OIKO CREDIT
investing in people

Social Performance Report 2011

Meeting clients' needs

Key Oikocredit **Facts & Figures**

As of 31 December 2011

Total development financing portfolio

- **Amounted to € 520 million in 2011**
- **Loans to and investments in more than 896 partners in almost 70 countries**
- **15% of the portfolio invested in Africa**

Microfinance

Around 80% of the development financing portfolio, € 410 million, is invested in microfinance through cooperatives, non-bank financial institutions or banks offering diverse financial products, SME financing, wholesale funds and housing loans.

- **Focus on the less established microfinance institutions, 80 of 105 new loans were issued to so-called segment 2 and 3 organizations in 2011**
- **616 microfinance partners reach 25.5 million clients (over 1.5 million directly with Oikocredit funding)**
- **83% of those reached are women**
- **26% of the clients reached are active in agriculture, 16% in production, 35% in commerce, 13% in services and 10% in other activities**
- **53% of clients reached live in rural areas**
- **38% of partners have a gender policy**

Social enterprises

Around 20% of the development financing portfolio is invested in small and medium-sized enterprises (SMEs), production cooperatives focused on agriculture, fair trade, manufacturing and community servicing organizations focused on health and education.

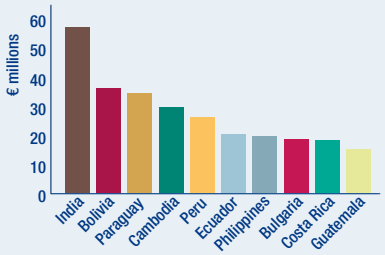
- **The portfolio grew from € 93 million in December 2010 to € 110 million in December 2011**
- **Diversified distribution per sector, with emphasis on agriculture**
  - **52% agriculture and fishing**
  - **32% trade and manufacturing**
  - **14% education and health**
- **Oikocredit supports almost 65 fair trade organizations with investments amounting to € 25.6 million**
- **109 production cooperatives in Africa, Asia, Eastern Europe and Latin America**

Cover ACC DOVERIE Bulgaria, photo Claudia Berg

2011 **in graphs**

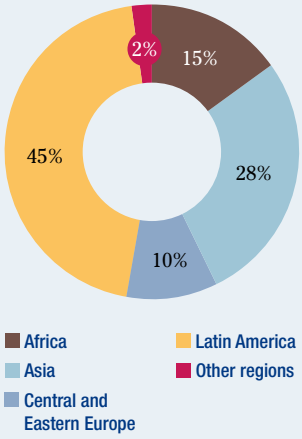
Countries with highest capital outstanding

at 31 December 2011



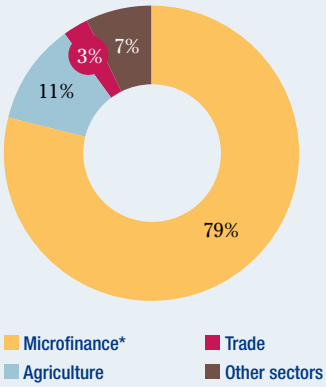
Funding by region

at 31 December 2011



Funding by sector

at 31 December 2011



* including microcredit, SME finance and wholesale funding

Commited **to clients**

Dear stakeholders,

'We want our money to have a positive influence on the world' – this is the spirit behind the long-term commitment of tens of thousands of investors in Oikocredit. In turn, Oikocredit's commitment to delivering on this promise has been unwavering. In 2009, the Social Performance and Financial Analysis department was established to devote even greater attention to ensure the positive social impact of Oikocredit's development financing portfolio.

The portfolio consists of a variety of microfinance organizations which deliver a broad range of financial products and services including microcredit, savings, insurance, remittances, housing, education and emergency loans. Supporting the growth of existing businesses, helping to reduce poverty, and generating employment are priority objectives for our microfinance partners. In addition to microfinance, our development financing portfolio includes a growing number of other types of social enterprises involved directly in agriculture, fair trade and social services such as education.

While this report shows much has been achieved, there is great potential to do much more. As a social investor, we see our own role and responsibilities in relation to our project partners, the clients and beneficiaries of project partners, the sectors we are involved in, and our investors.

It is essential that we choose partners whose values, social goals and objectives are aligned to or consistent with those of Oikocredit. We seek partners who have an effective balance between social and financial performance or who demonstrate a commitment to improving their systems and operations towards this end. Given the importance of choosing the right partners, use of the ESG (environmental, social, governance) scorecard has become an integral part of our due diligence process and has prompted even more reflection on levels of interest rates, remuneration of management, possible over-indebtedness, rates of return and responsible growth strategies.

