm of rural finance. This network of institutions will help create synergies, economies of scale and scope through shared support including backstopping, training, IT management, control, product development, client assessment and social performance and reinforcement of the efficiency and profitability of each MFI in the network. Related consultancy and research activities will allow FIDES to remain on the forefront of new developments, contribute to the expansion of the FIDES/SMH MFI portfolio and ensure the strength of FIDES' position within the access to finance landscape.

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