



Measuring outreach in Ecuador & Peru

MEASURING PROGRESS WITH THE PPI

Dear stakeholders,

As a social investor aiming for social return, it is imperative Oikocredit measures how microfinance can change the lives of the poor. Oikocredit joined forces with Grameen Foundation in early 2007 to promote the Progress Out of Poverty Index™ (PPI). The PPI enables a microfinance institution (MFI) to measure how poor borrowers are, and if used over time it can also show whether borrowers progress out of poverty.

Oikocredit piloted the PPI to explore its potential in assessing and tracking the extent to which an institution is reaching the poor and reducing poverty. It is not just about collecting data; it is about using that data to strengthen the social performance of an MFI.

Today, Oikocredit is a leading advocate for social measurement in microfinance and is a strong Grameen Foundation ally in promoting use of the PPI across Latin America, Africa and Asia.

Measuring the impact Oikocredit partners have on poor households is an important factor in achieving goals of financial inclusion, empowerment and poverty reduction. The PPI is one of the most essential tools Oikocredit implements to monitor these important objectives.

This report provides an insight into Oikocredit's work with the PPI in Peru and Ecuador, countries where almost 35% of the population live below the poverty line. The latest PPI results from a number of microfinance institutions in these countries provide a transparent look into the operations of Oikocredit's project partners and their social performance goals.

We hope this report provides you with more insight into our Social Performance operations in the field.

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Figure 1: A simple poverty scorecard for Peru (no points)

Family	Name	ID	Date (DD/MM/YY)
Members:			
Loan officer:			
Branch:			
Indicator	Value		
1. How many household members are 17-years-old or younger?	A. Four or more B. Three C. Two D. One E. None		
2. What is the highest educational level that the female head/spouse completed?	A. None, pre-school, or kindergarten B. Grade school (incomplete) C. High school (complete) D. High school (incomplete) E. High school (complete), non-university superior (incomplete) or no female head F. Non-university superior (complete) or higher		
3. What is the main material of the floors?	A. Earth, wood planks, other, or no residence B. Cement C. Parquet, polished wood, linoleum, vinyl, tile, or similar		
4. What is the main material of the exterior walls?	A. Adobe, mud, or matting B. Wattle and daub, wood, matting, brick or cement blocks, stone blocks with lime or cement, other, or no residence		
5. Excluding bathroom, kitchen, hallways, and garage, how many rooms does the residence have?	A. One B. Two C. Three, four, or five D. Six or more		
6. What fuel does the household most frequently use for cooking?	A. Other B. Wood, charcoal, or kerosene C. Gas (LPG or natural) D. Electricity or does not cook		
7. Does the household have a refrigerator/freezer?	A. No B. Yes		
8. How many color televisions does the household have?	A. None B. One C. Two or more		
9. Does the household have a blender?	A. No B. Yes		
10. Does the household have an iron?	A. No B. Yes		

Microfinance Risk Management, L.L.C., <http://www.microfinance.com>

This PPI was updated in March, 2009. For up-to-date PPIs and other information on the Progress out of Poverty Index™ for Peru and other countries go to www.progressoutofpoverty.org

An example of the PPI questionnaire

A tool to enhance social return

The PPI is an objective, transparent poverty assessment tool that helps microfinance institutions assess whether their clients live below the poverty line. Monitoring PPI data applied over time provides information on whether clients' lives are improving and whether these clients are moving out of poverty. The PPI process begins with a visit to clients' homes to fill out a 10-point, country-specific questionnaire relating to verifiable issues such as family size, the number of child dependents and children attending school and the type of housing. The outcome of this questionnaire enables an MFI to confirm whether it is reaching its target group.

OIKOCREDIT TARGETING POVERTY IN PERU AND ECUADOR

Oikocredit is committed to fair finance and empowering the poor through credit and capacity building. A primary concern is for Oikocredit to ensure its project partners fulfil their goals of reaching the poor and subsequently track their clients' movement out of poverty. In 2008, Oikocredit began the collaboration with the Grameen Foundation to introduce the PPI to partners in Peru and Ecuador.

The PPI is a ten-question survey tool that provides information on client poverty levels. The assessment tool is recognized as the most user-friendly instrument available to accurately measure poverty in relation to national and international poverty lines.