Social performance experts from Oikocredit's regional offices

The choice of partners is a critical step but it is only the first step. Monitoring progress and accountability towards social goals and objectives are essential. To strengthen monitoring, we have improved our own management information system and tools. Our database is updated annually with financial and social indicators relating to the performance of our partners. The latest dataset covers 85% of our total development financing portfolio at year-end 2011.

While partners already provide products and services which benefit their clients, our due diligence shows that there is potential for doing more. Ensuring that client welfare is at the heart of operations, product design, delivery channels, credit methodologies and the monitoring of results are some of the areas where partners indicate they need support. We have responded to their needs through capacity building and have launched two major initiatives: the mentoring-of-mentors programme and the risk management programme. Both are described in this report.

We consider it our fundamental responsibility to advocate for the integration of social performance management (SPM) and compliance with the Client Protection Principles (CPP). In 2011, 44 microfinance partners participated in training seminars on the CPP which Oikocredit organized. Conferences on social performance issues organized by our regional offices reached over 110 microfinance institutions (MFIs). We support some partners in monitoring and measuring the changes in the lives of clients through tools such as the PPI.

Over the past five years, the nature of investment in the microfinance sector has changed dramatically: perceived risk has increased and perceived benefit has decreased. The need to define good performance has become imperative – both for investors as well as for the MFIs we invest in. We are closely involved in initiatives to address this need, such as the CPP and the SMART Campaign, the Principles for Investors in Inclusive Finance, the Universal Standards for Social Performance, and critical discussions about financial and social covenants, over-indebtedness and reasonable returns.

We are working hard to respond to our investors' call to have a positive influence on the world. It is the welfare of end clients and the disadvantaged that remains the driving force for Oikocredit investors, members, volunteers and staff across the globe. This report is a response to that call and an indication of our commitment to continue pushing the boundaries in building a better world.

Ben Simmes, Managing Director
Ging Ledesma, Director Social Performance & Financial Analysis

Meeting **clients needs**

Oikocredit must be sure that its work contributes to positive change in the lives of women and men, households and communities. This requires careful partner selection, monitoring and support, and a balanced assessment of outcomes, which we also share with our investors and other stakeholders.

We closely monitor both social and financial returns and, where needed, give capacity building support to help partners provide appropriate and responsive products and services to address the needs of poor people. Internally, we strive to enhance our capacity to identify and support these partners.

Rigorous selection

Oikocredit has implemented rigorous environmental, social and governance (ESG) screening to systematize and deepen due diligence. ESG scores of around two thirds of microfinance institutions (MFIs) assessed since June 2011 indicated average or better social performance management practices. Low scores achieved by a third disclosed challenges and gaps in SPM which need attention. Overall, ESG scores do not seem to show any strong correlation with the size of the MFIs as large microfinance institutions did not score significantly lower than smaller MFIs with less than 10,000 borrowers.

Recent criticism of excesses in the microfinance sector shows why selecting the right partners to work with is paramount. Excessive interest rates and exoribant executive remuneration, coupled with high dividend payouts or lack of a clear strategy to avoid client over-indebtedness, have been reasons for us to reject applications.

General and financial indicators	December 2011	December 2010
Total development financing outstanding	€ 520 million	€ 481 million
Total portfolio microfinance investments	€ 410 million	€ 388 million
Total portfolio social enterprises	€ 110 million	€ 93 million
Volume of new loans	€ 211 million	€ 214 million
Average loan size to project partners	€ 828,000	€ 769,000
Number of project partners	896	863
Number of microfinance partners	616	598
Number of countries	67	71

Social perfomance indicators	December 2011	December 2010
Borrowers reached by MFI partners	25.5 million[1]	29.3 million[2]
MFI clients reached with direct funding[3]	1,556,752	1,234,605
Average loan size MFIs to microcredit borrowers	€ 1,035	€ 1,023
Voluntary savers	13,233,305	9,897,579
% MFI clients female	83%[4]	86%[5]
% MFI partners with a gender policy	38%	42%
% MFI clients rural	53%	50%
People employed by social enterprises	39,323[6] (24,083 permanent jobs)	77,671[7] (60,918 permanent jobs)
% Social enterprises with environmental policy	73%	55%

[1] number of reporting microfinance partners 495
[2] number of reporting microfinance partners 498
[3] as a proxy the number of end borrowers reached by partners is multiplied by the relative share Oikocredit has in the financing of the loan portfolio of the microfinance partners
[4] of the 25.5 million borrowers
[5] of the 29.3 million borrowers
[6] definition narrowed to include only direct wage employment
[7] includes indirect employment

More information

For more information on Oikocredit's social performance, please visit www.oikocredit.org/spm

In-depth monitoring

Since 2007, Oikocredit collects data on social performance indicators for both its microfinance and social enterprise partners. A high compliance rate was achieved in 2011, with 495 microfinance partners and 158 social enterprises reporting.

