

2019

Social Performance Report



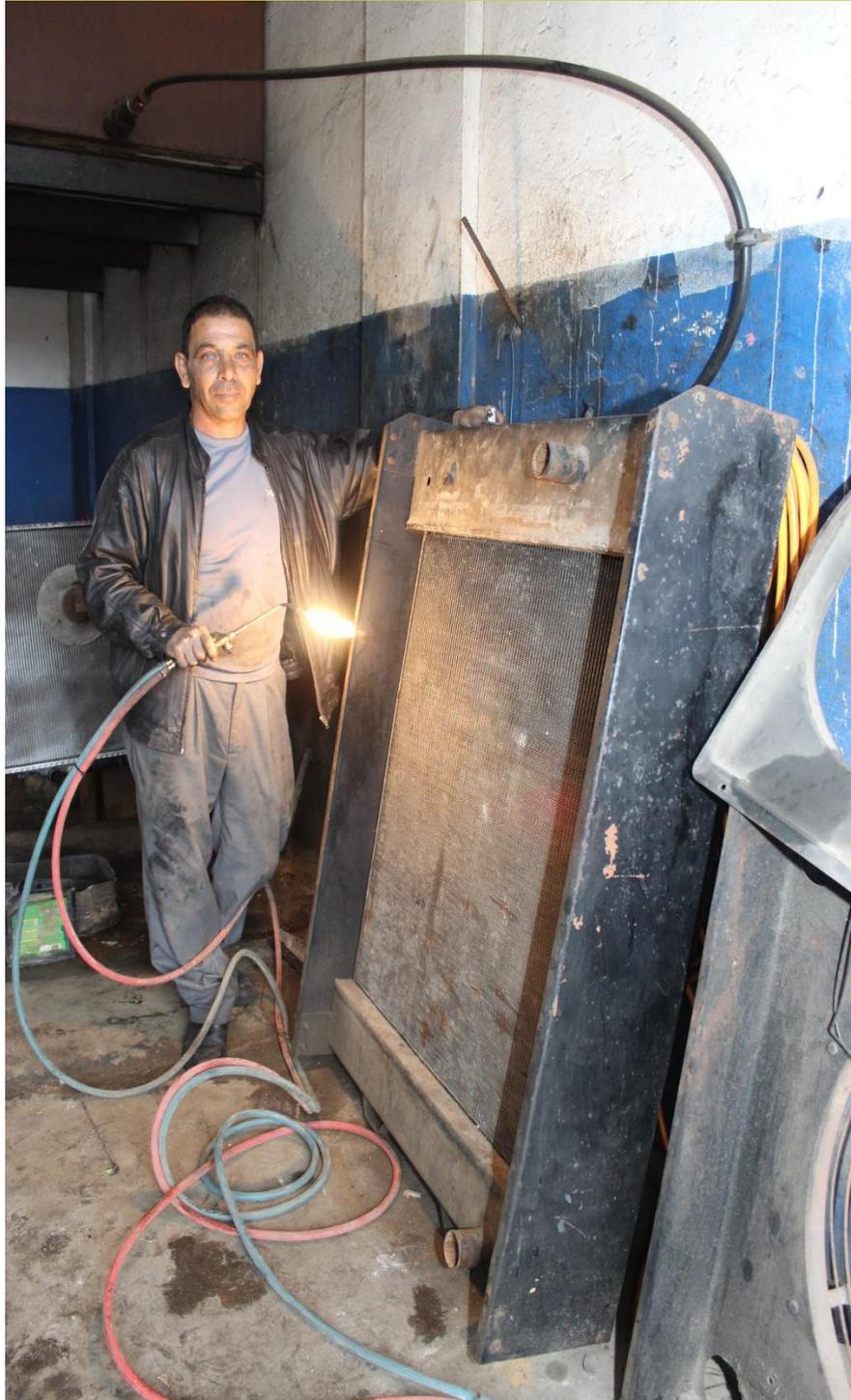


Our Mission:

Vitas Group strives to provide financial products and services that respond to our clients' needs and foster the long-term development of individuals, their businesses, their families and their communities.

Our Vision:

Vitas Group believes that all people with a desire and capacity to improve their lives should have access to the financial services they need to help them realize their potential and become full social and economic participants in their communities.



Diab Sayur is a Vitas Lebanon client who is on his third loan. Diab says that he is able to sustain his fabrication business even during difficult times thanks to Vitas' timely help.

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A special thanks to all the staff and clients in the field who participated in the study, making this report possible by sharing their stories, images and experiences.

Cover Photo: Vitas Romania client Alina Belcea. Alina owns two small businesses Alina Cake Shop and Alina Guesthouse. She approached Vitas when she decided to become an entrepreneur in 2017, and has been a client ever since.



Executive Summary

Every two years, Vitas Group surveys clients in its affiliated institutions to assess customer satisfaction, the impact of loans on businesses and job creation, and how housing loans affected borrowers' quality of life. This report pays more attention to customer satisfaction, and includes net promoter scores across the Group as a sophisticated proxy for overall customer satisfaction.

The report summarizes the results of the fourth bi-annual survey of network institutions, covering the period of FY2019. Surveys were conducted across five institutions in the Global Communities and Vitas network in Iraq, Jordan, Lebanon, Palestine and Romania, with a combined outstanding portfolio of \$262,101,101 and 100,717 active clients as of September 30, 2019.

- 100,717 Active Clients
- 34% Female
- 46% Rural
- 34% Youth

Social Performance Management (SPM) is the process of managing an organization to achieve its social mission. Its implementation puts clients at the center of all strategic and operational decisions. The importance of balancing financial and social performance allows institutions to pursue financial goals while benefiting clients. As a member of the Social Performance Task Force, Vitas Group has endorsed and implemented the Universal Standards for Social Performance.

Five institutions (Iraq, Jordan, Lebanon, Palestine, and Romania) surveyed 1,767 business clients with recently closed loans to determine how these increased business profits, created jobs, expanded enterprises, and increased household consumption. As in previous years, credit staff did not administer the surveys, to reduce bias. Surveyors were either from subsidiary marketing or customer satisfaction departments, or external consultants in Palestine.

For housing loans, 801 surveys examined use activity of loans and the household impact*. Home improvements generate better quality of life, build the value of a family's main capital assets, and can support home-based businesses.

The survey's main objective was to better estimate impact on our clients and gauge customer satisfaction, with additional focus on women and disaggregation by age. The main findings of this year's report are:

- All institutions had strongly positive net promoter scores, which measures clients' willingness to recommend a company to others. The average was 62, with a range from 79 in Romania to 45 in Jordan.
- Overall, 95% of business clients and 95% of housing clients described customer service as excellent or good, an increase from 2017. Romania had the highest rating of "excellent" for business clients, and Lebanon for housing.

*Romania did not participate in the home surveys as it only has 20 active home clients (end of FY2019).

- Across all five institutions, 42% of clients reported increased business profits after taking loans. This percentage is markedly lower than 2017's 81%. The biggest declines in increased business profits came from Jordan, from 87% AA to BB and Palestine, from 81% to 33%. Both countries went through economic slowdowns in 2019 that had significant impact on small enterprises.
- All institutions had a positive impact on employment generation. In FY2019, an estimated 8,051 full-time jobs and 2,667 part-time jobs were created. Approximately 35,954 full-time and 13,389 part-time jobs were sustained. In 2017, 16,736 jobs were created and 35,382 sustained*. The decrease in job creation comes from Jordan, which fell from 7,402 to 1,667, and Iraq, from 7,402 to 5,168.
- Women made up 34% of clients, but their average increase in business profits was 11%, compared to 14% for men.
- For institutions offering housing loans, 61% of clients said they experienced improved quality of life, with 27% stating their home was safer after the loan. About 6% of housing clients reported either starting or expanding a home-based business as a result of a home loan. Sixty percent of clients said they planned to renew the loan, but only 31% in Palestine, mainly due to a lack of economic stability.

