

Introduction

Providing opportunities for low-income people and communities to improve their lives sustainably lies at the heart of Oikocredit's mission. This commits us to making social performance a priority both for Oikocredit and our partners. Central to this is our capacity building work with partner organisations to ensure Oikocredit's provision of finances helps build resilience and generate positive social impact.

The continued support from our donors through the years has enabled Oikocredit to implement meaningful capacity building engagements directed at our partners around the world and the communities in which they operate. These engagements aim to strengthen various areas of operations that will improve their economic situation and enable them to improve the overall quality of their lives. Thus capacity building is closely linked to Oikocredit's core business of providing access to financial resources with the objective of generating positive social impact. Feedback solicited through partner satisfaction surveys cite capacity building, also referred to as technical assistance, as a significant value-added service appreciated by partners.

Our capacity building engagements are funded by Brot für die Welt Protestant Development Service; Church of Sweden; the Evangelical Lutheran Church of Württemberg; 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.

Oikocredit's three global programmes have continued to develop and innovate, aiming to strengthen agricultural cooperatives and associations and financial intermediaries for the benefit of farmer members and low-income borrowers. We invested € 845,500 in our three thematic programmes in 2017 (up 53% from 2016): agriculture, financial services and client outcomes. The largest area of investment was agriculture, with € 622,000, followed by financial services with € 176,000. In total, 100 organisations were supported.

In this report we provide an overview of all capacity building engagements in 2017.

Capacity building global programmes

Building on its work over the years in response to partners' needs, Oikocredit has structured its capacity building around three cross-cutting global programmes:

- **Agriculture** - training farmer cooperatives and other agricultural enterprises in financial and risk management, fair trade and environmental protection, and developing technical skills at farmer level.
- **Client outcomes** - building financial institutions' capacity to track, interpret and report changes in clients' lives over time.
- **Financial services** - supporting partners in client protection and other aspects of social performance management and risk management.

Oikocredit's capacity building work continues to broadly address the same key areas as in the past, but through an improved structure. The aim of the global programmes is to provide more meaningful and streamlined support to our partners and their beneficiaries.

Some highlights of capacity building engagements

Agriculture programme

Agriculture is Oikocredit's largest area of capacity building. Careful monitoring helps show where partners most need support, such as in improving business or risk management, in production techniques or in developing better environmental practices.

In 2017, Oikocredit supported 75 agricultural production, processing and marketing organisations with capacity building engagements.

We started a new price risk management project in Latin America with an innovative adult learning methodology for coffee farmers, providing initial training for 20 Honduran cooperatives. With Church of Sweden support we strengthened farmer-based organisations' capacity to benefit rural low-income earners. Ugandan farmers have improved production and productivity as a result of the knowledge and skills obtained through the project, although further strengthening is needed.

In the Philippines, we implemented the final phase of the Oikocredit-Rabobank Foundation partnership in 2017 on: *Intervention and Development Financing for Agricultural Social Enterprises and Value Chain Development*. The partnership that started in 2013 aims to improve the income and livelihood of small producers by providing capacity building support that will enhance the operation of farmers' organisations or their agricultural enterprises. It endeavours to assist small farmer organisations and enterprises in reaching self-sustainability, scaling up their operations, achieving market leverage and thereby improving their position as major players in the value chain. Around 80 farmer organisations/enterprises were supported during the three-year period of this project.

Below are short descriptions of some of our capacity building agriculture programme engagements:

In Peru, three cooperatives were supported to prepare for the renovation of coffee plantations affected by fungus. The overall objective was to renovate affected coffee plantations and to continue enabling the farmers to increase their incomes by boosting productivity levels and the quality of their coffee. This engagement was the last phase of the Church of Sweden agriculture programme which included the organisational systematisation and final audit. (See box below):

Renovation of coffee plantations in Peru

The past few years have seen a reduction of coffee production in Peru due to the coffee leaf rust fungus that affects coffee plants. It has been a difficult period for coffee farmers. Farmers needed support to learn how best to renovate coffee plantations affected by the fungus.

The farmers and their three cooperatives (Cenfrocafé, Selva Andina, Cooparm) will now be able to conduct their own plantation renovation process in the next few years based on financially and commercially sound work plans. This was the coffee renovation programme's last training activity and included the systemisation of the data gathered during the whole programme period.

Programme in brief

Strengthening agricultural organisations and farmers.