Indicators relate to social objectives, employment created, sustainability, compliance with the Client Protection Principles (CPP), care for the environment and products and services offered. Most of our microfinance partners strive to reduce poverty (80%), generate employment (72%), support start-up enterprises (55%), promote gender equality (49%) or improve housing conditions (40%). In addition to loans, many microfinance partners also offer deposits (48%), microinsurance (48%) and non-financial services (61%).

Financial inclusion

Financial inclusion remains a key objective. In 2011, the number of end borrowers reached directly by Oikocredit with its investor funding increased to 1.5 million. The number of people reached by Oikocredit's microfinance partners decreased to 25.5 million due to the effects of the Andhra Pradesh crisis. Of the total number of clients reached, 83% are women and 53% live in rural areas. Of the 38% of microfinance partners with a gender policy, 67% offered financial products specifically geared towards women.

Effective client protection

Recent criticism of the microfinance sector has confirmed the importance of our attention to social performance and client protection. Securing end borrowers' welfare is our primary goal. In 2011, we continued to bring MFI partners together to share best practices and promote client protection. We include compliance with the CPP as a contractual obligation for MFI partners, review compliance as part of our due diligence and have staff trained in CPP assessment. We aim for all our partners to endorse the principles. Currently, 50% of our microfinance partners have endorsed them.

Transparency and accountability

Transparency and accountability are essential in developing a responsible microfinance sector. We encourage our partners to report to the MIX Market, a global, web-based source for financial and social performance data on MFIs. Of our project partners, 53% report financial performance and 43% report social performance to the MIX Market. The percentage of microfinance partners that were financially rated remained stable at 48%. The percentage of partners with an external social rating increased from 20% in 2010 to 23% in 2011. We also ask partners to collaborate with MFTransparency to disclose effective interest rates. Our partners provide us with the annual interest rate on their main financial product.

Focus on agriculture and Africa

Oikocredit continues to prioritize agriculture, including support for fair trade, and Africa. Of our total microfinance portfolio, 15% is invested in Africa, compared to 7% by other microfinance investment vehicles. Of the number of clients reached by our microfinance partners, 26% are agricultural borrowers. This is a significant shift compared with 14% in 2010 and may be related to increased food prices.

People in rural areas often lack basic services and support for small-scale agriculture remains weak. Oikocredit has appointed staff in each region with specialist knowledge and experience in agriculture and also aims to finance partners along the length of the value chain.

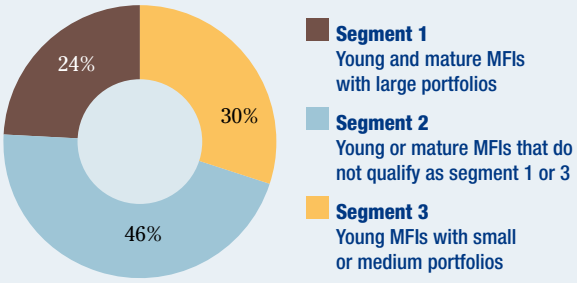
Of our social enterprise portfolio, € 57 m (52%) is invested in agriculture. Our social enterprise partners support approximately 355,000 cooperative members, employ 39,000 people and reach over 290,000 farmer-beneficiaries. In 2011, Oikocredit invested in fair trade cooperatives in the South (€ 17.3 m) and distributors in the North (€ 8.3 m). Approximately 106,570 farmers are reached by these fair trade partners. Fair trade investments have grown from € 19.2 m in Dec 2010 to € 25.6 m in 2011. This is 23% of the social enterprise portfolio (up from 21% in 2010).

Environmental policy

Oikocredit's environmental task force updated our assessment guidelines for production partners, with a greater focus on environmental impact. We are training staff on raising awareness among partners on environmental issues such as climate change and sustainable use of natural resources. Of our social enterprise partners, 73% have an environmental policy.

