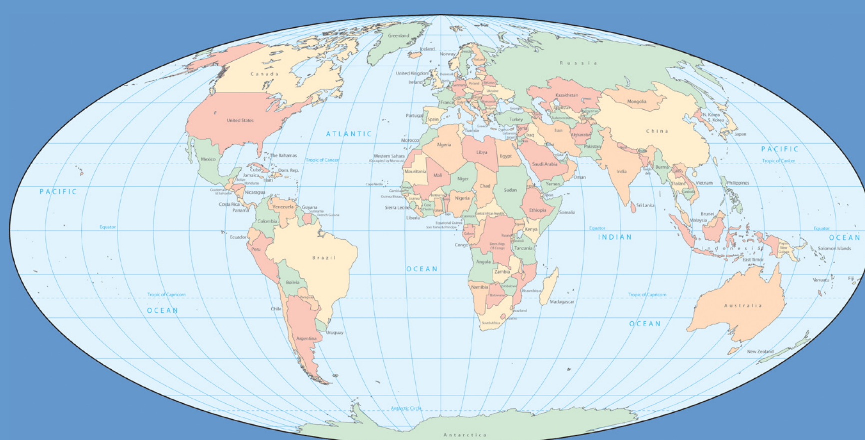




Oikocredit & Grameen Foundation

Partnering to Grow Poverty-Focused Microfinance



Progress Out of Poverty Index™ Series

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Introduction

In order to alleviate poverty through microfinance, it is not enough to measure success by financial results alone. The microfinance industry—practitioners and investors alike—has begun to recognize the critical importance of measuring social as well as financial returns. Taking into account not only financial profit-and-loss data, but also performance in terms of social benefits, is referred to as a dual or "double bottom-line" measurement. Aided by the emergence of measurement tools, more practitioners have begun to incorporate social performance data into their programs, and some investors have begun to rely on social performance data to round out their assessments of potential investees.

Microfinance institutions (MFIs) can use these social performance data to carry out two tasks: 1) target poor clients, serve them more effectively, and track their progress out of poverty, and 2) attract more funding and resources to poverty-focused microfinance by providing the emerging sector of microfinance investors the data it needs to make appropriate investment decisions. Knowing their clients' specific poverty levels enables MFIs to better serve and retain more clients, increasing organizational profitability. Sharing these data with investors provides—and helps promote—the "double bottom-line" measurements that social investors are beginning to seek.

But the growth of poverty-focused microfinance depends on gaining the interest and the support of a wide range of social investors. This is a challenge. While many social investors are choosing to invest in MFIs that are profitable or at least financially sustainable, those recipient MFIs may not have as their primary clients the poor and poorest. Further, a growing influx of new investors in microfinance do not necessarily focus on social performance as a criterion for investing. The result is that, to date, many social investors are not investing in truly poverty-focused MFIs. Oikocredit, a privately owned, cooperative society, is an exception.

Who is Oikocredit?

Oikocredit was started in 1975 to provide credit for development in general and microcredit in particular. Its mission is to "promote global justice by challenging people, churches and others to share their resources through socially responsible investments and by empowering disadvantaged people with credit."

Role of Oikocredit

A pioneer in the field of development financing, Oikocredit is today one of the largest financiers of the microfinance sector worldwide. Oikocredit's commitment to microcredit as a force for social change led the organization to seek a reliable way to prove its premise: that microcredit is a powerful and effective way of reaching people who otherwise cannot be reached, and that it has a very positive effect on the living standards of millions of poor people.

This commitment—and the interest of Oikocredit stakeholders to develop further the institution's social performance management (SPM) system—led Oikocredit to join forces in 2007 with Grameen Foundation, becoming the first social investor to support the use of the Progress out of Poverty Index (PPI). This breakthrough tool, commissioned and promoted by Grameen Foundation[1], was designed to allow MFIs to accurately but inexpensively assess social outcomes of microfinance, the kinds of data Oikocredit was seeking from its investees to balance information about financial outcomes.