Support provided:

- *Improving and ensuring business sustainability*
- *Developing farmers' capacities*
- *Strengthening environmental good practices*

Results in 2017:

- *11 engagements supported*
- *12 countries in Africa, Central and South America and Southeast Asia*



*Cenfrocafé coffee farmer showing coffee that needs to ripen.
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The activities completed

- An evaluation/systematisation workshop with nine technicians of three organisations. This helped gain feedback on the process of the programme.
- Delivery of the final workshops on renovation with farmers of one organisation (Cenfrocafé). This was the final workshop delivered by the technicians to farmers.
- Preparation of the renovation plans with each organisation. For this part, there was a visit to each of the organisations where a costs overview and plan was made with the technicians. As a result, the cooperatives realised the real amount of investment needed for one hectare of a coffee plantation.
- Final audit of the programme.

Challenges and lessons learned

- To undertake activities only outside of harvesting season.
- Adjust timeline planning to allow for more time for the cooperatives.
- The average amount of money required for investment by the cooperatives for the renovation as shown by the plans is high. They have to look for a grant to continue the renovation plans.

Next steps

- The cooperatives have expressed the need to think about the grants or donations they could get in order to start renovation projects with their partners.
- Of the three organisations, Cenfrocafé looks the most stable to start a renovation project, so Oikocredit - South America northern region is in the process of planning a future project.

In Guatemala, support was given to six small agricultural/coffee producer organisations and cooperatives to strengthen their capacities in administration and management. These organisations are linked to other agricultural and rural businesses to widen their network and strengthen their linkages to knowhow and markets. Technical assistance and a small credit facility were provided to enhance learning towards achieving business continuity and economic sustainability. Key objectives are to contribute to sustainable organisational processes, to enhance access to financing for and to raise gender awareness within the organisations.

Support was given to Access Agriculture to create a Spanish version of its video-sharing platform. Access Agriculture is an international NGO officially registered in Kenya and Benin, which showcases agricultural training videos in local languages. It fosters the exchange among lower-income countries and communities of access to quality audio-visual training materials to secure sustainable livelihoods of smallholder farmers and users of natural resources. Access Agriculture supports farmer organisations by making farmer-to-farmer training videos accessible in local languages. All farmer training videos on the platform can be freely viewed and downloaded by any organisation supporting farmers.

We supported 28 partners in Ecuador and Peru on disaster risk reduction and management. Trainings and coaching were given to strengthen our partners' disaster preparedness systems and procedures and to raise awareness on the importance of investing resources in the preparation for and mitigation of the effects of natural disasters to safeguard sustainability of their businesses in the long term.

Client outcomes programme

As a social investor, Oikocredit helps the organisations in which we invest become stronger social businesses. In 2014, we launched the client outcomes programme to help these organisations collect and analyse the data they have been collecting, and use this to drive improved results for clients. By helping these organisations improve their social outcomes, we are also reaching our own goals as a social investor.

Having access to quality, responsible financial services (such as loans, savings, insurance and remittances) can play an important role in helping low-income and excluded people improve their lives. Many of the organisations in which Oikocredit invests use financial-service delivery to help their clients in a variety of different ways: from promoting business growth, employment and gender equality, to improving housing, health outcomes and school enrolment rates. Oikocredit's client outcomes programme (COP) forms a critical link between 'good intentions' and 'good results'.

The first goal of the COP is to help organisations use client insights to drive informed innovation. Having real-time data on what is happening in the lives of clients means they can improve their targeting, products, services and systems. It also helps them to set and refine their business strategy, report to funders, and manage financial and reputational risk.

Our second goal supports the first, and that is to help the organisations in which Oikocredit invests live and breathe good data. This means improving how they collect, analyse and report data on clients – because good data drives good decision-making, and when it comes to improving the lives of poor people, good decisions matter.

Since 2014, the programme has helped build capacity at 19 financial inclusion partners. In 2017, we held client outcomes workshops for five more microfinance partners: Margdarshak (213,500 clients) in India, Idepro (11,300 clients) in Bolivia, ProEmpresa (55,200 clients) in Peru, Enlace (47,000 clients) in El Salvador, and NWTF (373,000 clients) in the Philippines. Training covered data management and analysis, the Poverty Probability Index (PPI), social objectives, client outreach and needs-based product development. We anticipate conducting more training programmes in Asia and Latin America in 2018.

Research

A second strand of the client outcomes programme involves research into whether and how much the quality of life of financial inclusion partners' clients is improving. Using data on 187,988 clients from three partners – ASKI (Philippines), Fusion (India) and Chaitanya (India) – our second research study found that rural clients are on average poorer than their urban counterparts but experience greater poverty reduction over time. Targeting low-income rural people therefore appears to be an effective social investment strategy.

Postgraduate students at the International Institute of Social Studies in The Hague are now undertaking further research based on this data.

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 via Skype for technical staff*
- *Coaching sessions for senior management*

Results in 2017:

- *5 partners supported in*
- *India, Central and South America and Southeast Asia*

Financial services programme

Oikocredit promotes self-sufficiency and economic productivity in low-income economies with the aim of contributing to the alleviation of poverty and achieving a fairer society.