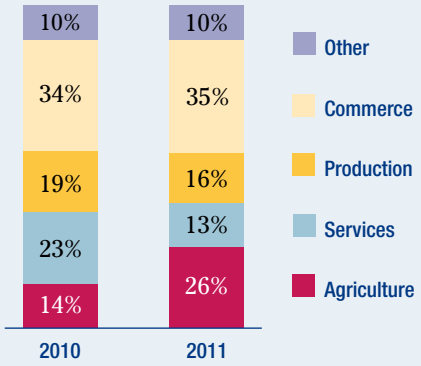
Oikocredit focuses on segments 2 and 3

New microfinance partners in 2011 per segment



% Microfinance end-borrowers per sector

at 31 December 2011



End-borrowers reached by Oikocredit funding

Oikocredit aims to reach as many disadvantaged people as possible. To approximate the number of end-borrowers reached directly through Oikocredit funding, we multiply the relative share Oikocredit has in the financing of the loan portfolio of the MFI partner with the number of borrowers reached by the MFI.

Supporting **social and financial viability**

Oikocredit's work in social performance is focused on choosing the right partners and in supporting partners to better serve their clients. Through enhanced awareness, better defined policies, tools and approaches, we aim to more effectively facilitate a balance between social and financial viability.

In 2009 and 2010, emphasis was put on developing systems and tools and promoting awareness and deeper understanding of SPM within Oikocredit and among our partners. In 2011, Oikocredit continued to look at improving the effectiveness of its partners in the following areas:

- Deepening financial inclusion by ensuring that partners are clear on which clients they aim to reach.
- Safeguarding a positive commitment to client welfare.
- Developing products, services and delivery mechanisms that respond effectively to client needs.

To assess how well organizations achieved these goals, we employed systems and processes related to performance management, incentive schemes, information, compliance and client feedback.

Safeguarding effective client protection

We endorsed the Client Protection Principles (CPP) in 2008 and asked all our local offices to share the principles with partners. In 2011, we have held regional training events and workshops on the CPP in Cambodia, India, Mexico, the Philippines, and Uruguay. We took the CPP one step further with an assessment of an Indian partner towards CPP certification. Also in India, our joint conference with the Social Microfinance Foundation and other partners and stakeholders addressed the problem of over-indebtedness that severely impacted microfinance in Andhra Pradesh.

Social ratings and assessments

Our regional offices increasingly seek out and support efforts to implement social assessment tools, such as Social Performance Indicators (SPI) and the Progress out of Poverty Index (PPI). In 2011, 25 partners applied to use the SPI, resulting in 145 SPI applications since Oikocredit first introduced the tool to its partners in 2008. The SPI audit results are discussed and subsequent plans to strengthen operations agreed upon. The PPI is a poverty profiling index which enables MFIs to accurately select clients who are poor and over time provides information on whether clients have moved out of poverty. Our regional offices in Peru and the Philippines started promoting the use of the PPI in 2007 and have been instrumental in facilitating implementation and follow-up with 30 MFI partners.

Improving products and community

In 2011, Oikocredit continued supporting partners in improving their products and services to better meet the needs of their clients. With our support, Samburu Teachers SACCO, a rural Kenyan MFI partner, developed branchless banking as an additional service, enabling people in remote areas to use mobile phones to access savings and loans and make transactions. In Peru, we assisted coffee cooperatives in enhancing members' organic growing skills, resulting in higher quality products. In India, we are supporting MFIs in developing microloans in support of health and sanitation.

Mainstreaming social performance

We continue to build partners' capacity in mainstreaming SPM within their organization, developing the capability of SPM champions through our mentoring-of-mentors initiative. We trained a select group of staff and consultants to replicate the mentoring and mainstreaming process with other MFIs. Based on the success and positive feedback received, we aim to expand this work in the coming years.

Number of MFI partners reached with social performance initiatives per region in 2011

	Africa	Asia	Eastern Europe and Central Asia	Latin America
Training in CPP and/ or financial literacy	1	23	6	40
PPI: introduction to or support in implementation	9	20		48
Social ratings and social performance assessments	8			23
National conference or social performance workshops	40 [1]	41 [1]	18	15
Mainstreaming SPM workshops	23	5		2

[1] also involved national networks and MFI associations

Looking ahead

Our partners can rely on us to maintain our capacity support. We will improve our use of social performance data to enhance policies, procedures and practices and will develop new policy to make environmental and climate protection issues more central to our work. In these challenging times, Oikocredit is committed to building on its achievements and reputation for strong social performance, both for itself as a social investor and for its partners.

Mentoring and capacity building in East Africa

In 2011, we completed the first phase of our social performance mentoring project with microfinance partners and consultants in East Africa. How is the new project faring, and where is it heading?

'The purpose of Oikocredit's social investments is to make a lasting difference in people's lives,' says Anton Simanowitz. Anton leads our social performance mentoring project in East Africa and South East Asia. With the wrong approach, microfinance can harm poor and vulnerable people, but with attention to social performance it can be transformative.

Why social performance mentoring?

