# Activity Report 2018

## Oikocredit International Support Foundation

Oikocredit provides more than just financing. Improving the quality of life for people and their communities in Africa, Asia and Latin America in a sustainable way calls for more than the provision of credit or equity. When growing their organisations and enterprises, Oikocredit's direct beneficiaries and ultimate target groups, particularly low-income earners and their communities, face diverse challenges which hinder their capacities. Recognising the need for improved knowledge, skills, technology, governance, business planning and access to markets, Oikocredit has adopted a 'plus' approach to its development financing. Access to capacity building and technical assistance is important for many of Oikocredit's target groups.

Our capacity building activities are structured around three global programmes in agriculture, client outcomes and financial services.

### Agriculture

Our agriculture capacity building engagements focus on improving the business and organisational capabilities of organisations along the agricultural value chain, enhancing farmers' skills and strengthening environmental good practices. Through capacity building we mainly support agricultural cooperatives and associations. Formed by farmers, such organisations distribute their earnings among their farmer members or use the income to improve their operations. Oikocredit's support to agricultural cooperatives and associations, helps to increase their earnings which benefits the farmers.

### Client outcomes

Our Client Outcomes programme has both a research and a training pillar. The training pillar consists of building the capacity of financial institutions to track, interpret and report changes in the lives of their clients over time. Our partners are then able to use the client insights to improve various aspects of their businesses and strengthen the provision of services they offer to clients.
The second pillar consists of operational research. The Client Outcomes Programme enables operational research based on the data collected which in turn can provide input for sector policy decisions.

### Financial services

The financial services programme supports partners in delivering responsible financial services. It offers support to partners for risk management, client protection, financial literacy for clients, and other aspects of social performance management.

In 2018, € 2.2 million was made available for capacity building and Oikocredit provided € 0.9 million (a 10.4% increase on 2017) in donor grants and from our own funds. We supported 143 current and potential partners in 24 countries. The majority of this funding went to agriculture at € 0.8 million, followed by financial services at € 0.1 million.

## Our donors

Our capacity building engagements are funded by the German relief agency Brot für die Welt (Bread for the World) Protestant Development Service; the Church of Sweden; Evangelische Landeskirche (Evangelical Lutheran Church) in Württemberg, Germany; SAFE, a multilateral investment fund, managed by Inter-American Development Bank (IDB); the Rabobank Foundation, as well as donation funds from our investors and Oikocredit's own contribution. The Church of Sweden has been a donor and partner for many years, particularly in training innovation to strengthen farmer cooperatives' resilience and organisational capabilities. Two recent institutional donors funding long-term capacity building programmes in agriculture (since 2017) are the Inter-American Development Bank (IDB) and the Evangelische Landeskirche (Evangelical Lutheran Church) in Württemberg, south-west Germany. The latter also supports the Client Outcomes programme. We will continue to strengthen our fundraising efforts and enhance our grant stewardship, while scaling, expanding, improving and replicating the global capacity building programmes.

# **Overview** of capacity building activities

## Agriculture programme

Oikocredit's capacity building engagements in agriculture support the sustainable development of agricultural businesses and communities. Strengthening these organisations indirectly benefits the organisations' members and suppliers, the farmers. To support farmers directly, Oikocredit facilitates farm-level training, for instance in business management or farming techniques.

***Programme in brief***

*Our capacity building in agriculture includes:*

- *training farmer cooperatives and*
- *other agricultural enterprises in financial and risk management, trade and environmental protection*
- *developing technical skills at farmer level*

*Results in 2018:*

- *61 agricultural partners*
- *14 countries*
- *15 engagements*

Within the risk management domain, capacity building was provided to 40 partners in two large engagements in the Latin American region. The Disaster Risk Reduction and Management engagement in Ecuador was completed in 2018. Nineteen partners (of which 16 cooperatives and three NGOs) received training on how to prepare a contingency plan and be prepared to support their clients, their staff, and be able to continue working in difficult circumstances such as during a natural disaster.

The Price Risk Management (PRM) engagement is a three-year project launched in 2017 as a multi-stakeholder project funded by the Inter-American Development Bank and co-funded by Oikocredit, Catholic Relief Services, Fair Trade USA and Keurig Green Mountain. The aim of the programme is to enable coffee cooperatives in Latin America to mitigate the effects of highly volatile coffee prices through financial strategies and tools. In 2018, 22 cooperatives participated in the programme. Our approach to PRM is focused on the different ways participants not only learn but also apply and implement what they have learned. Therefore, the methodology used in the training as well as the different components of this engagement such as peer-to-peer learning, simulation and advisory services are key to learning and application.