Our capacity building in financial services programme supports partners, potential partners and networks achieve their social mission by focusing on two key areas: social performance management (SPM) and risk management. We adapt the programme to partners' needs, for example, beginning with introductory awareness workshops for organisations about SPM.

In 2017, we implemented the following capacity building engagements under the financial services programmes:

In Honduras, support was given to a microfinance institution on coaching and training of financial advisors. Since its establishment, it focused mainly on the agricultural sector which has high risks related to climate change and low margins. In addition, due to distance factors, optimal productivity was a challenge. To address these issues, a sustainable market strategy, with attention to small enterprise markets not served by financial services with emphasis on women, was designed and implemented.

In 2017, Oikocredit conducted two SMART campaign trainings for staff in Africa, India and Southeast Asia. These were designed to train participants on updated client protection standards and on how to assess and best support partners in this area for the benefit of the end borrowers.

Oikocredit has supported the SMART Campaign in its promotion of the Client Protection Principles (CPP) since September 2008. We have collaborated with other investors to promote the campaign and to assist microfinance institutions (MFIs) in complying with the CPP. In order to support Oikocredit partners in the fulfilment of the social clause in the loan agreement, Oikocredit staff has been trained in 2017 on SMART methodology. Knowledge learned from the trainings enables them to work directly with partners and accompany them in the self-assessment exercise.

One of the results of the abovementioned CPP training is the commitment of Oikocredit project officers to complete the full cycle of CPP certification of MFIs by carrying out some assessments on their own. The activities will focus on CPP accompanied self-assessments and drawing up of action plans to address whatever gaps are identified during the process. The end goal is ensuring responsible lending to end borrowers enabling them to improve their livelihoods.

The trainings in Africa, India and Southeast Asia were completed during the first half of 2017. Two remaining activities with an Oikocredit partner in Zambia are scheduled to finish during the first half of 2018. See box below for a short insight on the CPP training held in Kenya and India.

Aside from the CPP trainings of our regional staff, we also gave direct support for a CPP training self-assessment to six of our partners in India and Africa. These trainings started in 2017 and will finish in 2018.

Under this programme and with support from the Church of Sweden, we have launched a new gender-focused pilot project, Bridging the Gender Gap, with two microfinance partners in the Philippines, ASKI and NWTF. The aim is to strengthen partners' financial and business processes and mainstream gender in their design of client products and services.

To date, the pilot has trained 27 staff and 41 clients at ASKI and NWTF. Clients have already reported benefits in their personal lives and in managing their small businesses. Prompted by this initial success, the pilot is being expanded to more of the MFIs' branches and several thousand clients.

Programme in brief

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

Support provided:

- *Workshops on social performance management and universal standards for financial inclusion*
- *Client Protection Principle workshops and assessments*
- *Risk management training and implementation of action plans*

Results in 2017:

- *9 engagements supported*
- *13 countries in Central America, Southeast Asia, India, East and West Africa*

Client Protection Principles (CPP) trainings in Kenya and India

A series of Client Protection Principles trainings were organised in 2017, in Nairobi in February and in Hyderabad in March, for the Oikocredit East Africa and Southeast Asia regions, respectively.

The three-day training in Nairobi was designed to train Oikocredit project officers to conduct accompanied self-assessments of their partners and was attended by thirteen participants.

The Hyderabad training was attended by eleven participants. Three of the participants are now accredited support assessors.

Two participants in India shared their experiences in a short interview below:



Havilah David (left), senior project executive, and Saraswathi Pradeep (right), executive SPM & CB.



Above, the training participants in Hyderabad from the Philippines, Cambodia and India. Below, selfie of the participants in Nairobi.



Why did you attend the training?

Havilah David: To learn to understand how an institution is emphasizing its strategic directions – whether it is emphasizing more on financial aspects or maintaining a balance between financial and social aspects. To also learn to identify the good practices followed by the institution, the work culture in the institution etc.

Saraswathi Pradeep: I am totally new to the MF sector and CPP assessment, but I am aware of ESG and got a fair understanding by reading all the ESGs of our partners. I attended this training to improve my skills and knowledge on CPP, so that it helps me to contribute to social performance in a better and meaningful way.

What do you hope to take with you from the training?

Havilah David: Not to be pessimistic while assessing or scoring an institution because the institution is not adhering or complying 100% with the indicator or criteria. Instead encourage the institution by giving it a moderate score where it is already practicing the CPP principles but not complying 100% and to be able to provide the institution with a useful report about the findings to improve its operations and to strengthen its relationship with the clients and to be able to comply 100% on the principles.