For Oikocredit social performance management (SPM) is as important as financial management. Microfinance often focuses too much on loans and repayments and neglects the human dimension. Anton gives an example of how some microfinance institutions (MFIs) respond when things go wrong for clients, treating them as deliberate loan defaulters rather than as people who can be helped to succeed.

Good SPM means putting clients first. In Anton's words: 'Strong clients make strong microfinance organizations.' The mentoring project is designed to help our microfinance partners embed a client-centred approach in their daily practice.

'Strong clients make strong microfinance organizations'

From understanding to action

During 2011, Anton and Oikocredit's regional social performance officer Elikanah Ng'ang'a worked with five participating MFIs from Kenya, Tanzania and Uganda, nine consultants and our regional staff. The project team first talked with clients and with partners' managers and field staff to understand different perspectives on each partner's work. Then, at a five-day workshop in Nairobi, MFIs and consultants assessed how well the partners were supporting clients and developed action plans to maximize benefits for clients while remaining manageable for each organization. A follow-up workshop later in the year reviewed progress with implementation and adjusted plans where needed.

Anton Simanowitz leads the mentoring-the-mentors project

Anton considers it important for MFIs involved in the project to work at their own pace. But he also points out that 'quick wins' can help prove the value of effective social performance. Having senior project champions has been crucial. 'Leadership needs to come from the top,' Anton affirms, 'so that the organization integrates SPM into its strategy.'

Delivering better value

The project has benefited Oikocredit's East African partners and their clients in a number of ways. The range and quality of loans, savings, training and other services have improved. So too have repayment rates, staff retention, organizational capacity and reputations, client loyalty and client numbers.

For example, UGAFODE, one of our Ugandan partners, has enhanced client care by bringing debt collection in-house, having formerly used external debt collectors, and has introduced a scheme allowing people to access savings if they need to. 'After struggling with a high portfolio at risk (PAR) and static client numbers,' reports Anton, 'UGAFODE has built client confidence, lowered its PAR and extended its outreach by being positively recommended.'

A new willingness to reschedule repayments to help people in difficulties has transformed client expectations for BELITA in Tanzania. Kenyan partner JCS has performed strongly in a recent assessment by an independent ratings agency. And MEDNET, another Ugandan partner, has steered its lending away from individual land title holders – almost always men – towards groups in which far more women can benefit from its services.

Additionally the project has enhanced the capacity of the consultants and Oikocredit's Nairobi office to support the sector effectively.

Future work in East Africa and South East Asia

Our partners in East Africa will continue to develop their SPM action plans during 2012, while Anton and Elikanah evaluate outcomes to date. Also in 2012, the project is moving to Cambodia and the Philippines, where we will mentor participating MFIs with help from South East Asian support organizations.

Much has been achieved, but more can be done. While the current focus is on our microfinance partners, we hope in time to help strengthen the sector more broadly in the countries where we work.

Targeting poverty in South America

Oikocredit's South American MFI partners are using the Progress out of Poverty Index to assess poverty levels among clients and target poorer, more marginalized people.

Global justice is central to Oikocredit's work. We aim to reach those most excluded from the financial system – poor and rural people, especially women – and help them free themselves from poverty. Performance monitoring is essential. But how best to assess poverty and the extent to which clients benefit financially from lending? Since 2008, in alliance with Grameen Foundation, we have supported South American MFIs in using the Progress out of Poverty Index (PPI), a 10-question scorecard.

PPI survey

We collected PPI data for 2011 from a total of 20 partners in Peru (10 MFIs), Ecuador (8) and Colombia (2), based on their surveys of 46,619 clients. These MFIs include NGOs, regulated banks, savings-and-credit cooperatives, and non-regulated private-sector lenders. Reaching the poor is a priority for them all, and they use the PPI for censuses, client sampling and loan assessments.

Using the findings we calculated the percentage of existing and new clients for each organization living below the nationally defined poverty level, and compared this with the proportion of poor people in each country. Five of the 20 MFIs have a higher proportion of clients in poverty than the country average. In Peru and Colombia, new clients were more likely to be from below the poverty line than existing clients; in Ecuador, the reverse was true.

Poverty levels of new clients should generally be higher than among existing clients if MFIs target well and clients benefit from loans. Where the opposite happens, this may be due to a shift in client targeting, and more research is probably needed. In one such instance it was found that an MFI's incentives had overemphasized financial goals at the expense of social mission.

Poverty levels of new clients should be higher than among existing clients if MFIs target well and clients benefit from loans

Insights

Our 2011 South American survey has yielded helpful insights, such as to confirm a correlation between rural areas and poverty. The more clients that MFIs in the survey have in rural areas, the more their clients are likely to be poor.