While the first training focused on acquiring a fundamental understanding of PRM, the second advanced workshop developed a deeper understanding of inventory management strategies and covered the complexities of harvest evaluation and prediction, and financial hedging strategies. Financial tools were introduced to the cooperatives which they can use to track coffee purchases, price-fixing and sales. In 2019, the training component of the engagement will end, and the focus will shift to the advisory services to implement PRM strategies. The engagement has supported the creation of a community where concerns and learnings are shared among participants. Peer-to-peer events will be organised to enhance the strength of this community.

Within the agricultural value chain domain, 11 engagements were completed over the course of 2018. While in East Africa 75% of the labour force is employed in agriculture, and 75% of the total agricultural output is produced by smallholder farmers, these farmers face many challenges.

Examples are poor information on good agricultural practices, limited access to inputs such as fertilisers and seeds and limited access to financial services. Our engagement in Kenya, Rwanda and Tanzania focused on smallholder resilience was developed to tackle these issues in three ways: to help partner financial institutions better serve smallholder farmers in the region; increase the knowledge and exposure to agricultural best practices and the financial literacy of smallholder farmers; and create linkages to business development services serving smallholder farmers in the area. Four organisations took part in 2018, and the results will be available after the mid-term evaluation in mid-2019.

In another engagement organised to tackle these issues in Kenya and Uganda with support from the charity Bread for the World, 1,057 farmers (as at September 2018) have been trained in financial literacy at two financial institutions, and 459 farmers participated in agricultural value chain training. As a result of the financial literacy training, 41% of the participating farmers opened a savings account, while the agriculture portfolio of the two partners grew by 4% and 25.7% respectively. Four partners are in the process of the revision and implementation of adequate financial products for smallholder farmers.

## Client outcomes programme

The Client Outcomes Programme, launched in 2014 and partly funded by the Evangelical Lutheran Church of Germany (ELK), aims to help our partners to collect and analyse data, and use it to make better decisions for improved social outcomes. In this way, we help our partners to deliver on good intentions and also reach our own goals as a social investor.

In our work on measuring client outcomes, we provided capacity building training in social performance management for four partners: Komida in Indonesia, Faces in Ecuador, LOLC in Cambodia and BJS in India. We also undertook in-depth research on the welfare of microfinance borrowers over time using the Poverty Probability Index, collecting and processing data from seven microfinance partners in the Philippines and India.

***Programme in brief***

*In-depth research and helping partners collect and analyse data to improve results for clients.*

*Support provided:*

- *Baseline needs assessment*
- *In-house workshops on data collection and analysis*
- *Distance mentoring*
- *Coaching sessions for senior management*

*Results in 2018:*

- *4 partners supported*
- *66 participants*
- *4 countries*

Between January and December 2018, we trained around 66 participants from the four MFIs mentioned above. With participants from different departments within the MFI, one major learning point for the participants was the importance of social performance data across the entire organisation. Participants learned how to integrate social and financial data to better analyse their portfolio and improve their product offering for their clients.

### *Research*

This year we decided to take the programme a step further. By leveraging the client-level data collected we generated insights into poverty at market and country-level. Such information helps social investors, donors, MFIs, and policymakers to inform developmental goals. We did this by merging the client-level data of seven MFIs in India and the Philippines which participated in the COP. This data was used to create interactive dashboards, generating relevant poverty insights for the partners and Oikocredit. Using this dashboard, we are able to:

1. track poverty outreach and social outcomes over time;
2. compare social outcomes of participating MFIs with the overall microfinance sector at the state/province and country level;
3. disaggregate and compare the social outcomes for different segments of customers such as

by gender, rural/urban at the branch-level; and,

4. easily report social outcomes, saving resources on repeated manual analysis of customer data.