Client Satisfaction

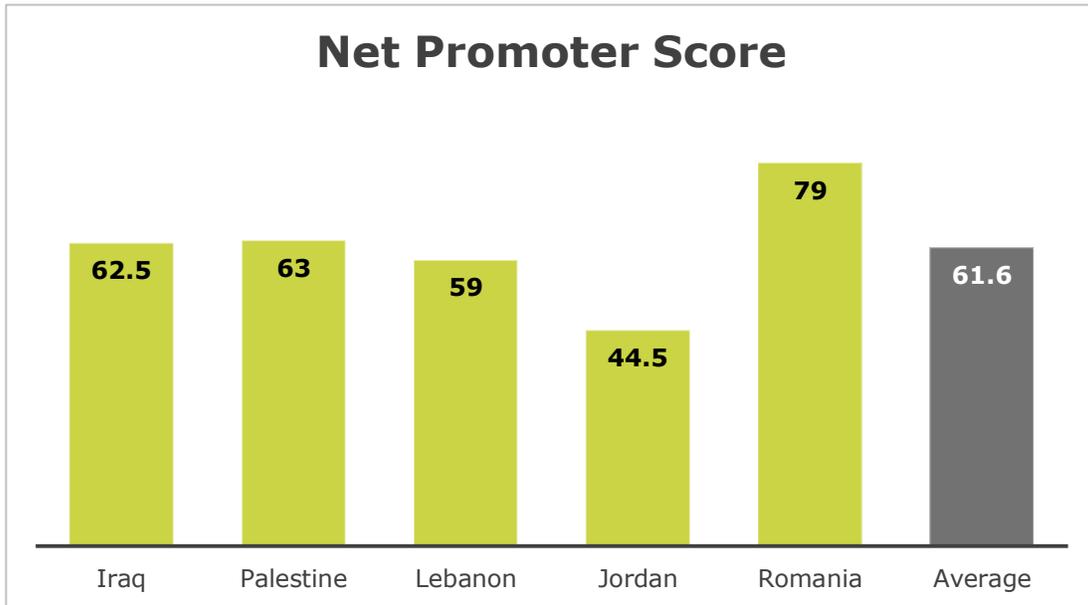
Vitas Group expanded client satisfaction questions in this report to better understand customer opinions and to contribute to the Group's digital strategy. These surveys are in addition to the customer service questionnaires performed in all institutions. These surveys covered net promoter score, overall client satisfaction, and plans to renew.

Net Promoter Score

Starting with this report, the net promoter score will be measured in Vitas social performance reports going forward. The Net Promoter score is a more sophisticated proxy for customer satisfaction than other surveys. Respondents are asked to answer the question "On a scale of 0-10, how likely are you to recommend your friend/family member to Vitas, with 0 being 'not at all likely and 10 being 'extremely likely?'" Responses are then grouped by "detractors," or those responding 0-6, "passives" responding 7-8, and "promoters" responding 9-10. The percentage of detractors is subtracted from the percentage of promoters to arrive at an absolute number. With a possible range between -100 and 100, any score above 0 is considered "good."

The overall Group average of 62 was overwhelmingly positive. Romania was the highest scorer with 79, though Jordan's lowest score of 45 was still high.

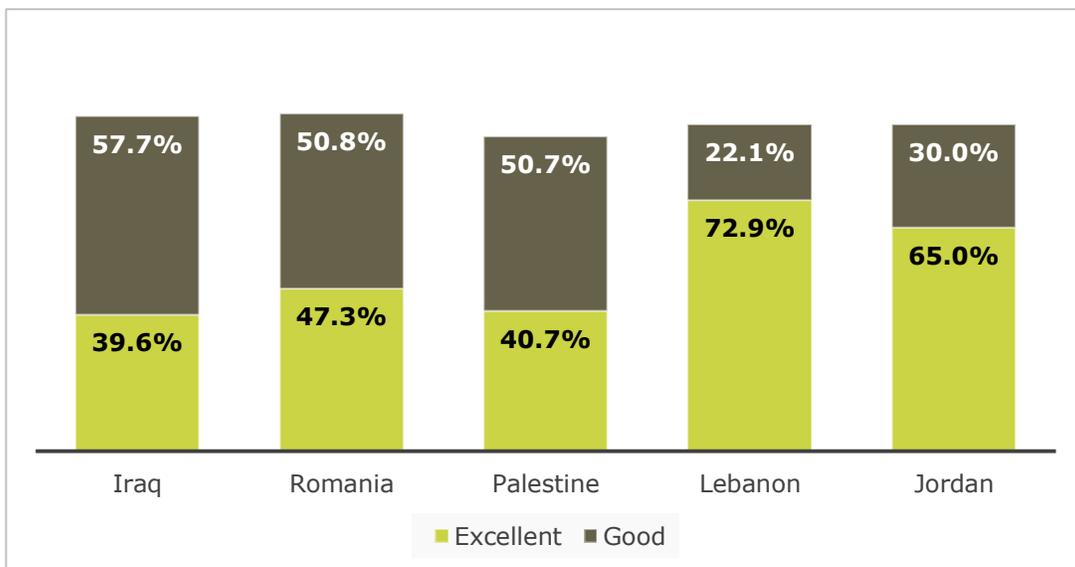
*This figure only calculates the employees of the clients, and does not account for the clients themselves.



Overall Customer Experience

The 1,767 business clients surveyed were asked to rank their overall experience in doing business with their respective institution. On average, 95% responded positively to their overall customer experience, an increase of two percentage points from the FY17 survey. The table below breaks down this figure, presenting all “excellent” (53%) and “good” (42%) responses by institution. Overall client satisfaction was 95%, compared to 93% in 2017. The only significant change by country was in Vitas Lebanon, where “excellent” scores increased from 58% to 73%.

Clients Satisfied with Overall Experience





62 year old Mahmoud Husein Assfour is a farmer based in Braikeh – Nabatieh, Lebanon. Mahmoud was an orange grower for several years when he noticed the overabundance in supply was affecting his business. Mahmoud’s plantation was not generating enough revenue to be sustainable. Seven years ago, based on the advice from agricultural engineers he uprooted the orange trees on his land and replaced them with seedlings of Hass avocados. There is a huge demand for this fruit in the local market due to their high nutritional value. Since then his revenue is growing steadily. As avocado trees are resistant to pests and diseases, they have a long growing season, and the fruit is fetching a good price in the local market. Encouraged by the excellent results he started working on increasing the production of his land. He took his first loan from Vitas in 2017 to buy additional avocado seedlings, put in an underground water reservoir, and installed an irrigation network.

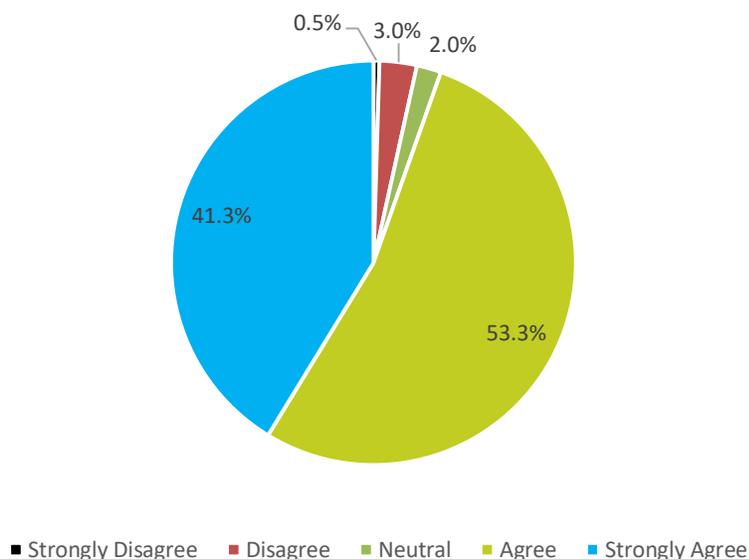
Client Feedback

Clients who responded “fair,” “poor,” or “very poor” were asked to provide further information on their ratings. Unlike in previous years, the top reason for a negative response at 33% was “poor treatment by staff,” though only 27 respondents out of nearly 1800 mentioned this. Vitas Group is preparing a mandatory all-employee and network-wide ethics training course to be launched in 2020 that will also cover respectful treatment of clients. All institutions have signed on to Client Protection Principles, which commit the company and staff to focus on fair treatment of customers. It bears mentioning that a higher percentage of defaulted clients were included in the sampling this year, relative to years prior. The next highest response at 24% was “difficulty repaying the loan,” up by 2% from 2017.