Differences between MFI types vary between countries. In Colombia, NGOs' clients are significantly more likely to be poor than are clients of non-bank private-sector lenders. In Ecuador, there is relatively little difference in poverty outreach between NGOs and savings-and-credit cooperatives, but banks have a far smaller percentage of poor clients. In Peru, banks and other financial institutions have proportionately only slightly fewer poor clients than NGOs.

Assessed by credit type – individual lending, village banking, or a mixture of both – the data for Ecuador and Peru show higher levels of poverty among village banking clients than among individual borrowers. In Colombia, the two MFIs surveyed lend mainly to individuals, preventing further comparison on this indicator. And while it is often assumed that poorer clients obtain smaller loans than better-off people, in Peru and Ecuador, average loan size does not correlate with client poverty level.

Partner benefits and future support

Partners using the PPI have gained a better understanding of clients' circumstances and needs and as a result have improved their – and our – social performance. PPI data has helped them target lending, monitor progress, know clients better and design more suitable products and services.

'PPI has let us identify needs of our clients and design products and services according to their poverty situation' – FACES, Ecuador

Oikocredit will continue to support MFIs in using the PPI, especially to track changes in client poverty, and will encourage more partners to take up the PPI for social performance monitoring.

FACES, Ecuador

South-East Asian partners **working with the PPI**

Implementing the Progress out of Poverty Index is helping Oikocredit, and our microfinance partners in the Philippines and Cambodia with more than half a million clients, measure social performance.

In 2007, Oikocredit worked with Grameen Foundation to promote the PPI among South-East Asian MFIs. PPI data provide a useful picture of the relative numbers of poor clients reached by an MFI. Nine partners in the Philippines and Cambodia used the index in 2011 to assess poverty levels among almost a third of their clients.

Are we reaching the poor?

Among those surveyed in 2011, more than a quarter were living below their country's poverty threshold: 23.9% of clients in the Philippines, and 35.8% in Cambodia. Among the seven Philippines MFIs that applied the PPI, the proportion of clients surveyed living below the poverty line varied from less than a fifth to almost half, compared with 31.4% of all Filipinos nationally.

The partner with the highest client poverty indicator concentrates operations in rural and upland areas. Most partners from the Philippines show a larger proportion of new clients than existing ones living below the poverty line, which suggests that they are fulfilling their mission.

A larger proportion of new clients than existing ones live below the poverty line

Vision Fund Cambodia piloted the PPI scorecard with a relatively small percentage of its 132,036 clients in 2011. Finding that about a quarter of clients surveyed fall below Cambodia's poverty threshold, it aims to deepen its outreach to match the national poverty rate of 35% by the end of 2012. Thaneakea Phum Cambodia used the PPI with all 41,716 of its new clients in 2011, of whom more than 40% were living in poverty.

Tracking change

Microfinance helps poor people transform their lives. However, if faced with illness, accident, death or other shocks, clients may have to sell their business or household assets or increase their borrowing, and may become poorer. Use of the PPI helps alert MFIs to changes for better or for worse in clients' circumstances.

Rangtay sa Pagrangay (RSPI) in the Philippines surveyed 30,538 clients in 2010 and found 32.4% living below the national poverty line, 67.6% above. In 2011, 472 clients who had previously been above the poverty threshold fell below it, while significant numbers discontinued with the MFI completely. RSPI is looking into the causes of these changes and suspects that frequent typhoons, floods and agricultural losses in the northern Philippines, where it operates, may be a key factor.

RSPI clients meeting, the Philippines

Another Philippines partner, Alalay sa Kaunlaran (ASKI), applies the PPI when clients renew loans. In 2010, ASKI found that almost a third of those surveyed lived in poverty. By 2011, the proportion had fallen to a quarter (although others had exited from its programme, which ASKI needs to better understand). Almost 10% of 16,200 clients who had been below the poverty line in 2010 had progressed above it in 2011.

Understanding clients better

Our microfinance partners in the Philippines and Cambodia have applied the PPI to assess poverty among clients, compare their client base with national poverty levels and track clients' poverty status over time. PPI data also help them relate client poverty to such variables as loan size, savings, region and business sector.

MFIs in the Philippines with more experience of the index should see benefits in terms of client retention and deeper outreach. Those that are only beginning to implement the PPI will receive our support to enhance their survey work, data assessment, interpretation and application of results.

Recognizing and managing **risks**

MFIs have in the past tended to focus mainly on financial risk without realizing that other risks are almost always involved as root causes. Oikocredit's risk management training workshops help build capacity among our partners in recognizing and managing key risks.