Saraswathi Pradeep: it helps me in the analysis of our ESG scorecards prepared by my colleagues, support partners in conducting self- assessment and my best learning is on effectiveness of team work.

Pilot project – Bridging the gender gap in responsible finance

This pilot project studied the current practices and explored innovations on microfinance delivery of two Oikocredit partners in the Philippines - ASKI and NWTF. Both MFIs have been in business for around 30 years, catering to the low-income women of the areas where they operate. In the context of responsible inclusive finance, the project aims to institutionalise responsible finance practices that integrate gender empowerment strategies. Using the Finance Action Learning System (FALS)¹, the project helped the partners strengthen their financial and business processes and mainstream gender into their policies and in the design of their products and services.

Summary of results and achievements

- Catalyst process training to adopt the FALS methodology with selected clients (called 'champions') from MFI partners and MFI-integration workshop.
- Field testing, peer sharing and adaptation of toolkit to develop and use the tools and to upscale through their peer sharing networks.
- A total of 41 core champions were trained on FALS methodology and tools.
- 27 core staff were trained on the FALS methodology and participatory facilitation.
- Review with champions and MFI for the finalisation of the toolkit, the gender road map and finalisation of catalyst resources.
- Both partners have decided to replicate FALS in their current credit operations.
- Both organisations have adopted the FALS tool Finance Management Calendar as part of the loan application starting with the champions.
- ASKI has adopted selected FALS tools in its anti-poverty project in very low-income communities. While NWTF adopted 4 FALS tools in its client incubation programme.
- A FALS facilitation manual has been produced incorporating changes from the trainings and adopting the tools to the nature of MFI operations.
- Toolkit for mobile dissemination and capacity building of clients and staff.
- Identification of priorities for ASKI gender policy.
- Beginnings of integration of GALS/ FALS for MFIs' staff development, including development of gender policy at ASKI.

From the results of the pilot project, the FALS methodology pilot has provided insights into the vision and financial/livelihood aspirations of the participating women through the tools that were deployed. It has also provided the MFIs with initial insights into the gender relations in their families, particularly in the various aspects of decision-making, and gained valuable information on the women's perspectives on income, expenses, credit, investments and savings.



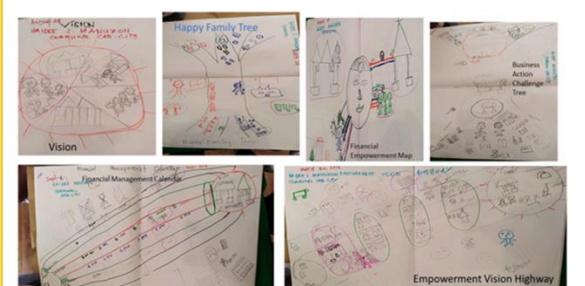
Catalyst training of NWTF clients



Community action of ASKI clients after catalyst training



Participants' feedback



Tracking changes in a client's notebook using Empowerment Vision Highway tool

¹ The FALS concept was initially developed by Linda Mayoux for Oxfam Novib and IFAD, adapting simple proven tools from the generic Participatory Action Learning System (PALS) and Gender Action Learning System (GALS). The methodology is based on several core diagramming tools that can be used independently for complex analysis of businesses, gender and other issues by clients and business people with very different levels of formal education (no literacy to PhD), as well as MFI staff and academic researchers.

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 2017, 50.6% 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 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 with a minimum percentage 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.

Within the LCRF there are several risk-mitigation measures such as spreading risks over countries, country limits and the use of a multiplier to monitor the outstanding loan amounts as compared to the funds available in the LCRF. In line with the purpose of the fund and as a result of the strengthening of the euro there has been a substantial drawdown of the fund in 2017. With a balance of € 12.8 million per 31 December 2017 left in the fund, we are actively seeking ways to help rebuild the fund, while also developing a new hedging policy for Oikocredit in 2018.

Additionally, if necessary (in line with our risk assessment and mitigation measures) and when possible, foreign currency exposure is hedged externally. However, not all currency risks can be or are hedged, as this may be either too costly or hedging is unavailable.

Looking ahead

As Oikocredit builds on the experience and success gained in capacity building efforts over the past years, we focus on true collaborative efforts where all involved learn and work together to achieve meaningful results. Being close to our partners, we discern the needs and challenges low-income people and communities face. Developing the resilience and effectiveness of our partners for the benefit of their clients and communities lies at the core of our capacity building programmes. Oikocredit will continue to provide capacity building support in Africa, Asia and Latin America for the benefit of low-income people and communities through financial inclusion, agriculture and clean energy access, with a gender lens and particular attention for smallholders in agriculture.

With generous support from our donors, we will strive to achieve these goals and look forward to continuing and intensifying our cooperation.