Additional Client Satisfaction Indicators

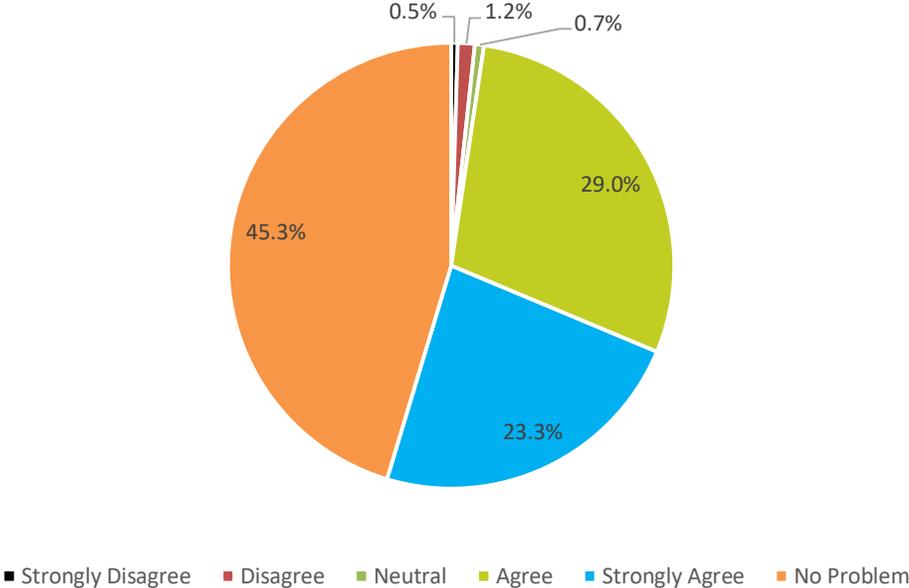
In addition to overall client satisfaction and the Net Promoter Score, clients were surveyed on three follow-on questions: Ease of Application, Ease of Reporting and Resolving Issues, and Ease of the Repayment Process.

Easy to Apply and Receive Loan



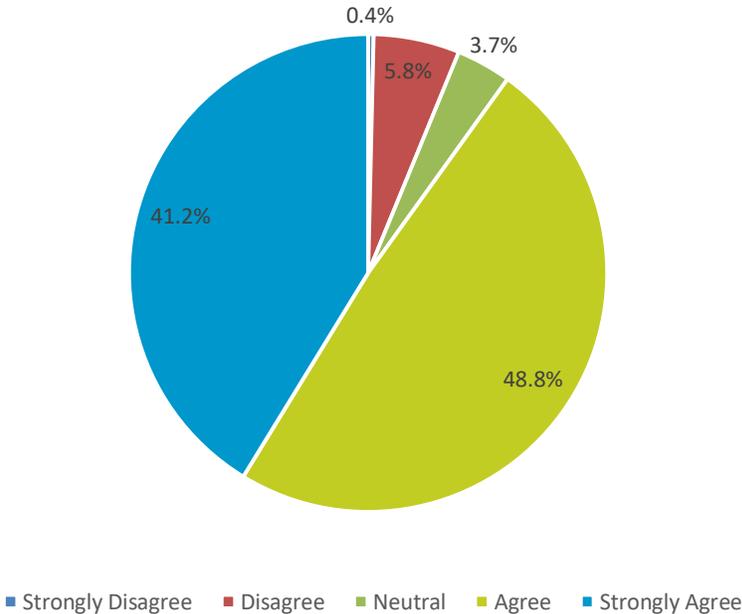
Over 94% of respondents agreed that the process for application and disbursement of loans was easy for them. Delays in the approval process were cited as the leading reason for negative experiences. One of the objectives of the new digital strategy is to shorten loan turnaround time.

Easy to Report and Resolve Issues



While 45.3% of respondents cited no issues with their loan, an additional 52% reported that the process of reporting and resolving issues was easy.

Repayment Process Easy/Convenient



Finally, a full 90% reported that the repayment process was easy and convenient. Of those disagreeing with this statement, a majority cited their own economic situation as the source of difficulty. It is not clear if clients response mean the monthly payment amount is easy, or if the process of repaying is convenient. Vitas Group subsidiaries offer clients several options to repay loans, including using repayment agents (Lebanon, Palestine, Romania), Vitas tellers (Iraq, Jordan), and commercial banks (all).

Micro and Small Business Loan Surveys

Methodology

In order to measure change in client impact before and after a loan, all institutions conducted surveys of business clients whose loans closed in FY2019, where “after loan” data was collected. This information was self-reported by clients to the surveyors. All “before loan” data was verified through loan applications on file or in the loan tracking system WebAbacus. A minimum sample size of 380 clients was required for all institutions with the exception of Romania, which took a sample of 260 correspondent to its lower total client base (1,904). The sample size was calculated based on a 95% Confidence Level and a 5% Confidence Interval (margin of error).

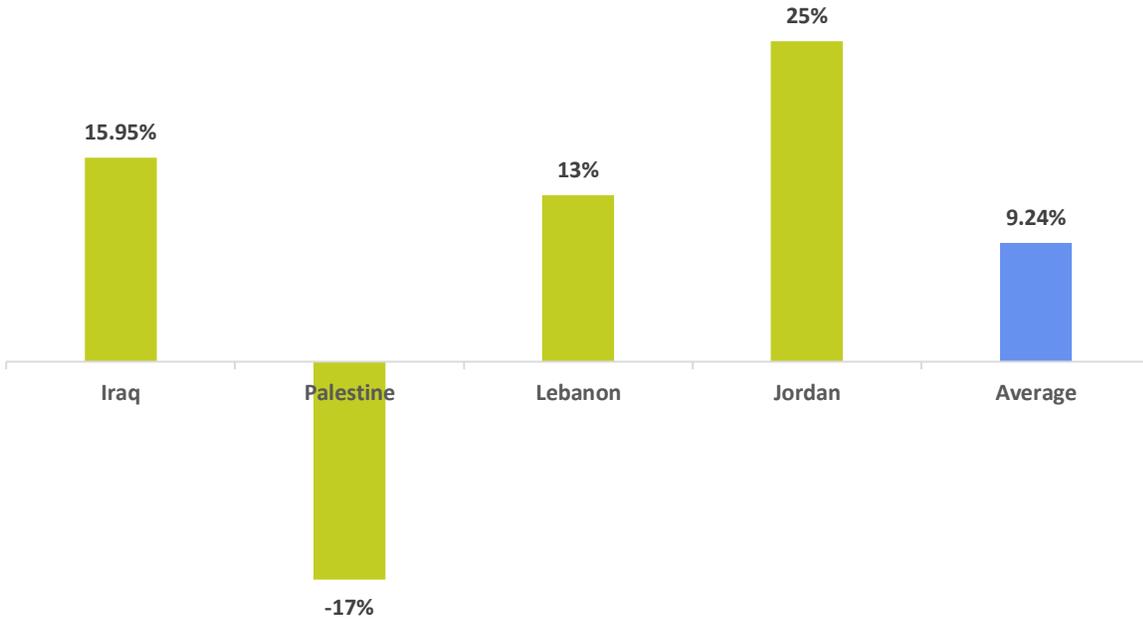
Profit Growth

Across the survey*, the percentage of respondents reporting that their businesses have become more profitable was 49%, down from 67% in the 2017 survey. This is at least in part attributable to decreases in Palestine from 70% in 2017 to 33% in 2019 and Iraq, where those reporting profit decreased from 92% in 2017 to 53% in 2019. In Palestine, civil servants in Gaza did not receive their salaries as of April 2018, which led to a deep economic crisis that caused many business to close their doors. Salaries were not fully paid in the West Bank after March 2019. Iraq also faced a recession in 2019 which limited opportunities for small and micro enterprises.