YOSEFO, an MFI in Tanzania, develops its risk management framework

In 2011, we began to proactively train the microfinance institutions (MFIs) we work with in risk management. The microfinance landscape has changed as the sector has grown in size, complexity and geographical outreach, and problems that were once little known have emerged. The recent microfinance crisis in the Indian state of Andhra Pradesh illustrates the industry-wide risks that arise when some lenders enter the market seeking 'easy money' and without a genuine social mission or sufficient respect for their clients.

Building capacity

Effective risk management is essential if the microfinance sector is to maintain and build investor confidence and client trust. MFIs have in the past tended to focus mainly on financial risk without realizing that other risks are almost always involved as root causes. Today risk management is one of Oikocredit's priority areas for capacity building with its partners.

'Risk can be summarized as the chance of not being able to meet your objectives – which for MFIs are primarily financial sustainability and social mission,' says Hans Hekkenberg, who is engaged in building risk management capacity. Hans defines risk as the potential of events to harm an organization's capital, reputation, objectives or earnings.

Participatory approach

Oikocredit began risk management training in Kenya, Kyrgyzstan, India, the Philippines and Tanzania. Combining one-to-one workshops for individual microfinance partners with group seminars bringing together representatives of several MFIs, the training's participatory approach enables partners to develop their own risk management frameworks.

Throughout the training, Hans raises fundamental questions about the nature and sources of risk confronting MFIs. Besides possibilities of delayed repayments and client default, risk may arise through an organization's governance, leadership culture, staff attitudes and ethics; via its approach to marketing or to monitoring outcomes; and from reputational issues and the regulatory and political context. Even ICT can be a risk factor when organizations fail to ensure that their systems keep pace with portfolio growth.

Hans Hekkenberg:
'Clients' needs, capabilities and expectations are central.'

Social investors and microfinance lenders cannot avoid risk. Instead they need to consciously accept risk by assessing, balancing and mitigating it. Our training supports participating MFIs step by step in identifying and measuring potential risks, internally agreeing acceptable risk levels, establishing indicators and assessment mechanisms, developing risk mitigation policies and procedures, and testing and auditing the effectiveness of their controls.

Hans stresses a key risk management principle: 'If you cannot measure it, you cannot control it.' It is also essential to consider all stakeholders when assessing risk. Clients' needs, capabilities and expectations are central – but so also are the perceptions of journalists, who influence public opinion, and of politicians and government officials in regulating the sector. Stakeholders include other MFIs as well, because if some lenders act unethically they can undermine the sector as a whole.

Progress to date and next steps

Responses from participants to Oikocredit's risk management training have been positive. The board of each participating microfinance partner has received a workshop report, a risk management action plan and a set of recommendations.

Early in 2012 in Tanzania, we extended activities by holding a training-of-trainers workshop for consultants to help develop regional risk management capacity. This included practical assessment exercises, including the risk profile of an MFI. Follow-up visits to our microfinance partners and further training workshops are planned for the coming year, and we hope in time to provide the training for non-MFI partners.

Driving **the social agenda**

As a sector leader, Oikocredit helps develop industry-wide tools and standards. We have collaborated with other industry players in defining standards for a number of tools widely used in the microfinance sector.

We are active in industry-level debates on social performance management among development finance practitioners, social investors and MFIs, seeking to provide clear and balanced perspectives on our successes and the challenges we face. We help build awareness through talks and presentations about what is needed, what can be achieved and how social performance enhances financial performance in the long run. In 2011, we continued to support several initiatives, microfinance platforms and networks, including the following:

Principles for Investors in Inclusive Finance (PIIF)

With a group of like-minded investors and under the leadership of the UN Secretary-General's Special Advocate for Inclusive Finance for Development, Princess Máxima of the Netherlands, we co-developed the PIIF. We are involved in producing the implementing and reporting guidelines for these principles.
www.unpri.org/piif

Client Protection Principles (CPP)

As a member of the steering committee of the SMART Campaign, we are active in promoting and developing the CPP, including assessment guidelines. The CPP are evolving minimum standards that clients should expect when doing business with their microfinance provider. They cover appropriate product design and delivery, prevention of over-indebtedness, transparency, responsible pricing, fair and respectful client treatment, privacy of client data, and mechanisms for complaint resolution. We not only aim for all partners to endorse the principles but also review compliance with the principles in our due diligence of all partners. We include compliance with the CPP as a contractual obligation. In 2011, we took our support of the campaign further by having a number of staff undergo training in CPP assessment.
www.smartcampaign.org