Furthermore in 2018, Oikocredit collaborated with the Institute of Social Studies (ISS) from Erasmus University Rotterdam in the Netherlands to study the effects of microfinance products on poverty alleviation. The research project compared characteristics of loan products such as loan amounts, cycles, programmes and borrower characteristics at the micro level. The thesis found that participation in certain loan programmes by microfinance borrowers slightly reduces the likelihood of poverty as measured by the Poverty Probability Index. In addition, in 2018 we held a seminar on financial literacy with two researchers. In 2019 we expect to finalise another study conducted with Wageningen University on the differences between loan products of an MFI in India.
Oikocredit continues to support research initiatives that help partner MFIs to improve their social performance and their commitment to their social mission.

## Financial services programme

The financial services capacity building programme addresses partners' social performance management (SPM) and risk management (RM). It aims to strengthen organisational performance and to support partners in sustainably improving the quality of life of their clients. In Africa, our support focused on the Client Protection Principles. In Latin America we are enabling social performance assessments in Brazil and social performance monitoring with a partner in Colombia. In Southeast Asia the focus was on risk management, and in India we extended a training programme on enterprise development.

***Programme in brief***

*Reinforce the social performance and risk management of financial service providers.*

*Support provided:*

- *Workshops on social performance management and universal standards*
- *Workshops and assessments of Client Protection Principles*
- *Risk management training and implementation of action plans*

*Results in 2018:*

- *36 partners*
- *19 engagements*
- *15 countries*

We continued to focus on the implementation of the Smart Campaign's Client Protection Principles. Oikocredit actively endorses CPP which protect clients from unfair, non-transparent and unethical practices. We encourage partners to adopt these principles in their institution and we support them assessing their performance regarding the CPP. Furthermore, we have provided training on the CPP methodology to staff, to enable them to apply the principles during the social due diligence. We supported training and assessments through six engagements with 19 partners to implement the CPPs into their operations. As part of our mentoring approach, six to 12 months after the engagement, an evaluation is made of the progress and action taken. Eight partners were evaluated in 2018. The action taken depends on the initial situation of the partner.

Meanwhile, two SPI4 audits were conducted using the same mentoring approach as the CPP training. SPI4 is a social performance assessment tool for financial service providers developed by the sector. Additionally, two staff members received the SPI4 qualified auditor status, reinforcing our internal SPM capacities.

Finally, after a successful pilot in 2017, we advanced the gender-focused training Bridging the Gender Gap in Responsible Finance to two partners in the Philippines. The aim of the project was to enable women and men clients to achieve economic empowerment and improve gender relationships in the household using the Financial Action Learning Systems (FALS) methodology. The project resulted in increased savings, a better understanding of client needs and an increase in the sharing of household tasks. An important ingredient of the methodology is the selection of 'Champions' that share the methodology with their peers.

## Local currency risk fund

To manage local currency risk, Oikocredit established the Local Currency Risk Fund (LCRF) within the Oikocredit International Support Foundation well over a decade ago. The LCRF was initially funded by grants received from various institutions (including the Dutch government) and Oikocredit members. In total, Oikocredit received more than € 20 million in grants. It was a cautious start, with local currency loans only granted to partners in certain selected lower-risk countries. Nevertheless, by 31 December 2018, 46.9% of the Oikocredit loan portfolio was in local currency.

The LCRF is used as an internal fund to offset local currency risks. Oikocredit UA pays a 'premium' to the Oikocredit International Support Foundation. The premium Oikocredit pays aligns with market rates and is equal to the difference between the local currency interest rate and the hard currency interest rate, which would have been applicable if the same loan had been granted in euro in line with the Oikocredit pricing model. This premium is in the first instance used to offset currency differences on local currency loans. Upon maturity of the loan, the premiums (after deducting exchange losses or gains at maturity of the loan) are added or charged to the LCRF.

Oikocredit UA changed its hedging strategy in 2018, resulting in higher hedging costs but greatly reducing the effects of currency fluctuations. In line with the purpose of the fund we used the LCRF to partly absorb changes from currency fluctuations. The availability of the LCRF decreased from € 12.8 million to € 10.0 million.

Additionally, if necessary (in line with our risk assessment and mitigation measures) and when possible, foreign currency exposures are hedged externally.

# Outlook in 2019

Capacity building will be central in helping Oikocredit fulfil its ambition of becoming a catalyst in the sector. We aim to scale up the knowledge and experience we have gained while increasingly seeking and matching institutional funding to the needs of partners. We aim to pilot at least one capacity building engagement in digital finance and will continue to improve our follow-up of partners' implementation of action plans following social assessments, as well as our mentoring approach.