Overall, business profits grew by 9%, well below the 33% in 2017. Clients in Palestine reported a decline of 17%, due to the political and economic situation. Profit growth across the portfolio remains positive, which is to say that those reporting profit continue to grow at promising rates. All subsidiaries with the exception of Palestine report positive profit growth, and average cross-portfolio profit growth is 9%. Factoring in Palestine’s average loss, this value is down from the cross-portfolio growth percentage of 33% in 2017.

*Romania did not report a significant enough sample size of profit data to be included in the calculation. Enumerators commented that respondents were uncomfortable reporting profit outcomes.

Profit Growth



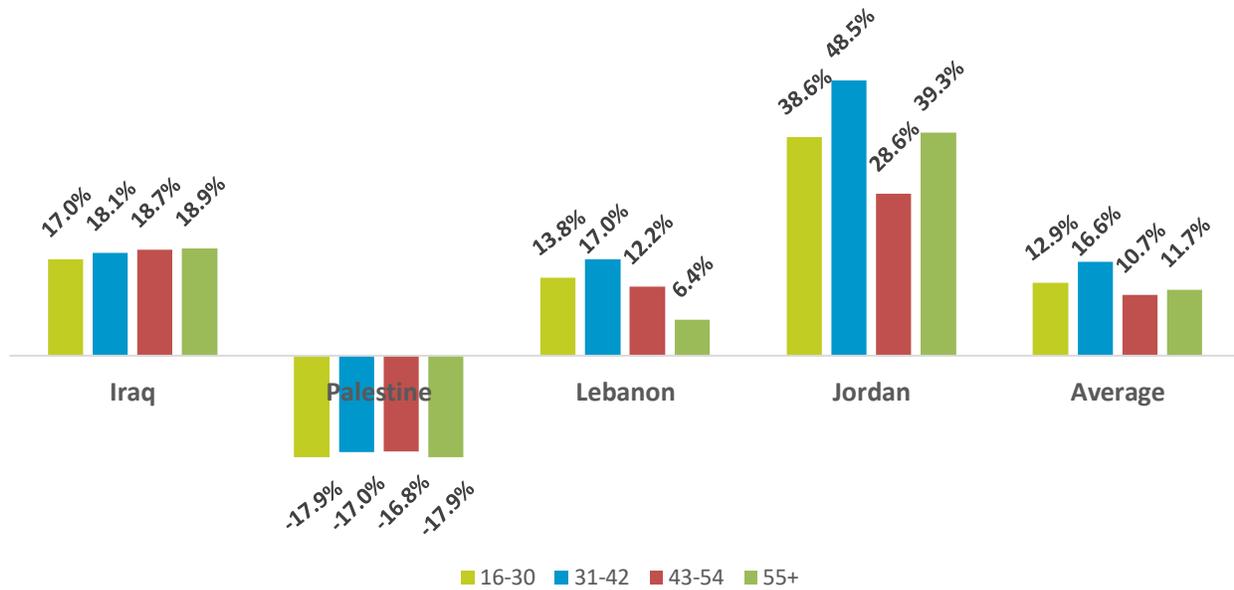
By Gender

The 2019 reporting reversed a positive trend from the 2015 and 2017 reports, in which female respondents reported higher profit growth than their male counterparts. Across the portfolio, all subsidiaries reported lower profit growth for women borrowers than males. The same factors that previously assisted female borrowers in achieving higher growth – lower loan sizes and higher growth potential resulting from smaller average firm size – likely also contributed to lower rates of growth during economic uncertainty in several countries. Notably, female borrowers in Jordan demonstrated considerable advancement despite the overall trend. While they trailed male borrowers by eight percentage points in the 2017 survey, their reported profit increased from 13% in 2017 to 36% and they narrowed the gap between male borrowers, who were the overall highest reporting segment.

By Age

As with previous surveys, age was stratified into four groups: Youth (16-30); Lower Middle (31-42); Upper Middle (43-54), and Eldest (55+). With the exception of Palestine, the Lower Middle group reported the highest monthly net profit growth. In Palestine, all age groups reported similar reductions in business profits.

Profit Growth by Age



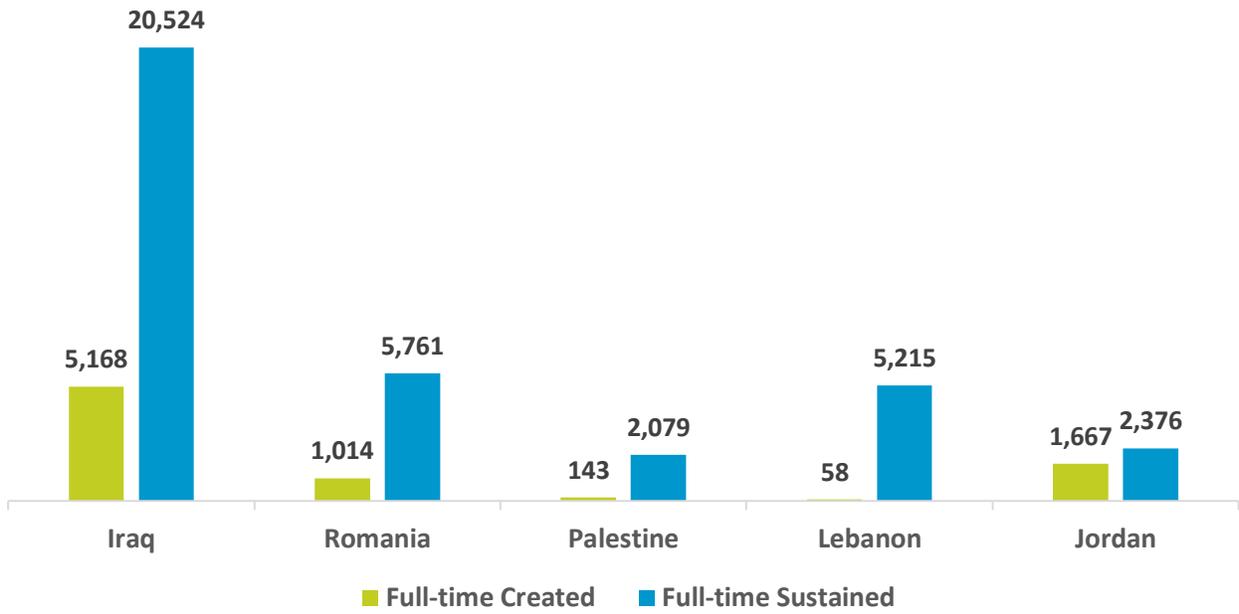
Jobs Created and Sustained

As in 2017, gender and age groupings were not reliable determinants of job creation across the portfolio. In comparison to 2017's job growth percentages and actual jobs created/sustained, this year's job creation estimates were also lower, with the exception of an increase of part-time employee hiring in Lebanon. Palestine reported a net decrease in part-time employees. Job creation estimates were calculated by extrapolating the sample size's reported employment outcomes to the full non-housing lending portfolio of each country.