MFTransparency

Oikocredit has been a supporter of MFTransparency since its launch in 2008. This industry organization promotes transparency in pricing in the microfinance sector and provides a tool to calculate the real costs of microloans over time. Oikocredit uses the MFTransparency tool in its due diligence and has supported MFTransparency in seeking cooperation from market players for its detailed country reports.
www.mftransparency.org

Social Performance Indicators (SPI)

Since 2008, our regional offices increasingly implement SPM audit and assessment tools such as the SPI. Developed by the French organization CERISE, the SPI tool provides a comprehensive framework for reviewing an organization's social strategy, the processes employed to implement this strategy, and the results of products and services. Key areas impacting on an organization's social performance are reviewed: outreach, benefits to clients and governance. Our Mexico, Central America and the Caribbean office has taken forward SPI auditing with 91 out of 105 MFI partners, using the results as a basis for dialogue and support.
www.cerise-microfinance.org

Progress out of Povery Index (PPI)

Our South America northern region office in Peru and our South East Asia office in the Philippines have promoted Grameen Foundation's PPI among partners. The PPI is a 10-question poverty profiling tool. It enables poverty-focused MFIs to accurately select their clients. Implementation over time provides information on whether clients have moved out of poverty. The Peru office received 20 MFIs' reports incorporating PPI data in 2011.
www.progressoutofpoverty.org

Social Performance Task Force (SPTF)

As a member of the SPTF, Oikocredit has participated in the development of standards for social performance management. Oikocredit is one of two investor representatives on the Steering Committee of the Task Force.
www.sptf.info

Capacity building: integral approach

All Oikocredit regional offices aim to have designated staff to support or facilitate capacity building in SPM mainstreaming, risk management, product development and agricultural financing.

In 2011, Oikocredit supported 99 capacity building projects with a total of € 2.34 million (€ 2.35 million in 2010). We supported six East African partners in conducting an SPM self-assessment and preparing an action plan based on the results. We trained a select group of facilitators to replicate the mainstreaming process with other MFIs. We delivered risk management training and workshops for MFI partners in India, Kenya, Kyrgyzstan and the Philippines. Partners were also supported in improving their products and services, especially in agriculture. Through our new international strategic partnership with The Rotary Foundation, we aim to support MFIs involved in community development. We have begun pilot projects in India, the Philippines and Uruguay in which Oikocredit identifies suitable MFIs and Rotary provides expertise and funding.

Most capacity building funding is grants based and, in collaboration with the Dutch development organization ICCO, we secured funding from the Dutch Ministry of Foreign Affairs, which was enhanced by funds from the Church of Sweden. For the second year in a row, around € 500,000 was also reserved from Oikocredit's own income.

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 intermediary microfinance institutions across the developing world. We also provide credit directly to trade cooperatives, fair trade organizations and small and 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 that their money is being 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 are essential, as we strive to know that our investments lead to positive change in the lives of the working poor. In particular, we aim to increase our reach to rural, agricultural communities and are committed to women's empowerment.

We have 896 project partners in almost 70 countries. Being close to our clients and knowing their markets through our network of local staff are at the heart of our work.

With a positive track record spanning over 35 years, we know that finance for development works.

The cooperative chain in Bulgaria

Oikocredit partner Agricultural Credit Cooperative Doverie (ACC Doverie) offers credit to support agricultural producers and small businesses in the Dobrich area, in north-eastern Bulgaria. The credit cooperative provides flexible loans and support to its 333 members. Among those members is Ivan Mitev (pictured on cover with wife Nazmie), who cultivates a 200-acre farm made up of land rented from small landowners. Throughout the year, the family hires around 500 employees, many of whom are Roma, a marginalized group in Bulgaria. Ivan used an ACC Doverie loan to buy covers for seedlings and sells the seedlings when prices are high.

'No banks come to my village and if people want to take loans they need collateral,' said Ivan. 'I know the manager and the loan officer of ACC Doverie, and they know me, so we trust each other.'

The traditional agricultural cooperative model sees cooperatives providing marketing and production services to farmers who cultivate their land individually. But in Bulgaria, agricultural cooperatives rent land from small landowners, cultivate it, collect the yield and sell the produce. They then pay members rent and dividends. For many elderly landowners, these cooperatives provide vital income to supplement a small pension of around € 70 a month.

MALKI LOM, an agricultural cooperative in Bulgaria

WWW.OIKOCREDIT.ORG

OIKO CREDIT
investing in people

Oikocredit International

T +31 33 422 40 40
F +31 33 465 03 36
E info@oikocredit.org

Berkenweg 7
3818 LA Amersfoort
The Netherlands

PO Box 2136
3800 CC Amersfoort
The Netherlands