Oikocredit promotes the PPI among its partners by investing resources in training workshops and supporting partners in the implementation of the PPI. The objective is to have a critical mass of partners reporting poverty data on a regular basis so Oikocredit can understand the levels of poverty reached.

The initial PPI results gathered from 17 microfinance institutions (MFIs) in Peru and Ecuador between 2008 and 2010 give Oikocredit and the industry transparent information about the poverty levels of these MFI clients. The results outlined in this paper demonstrate the willingness and dedication by MFIs to prioritize the needs of the poor by investing in identifying their clients and tracking their progress over time.

These results hold important implications for Oikocredit stakeholders and the microfinance industry:

- **For our MFI project partners**

PPI results help them better understand if they are reaching their mission statement objectives.

- **For Oikocredit staff and management**

The poverty level information allows Oikocredit to provide partners with financial services and capacity building funds that support poverty alleviation efforts.

- **For Oikocredit investors**

The results can reassure investors their money helps those most in need.

- **For the MFI industry as a whole**

Information from the PPI can break the myth that the poor are not "bankable" and that MFIs targeting the poorest clients are not sustainable.

"Oikocredit promotes the PPI among its partners by investing resources"



REACHING THE RIGHT PEOPLE

Oikocredit has 70 partners in Peru and Ecuador. Since 2008, Oikocredit's regional office for South America Northern Region has encouraged the use of the PPI among those partners. To date, 17 partners have piloted the assessment tool (see page 7 for complete list). Some integrate it into their operations while others occasionally use the PPI to reaffirm or adjust their targeting strategies.

The MFI partners vary in size; the largest being Banco Solidario which serves 170,000 clients and the smallest CACMU in Ecuador with 2,000 clients. Most of the MFIs are non-government organizations (NGOs) and almost all of them became financial sustainability at the end of 2010, with the exception of PRISMA-Peru.



Finca Peru client Benjamina Bravo (left), talks with Finca Peru executive director Iris Lanao Flores.

Living below the line

These results (Graph 1) show the percentage of existing clients at each MFI who fell below the National Poverty Line (NPL). The total amount of clients surveyed for the 17 MFIs was 15,484, which represents approximately 4% of the total number of active clients (as of 31 December 2010). It also indicates three of the 17 MFIs have more than 40% of existing clients below the national poverty line. These include Pro Mujer Peru (PMP), Finca Peru (Finca), and COAC San José. PMP and Finca are well known MFIs with strong social missions and excellent

track records in providing financial services to women, especially in rural areas. For this reason, the high poverty focus is no surprise. Finca in particular has made significant advances in their social performance strategy with a series of social ratings and product development activities aimed at providing a more integrated services package to their clients. PMP has also included non-financial services to complement their credit products. COAC San José-Ecuador is also unique in that it is rural based and up to 88% of their clients take only individual loans. The rural focus of the cooperative greatly contributes to the high percentage of clients below the NPL. The PPI results from PRISMA and Manuela Ramos also show that over 30% of their clients are below the NPL. In these cases, the focus is both rural and urban which indicates MFIs with an urban focus can still target very poor clients. PPI results differ between MFIs because of the way it was applied. For instance, some MFIs applied the PPI to the entire organization, having a census of all clients (Fondesurco) or a census of new clients (Manuela Ramos). Others applied the tool to representative samples (CACMU) of the organization or of some branches (including Finca and San José, which focused on clients of rural branches). All MFIs with a strong poverty focus achieved financial sustainability in 2010, except for PRISMA (though PRISMA achieved financial sustainability for many years before).

Establishing a starting point

Understanding whether new clients are poor is critical in establishing a baseline to track their progression out of poverty over time. The following graph shows the results for percentage of new clients above or below

the NPL from a sample of 12 MFIs. In Peru, PRISMA, Manuela Ramos and Finca have a strong poverty focus for new client intake, as do Ecuadorian MFIs Huellas Grameen and FODEMI. Based on these results, MFIs have started to establish their own goals which will allow them to improve their poverty outreach and monitor their performance.