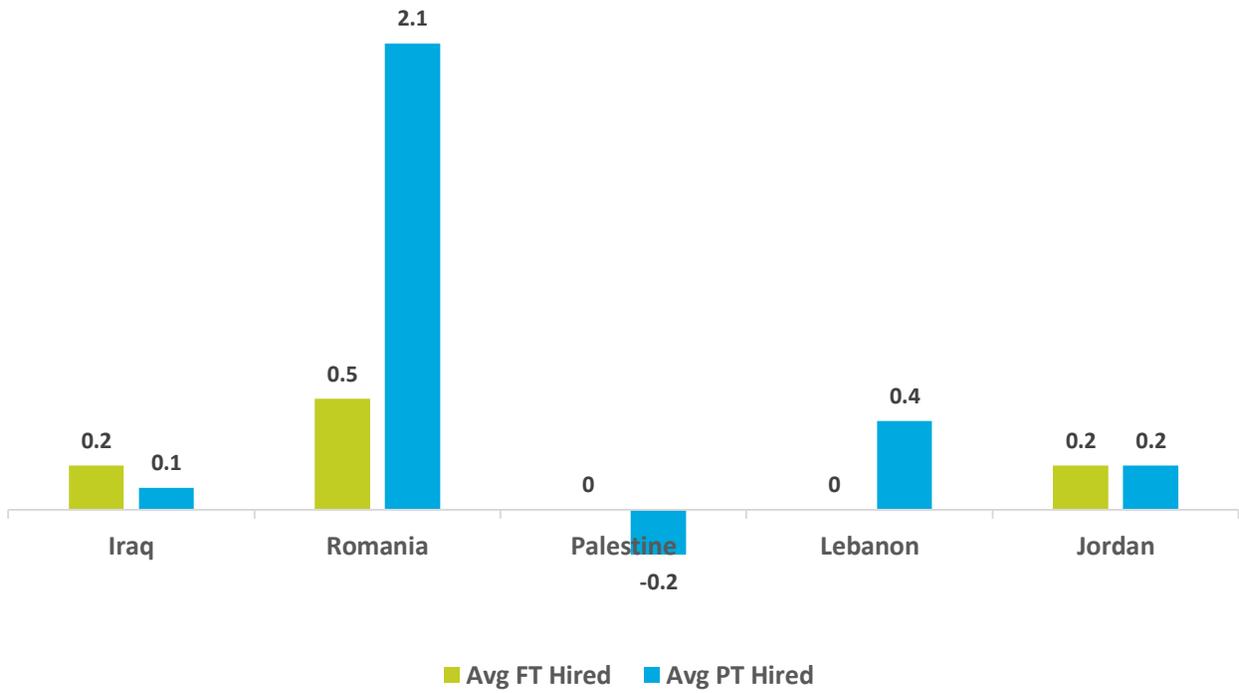


Vitas Jordan client Betoul Rumana working at her grocery store. She has been a client of Vitas for last three years.

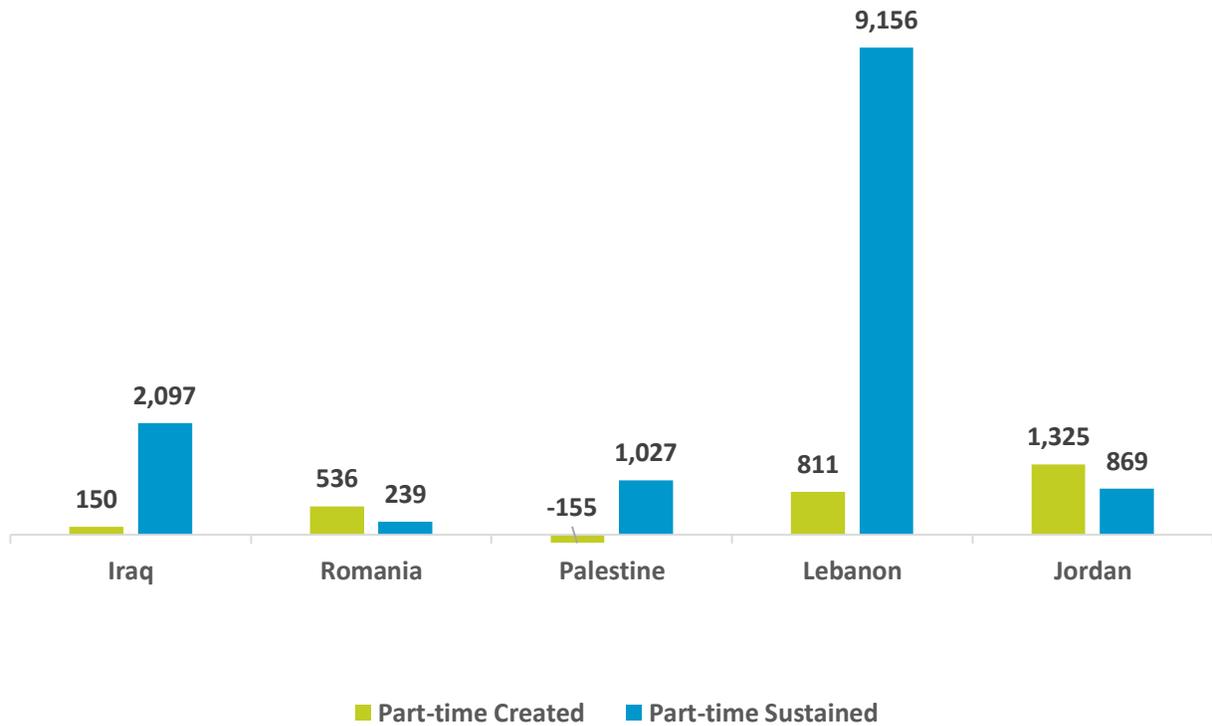
Full-time Jobs Created and Sustained



Average Number of Employees Hired Per Client



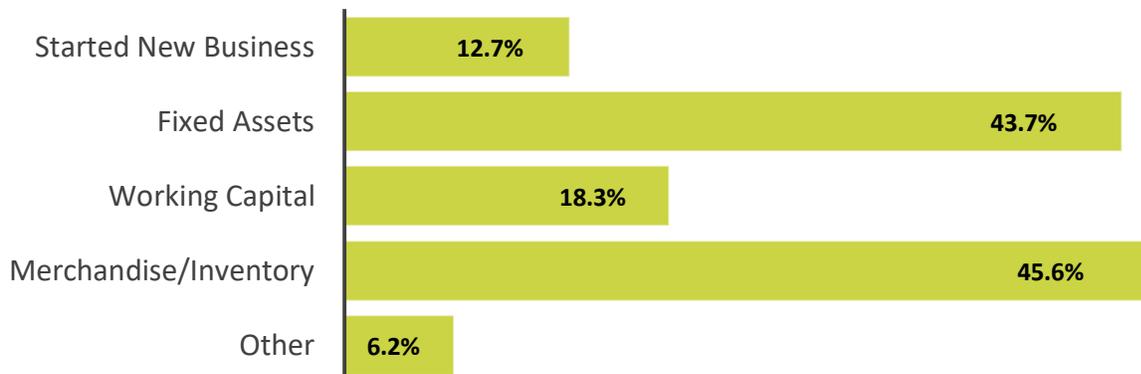
Part-time Jobs Created and Sustained



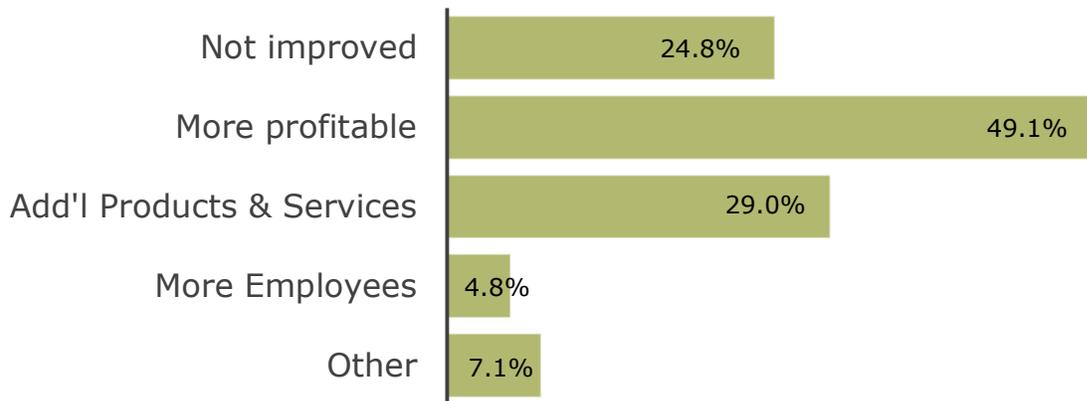
Client Use of Business Loans

Most clients used their business loans to purchase fixed assets and inventory. These figures were similar to the 2017 reports, though 46% said they increased inventory in 2019, compared to 38% in 2017. As a result of their business loan, 49% stated their businesses have become more profitable, compared to 67% in 2017. This result corresponds with the decline in profit growth already mentioned. In 2017, 11% of clients said they added employees, compared to 5% in 2019.

Use of Business Loan



Business Improvements



Loan Renewal

Sixty percent of clients said they planned to renew their business loans. Among the 40% who did not plan to renew, the most common reasons were lack of credit need (47%) or a lack of funds or ability to commit (36%)*. These responses could be related to macroeconomic difficulties clients are facing. In Palestine, only 31% intended to renew. In Palestine, 26% of respondents cited lack of macroeconomic stability as a reason for not renewing.

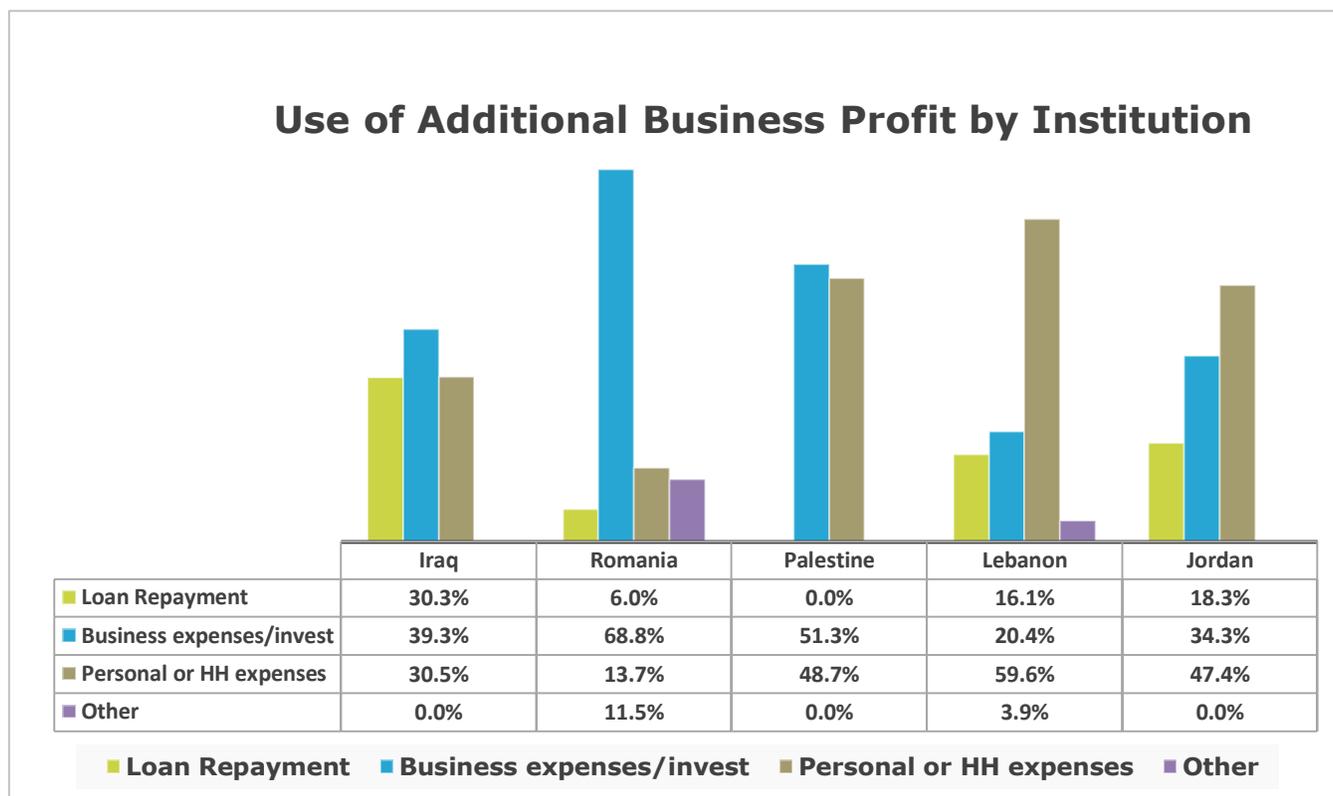


Tahani Kadhum is in the fifth loan cycle with CHF Vitas Iraq. The \$20,000 loan allowed her to install new interior decoration in her shop, and purchase latest hairstyling devices and accessories. Thanks to loans from CHF Vitas Iraq, Tahani's hair salon has gained a first-class reputation as one of the best in town, and won various certificates in the field. Tahani's ambitions do not end here. She constantly keeps up with the latest trends and thinks it will help her in maintaining her salon's success in the future.

*These percentages are of those not planning to renew. Clients could provide more than one answer.

Use of Additional Business Profits

On average, 43% of clients across all institutions used additional profits to cover business expenses and make further investments, down from 57% in 2017. Meanwhile 40% used additional profits to cover personal or household expenses, a slight increase from 39% in 2017. 14% used profits primarily to pay back the loan.



Personal and Household Consumption

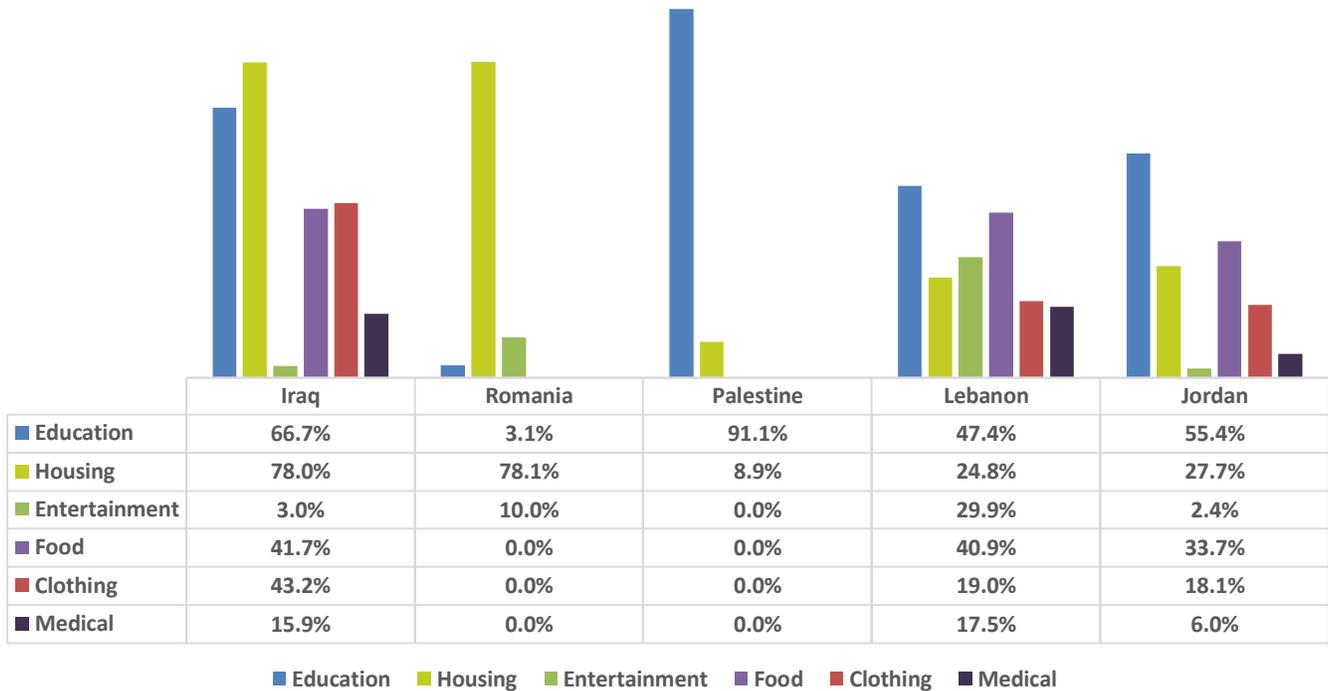
Clients that reported additional profits being used for personal or household expenses were then asked to elaborate on specific uses of the money, checking all categories that apply (totals exceed 100%). On average, the category to receive the highest count was education (53%), followed by home improvement/purchases (44%) and increased/improved food provision (23%). Other categories included medical expenses (7.9%), clothing (16%) and entertainment (9%).