The PPI is designed to strictly measure poverty and can be used to track poverty over time. Although this is not an impact indicator, it can give some indication as to whether there have been any improvements in the household economy. Oikocredit has supported

"MFIs with an urban focus can still target very poor clients"

PRISMA in the monitoring of a set of 357 clients who were first surveyed in 2009 using the PPI. Of these 357, 36.2% fell below the NPL. This same set of clients was surveyed again in 2010 (with a data sample of 302 because of programme dropouts). Of the 302 clients, 33.6% were below the NPL. This information indicates that over a one year period, PRISMA clients reduced their poverty levels and therefore improved their household economies.

MFI clients below the National Poverty Line

Graph 1 Data 2009-2010



* MFIs with new client data missing surveyed only existing client base

NEXT STEPS: TAKING THE PPI FURTHER

This data provides an indication of the poverty outreach strategies of a sample of Oikocredit partners in Peru and Ecuador. Some are more focused on poverty outreach, while others are not. In all cases, Oikocredit envisages that continued support to partners will result in improvements in the quality of life for end-clients. The experience of PRISMA shows the power the PPI tool has to measure these aspects and ensure our partners continue to successfully work towards their objectives.

In 2011, greater efforts will be made to strengthen the PPI capacity of these 17 partners and expansion to more MFIs in other countries, including Colombia, is planned. The newly established Grameen Foundation Certification Process is also an important asset Oikocredit hopes to cultivate to help in the capacity building process. Oikocredit will continue to use incentives for partners to increase their PPI capacities and tracking over time will be an important challenge for partners already using the assessment tool.

In Peru and Ecuador, partners who use the PPI and consistently demonstrate they are poverty focused are considered 'preferred partners'. This distinction gives the partner the opportunity to receive better terms and conditions on loans from Oikocredit and access capacity building funds to improve services to clients. With these additional efforts, Oikocredit expects many more partner MFIs will report PPI data by the end of the year.



PPI partners in Peru and Ecuador

PPI results of these partners has helped them better understand if they are reaching their mission statement objectives.

MFI	Country	Charter	Partner since	Clients 31/12/10	Methodology
PRISMA	Peru	NGO ¹	2006	21,019	Rural-urban village banking
Mov. Manuela Ramos	Peru	NGO	2001	17,907	Rural-urban village banking
Pro Mujer	Peru	NGO	2007	50,533	Urban village banking
ADRA	Peru	NGO	2008	16,481	Urban village banking
Fondesurco	Peru	NGO	2007	10,221	Rural individual loans
Finca Peru	Peru	NGO	2009	16,208	Rural-urban village banking
Alternativa	Peru	NGO	1993	3,988	Urban village banking
Edaprosopo	Peru	NGO	2008	4,651	Urban village banking
COAC San José	Ecuador	COAC ²	2007	10,775	Rural-urban individual loans
Huellas Grameen	Ecuador	NGO	2007	2,962	Rural-urban village banking
Fundación Espoir	Ecuador	NGO	2002	63,709	Rural-urban village banking
Banco Solidario	Ecuador	Bank ³	2000	169,823	Urban individual loans
Diócesis Latacunga	Ecuador	NGO	2007	3,704	Rural village banking
FACES	Ecuador	NGO	2009	5,477	Urban individual loans
CACMU	Ecuador	COAC	2008	1,969	Urban individual loans
INSOTEC	Ecuador	NGO	2007	7,950	Urban individual loans
FODEMI	Ecuador	NGO	2008	31,967	Urban individual loans

¹ Non-government Organization

² Credits and Savings Cooperative

³ Financial institution regulated by the Bank Superintendence, permitted to take deposits

Our approach

Oikocredit is one of the world's largest sources of private funding to the microfinance sector. We provide credit to small businesses through microfinance institutions across the developing world. We also provide credit directly to cooperatives, fair trade organizations and buy stakes in small-to-medium sized enterprises (SMEs).

We offer a dual return to our investors: social and financial. In addition to earning modest financial returns, investors are secure in the knowledge their money is used to fight poverty, promote fair trade and respect our planet's natural resources.

Social performance management is a priority for Oikocredit. Measuring and demonstrating social return on investment is essential and we strive to know that our investments lead to positive change in the lives of the working poor. We are committed to women's empowerment and work to raise gender awareness and promote gender equality.

Being close to our clients and knowing their markets is at the foundation of our work. And with a positive track record spanning 35 years, we know that credit for development works.

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