Overall, patterned spending in each country is unique and is largely influenced by local economic conditions and governments' in-kind contributions, including subsidies for food, healthcare and housing.

Compared to 2017, education is much more important, increasing from 37% to 91% in Palestine and 56% to 67% in Iraq. Clients reporting extra spending on food remained stable, except in Palestine, where this fell from 34% to zero in 2019.

While surveyors were instructed to ask clients to “check all that apply” (total exceeds 100%), Palestine and Romania directed clients to only select the highest ranking category (total equals 100%), leading to some discrepancies in the results.

Personal and Household Consumption



Housing Client Surveys

Methodology

All clients' loans were disbursed and active during the fiscal year. All institutions used a minimum sample size of 200, except Romania which did not participate. It had 14 housing clients at the end of FY19.

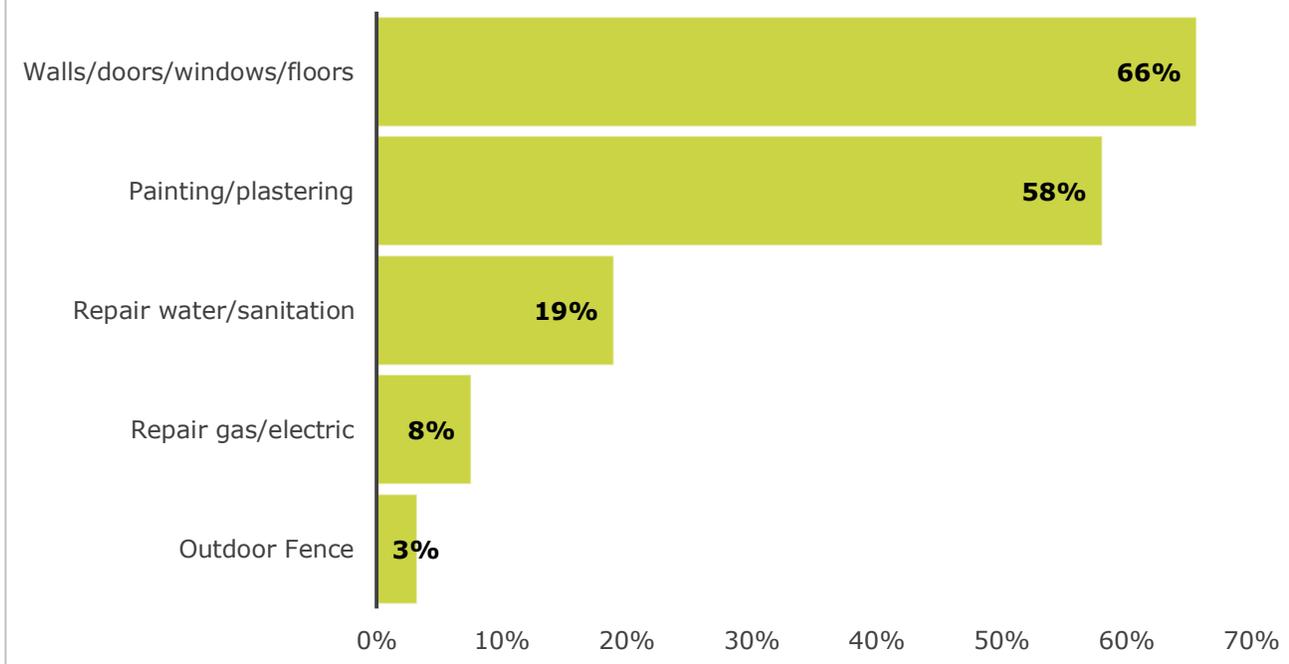
Housing loans were divided into two categories: minor improvements and major. Minor improvements were done by 77% of the clients. These included repairs or upgrades such as painting, improving housing materials or repairing utilities. Major improvements, funded by 23% of the loans, included larger-scale projects like home expansion, reconstruction, new home construction or land purchase. Loan recipients often used a loan for multiple activities within a category.

Use of Home Loans

Overall, 57% of the housing clients completed the work intended under their loan. Another 16% reported completing all work and making additional improvements, while 24% made partial improvements and only 2% made no improvements. For those who did not complete their plans, 61% cited insufficient loan amounts.

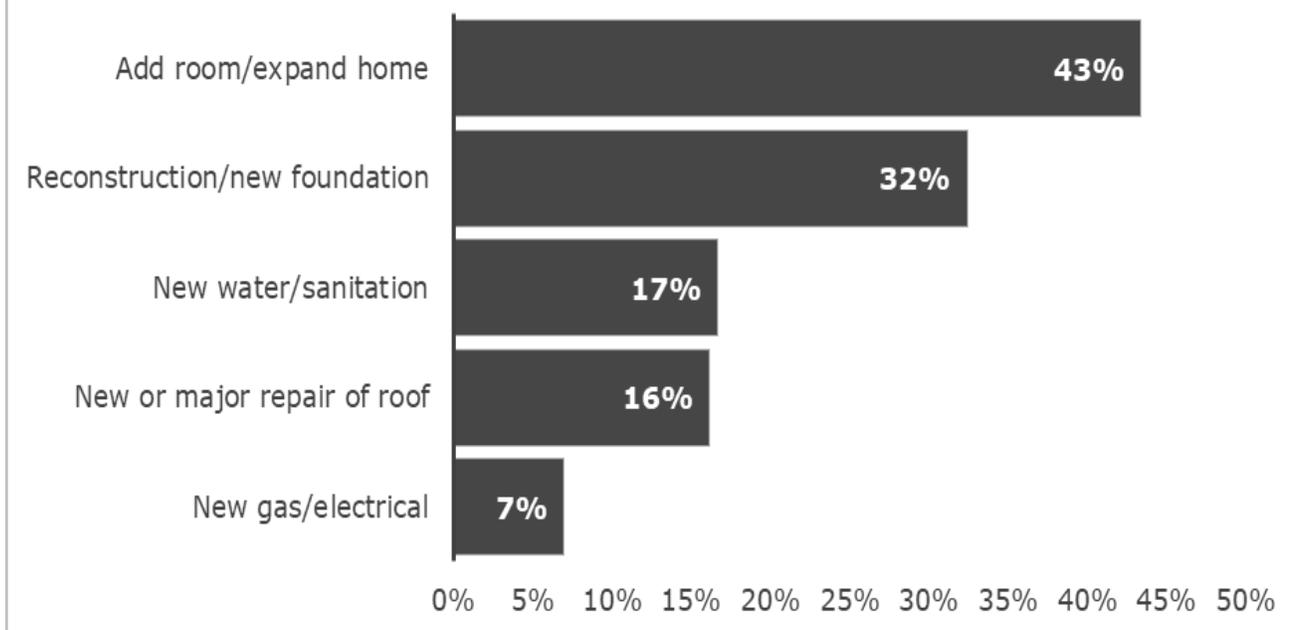
Each client could have done more than one improvement. For smaller loans, the main changes were for purchase of new materials such as walls, doors, windows, or floors, closely followed by painting/plastering with 58% of borrowers.

Minor Home Improvements



Compared to 2017, more borrowers applied loans to walls and doors, 50% compared to 35%. Repairs to water and sanitation remained constant between 2017 and 2019.

Major Home Renovations



The main project was the expansion of the house or adding a new room, with 43% of the major improvements or 83 clients, including 56 or 67% in Iraq.



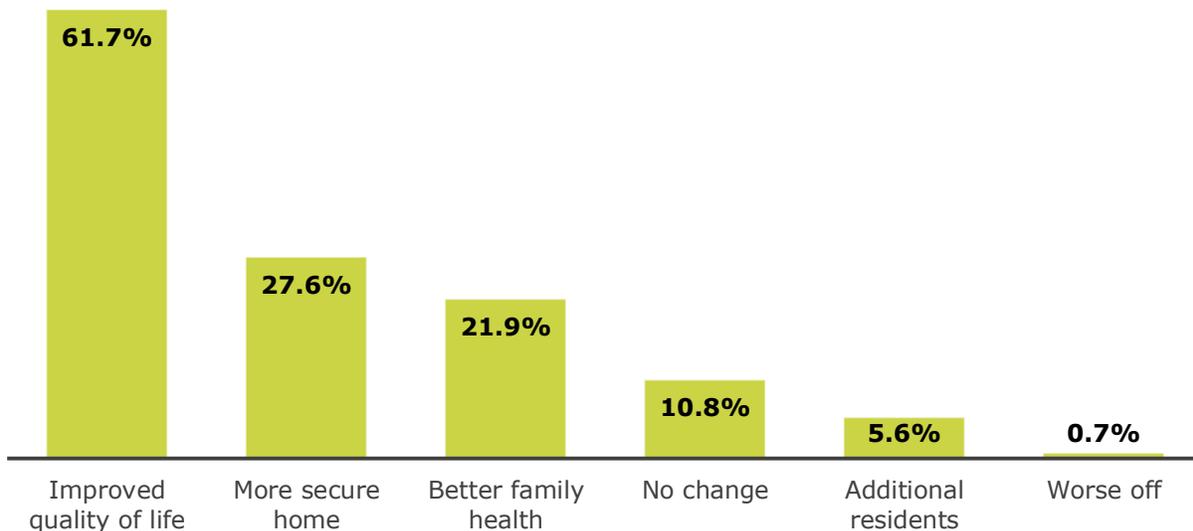
Forty-nine year-old Mahmoud Khader lived in a rental accommodation with his entire family for a long time. Mahmoud has five children. The rental costs were increasing every year. His rental house also had thin walls and air quality issues, which were affecting his family’s health. Khader wanted to build his own house but did not have the necessary cash. That is when he decided to approach Vitas Palestine and apply for a housing loan. Once he received his housing loan, he was able to finish the construction of his own house.

His new home has three bedrooms, two bathrooms, a living room, and a salon. He installed energy – efficient windows and energy efficient materials in the walls, and purchased energy efficient electronics. He is grateful to Vitas Palestine for providing timely financial help. He says that after moving to the new house, he and his family feel healthier. He also mentions that his children are able to focus on their studies since they have a larger house with convenient study space.

Local Economic Impact

Clients were asked to report the number of paid workers hired and the average number of weeks it took to complete the projects. On average, each client hired 3.05 workers which took an average of 5.7 weeks to complete the work. Extrapolating this hiring data across the Vitas network, housing projects accounted for the short-term hire of 97,700 individuals.

Personal and Economic Changes



Clients were also surveyed on personal economic gains resulting from the home loan. While only 6% of clients started or expanded a home business across all institutions, 62% reported improved quality of life. This percentage of respondents was down from 72% in 2017, though more respondents in 2019 reported a more secure home and better family health compared to the previous survey.

Conclusion

This report shows high satisfaction rates with Vitas institutions. With 95% of borrowers describing customer service as excellent or good, and a strongly positive net promoter score of 65, our institutions should be able to attract new clients.

However, job creation and profit growth have declined and coincide with the increased economic uncertainty. Fewer clients reported increased profits - 49% in 2019 compared to 67% two years earlier. Palestine, Iraq, and Jordan all faced economic crises in 2019. Business profits grew overall by 9%, well below the 33% in 2017. If recessions deepen, the Middle East may be entering a period of prolonged slow economic growth. Vitas institutions will need to adjust their loans to provide services enterprises need, and pay extra attention to possible over indebtedness. Demand for loans from our traditional client segments may decline, so we need to find new borrowers.

Subsidiaries are working on defining customer journeys and examining new ways to improve the customer experience. This includes interacting with certain customer segments through digital channels for ease of communication and payments transactions, as well as shortening the loan turnaround time and offering automatic renewals for loyal customers with excellent repayment history.



Compared to FY2017, the impact on employment fell. This year's survey estimates that 8,051 full-time and 2,667 part-time employees were hired by network clients, compared to 16,736 full-time jobs and 8,992 part-time jobs in FY2017. As borrowers' firms mature, their hiring needs may decrease, but it is more probable that that that economic challenges stymied growth.. Housing loans also contribute to employment, with more than 97,000 workers hired for short-term construction.

Clients used extra profits largely to reinvest in their businesses, but also for important personal objectives around education, home expenses and food provisions. Analyzing spending habits can point to new types of products Vitas may develop for clients. For example, as a result of market research, Jordan offers "back to school" loans that provide a safety net to Jordanian families by covering their education expenses (48%). Similarly, the very high spending on medical expenses by Iraqi clients (over 70%) could present a new opportunity for Vitas' insurance partners to offer a bundled health insurance product to these clients.



Looking forward, Vitas Group will further examine the results of this report and improve upon survey techniques in the future. Net Promoter Scores will continue to feature in these reports as a best practice proxy to measure client satisfaction. In addition, we will explore further how to measure savings rates, and evaluate the potential for new offerings such as in insurance, education-related products, and promoting long-term asset building strategies such as housing or pensions, given the regulatory limitations that restrict Vitas subsidiaries to only offer loans (debt) as a product. Part of Vitas' digital transformation plan is to identify new digital channels and more convenient ways to offer clients a safe way to borrow, save, and transact. Through partnerships, Vitas may identify new ways to offer clients complimentary services, building on its trusted and long-term relationship with clients.

For more than 20 years, Global Communities and Vitas have remained committed to putting clients first. We will continue to seek new ways of improving our service and positive impact on clients' lives and well being. The growing economic uncertainties of today make it imperative that we do so.



As a married woman and a mother of seven children, Fatima started her business seven years ago to help support her family. She first started by selling perfume in a small shop that she rented in her village. Through the interaction with her customers, Fatima found a large demand for other products like costume jewelry, accessories and scarfs. Fatima decided to seize this opportunity but to diversify her product offering she needed money. She applied for a loan from Vitas and got \$ 5,000, which she used to redecorate the shop and buy display stand. Fatima's business is generating good revenue and she is able to provide a better life for her family. Fatima says she is very grateful to Vitas because without its financial support she would not have been able to develop her business.



Survey Design and Report: Development Finance, HQ

Contributing Field Staff:

Romania – Bianca Bobirca

Iraq - Rola El Amine

Jordan - Rula Muhiesen

Lebanon - Elie Moussa

Palestine – Balsam Jamal

HQ Contributors: Taylor Mills, Aina Krupinski-Puig,
Richard Shumann, and Rohit Kulkarni



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A Global Communities Enterprise

8601 Georgia Ave. Ste. 300 | Silver Spring, MD 20910 |
Tel: 1.301.587.4700