The PPI is an objective, transparent client poverty assessment tool that can help MFIs understand client poverty levels and report those poverty data to interested stakeholders. Each country-specific PPI is composed of ten simple, non-financial indicators derived from national household income or expenditure surveys. The PPI was created to meet microfinance practitioners' needs first and foremost. It is a tool an MFI can use to measure and manage its performance. Those same data provide a valuable performance tracking metric to investors and other outside stakeholders as well. This case study focuses on the latter use of data through the pioneering example of Oikocredit as a social investor and advocate for poverty-focused microfinance.

The initial vision of the Grameen Foundation-Oikocredit partnership was to build a critical mass

What makes Oikocredit a social investment opportunity?

- Oikocredit uses the investments entrusted to finance income-generating and job-creating initiatives of groups of disadvantaged people, mostly in developing countries.
- Project partners are selected according to strong social and financial criteria: positive impact on the community; involvement of women in management and/or implementation; no harmful environmental implications; animal welfare; financial sustainability and suitable management.
- Oikocredit's own investment policies are advanced and recognized as socially responsible by a well-respected screening agency, Ethibel.
- Communication with underlying investors is open and transparent in all respects.
- Investors receive dual returns: a high social return and a modest financial return (annual dividend usually 2 percent).

1.The PPI is based on an approach developed by Mark Schreiner of Microfinance Risk Management, L.L.C. Commissioned by Grameen Foundation, the PPI is endorsed by the Consultative Group to Assist the Poor (CGAP) and the Ford Foundation.

of Oikocredit partners who would collect and report PPI data to the Oikocredit SPM system. To that end, the foundation, working with Oikocredit, developed PPI training programs for MFIs in the Philippines and Peru (in addition to its efforts in other countries), creating poverty assessment models that Oikocredit could extend to other MFIs in its widespread network as well as to other social investors seeking similar data on social outcomes.

Oikocredit and Grameen Foundation

In early 2007 Oikocredit was seeking a social performance assessment process for its investment network. "We wanted to know more about who our investments are reaching," said Ging Ledesma, Manager, Monitoring and Administration Unit, Department of Credit Operations of Oikocredit. "Were we seeing positive change? Did our investees share our social goals?" Oikocredit sought to further its mission of social change for the poor by investing in MFIs aligned with that mission. A social performance evaluation system would provide that information, and Oikocredit was looking to create or adopt such a system.

Also by early 2007, PPIs had been developed for nine countries, with pilots ongoing in two of the countries where Oikocredit had programs, the Philippines and Peru. "We were in search of reliable tools to measure impact, and we thought that the PPI could be a step in the right direction," said Ledesma.

Oikocredit decided to focus on management and staff training in the PPI. Its priority was to attain practical experience in the training of trainers in order to build the training capacity of its own regional staff and to transmit that capacity to its investees, the MFIs which receive funding support from Oikocredit. By carrying out additional PPI training on its own, Oikocredit could promote to its investees the need for—and value of—a poverty assessment tool. After some discussions, Oikocredit and Grameen Foundation began a partnership with a two-phased pilot effort. This was based primarily on training Oikocredit staff and member MFIs in the implementation of the PPI in the two shared focal countries, the Philippines and Peru.

"The idea was to test the PPI in two countries to see whether it was operational and useful," said Frank Rubio, Regional Manager of Oikocredit's office in Lima, Peru, and supervisor of projects in Peru, Ecuador and Colombia. The ultimate goal was to grow a nucleus of Oikocredit clients using the PPI, and to be able to report poverty and targeting results to the Oikocredit SPM system.

In the Philippines, four programs were selected as models for the PPI pilots: Alalay sa Kaunlaran, Inc. (ASKI), based in Nueva Ecija, and Rangtay sa Pagrang-ay (RSPI), Nueva Segovia Consortium of Cooperatives, and Pag-Inupdanay, Inc. (PI), based in Bacolod City. In Peru, three programs served as pilots: Pro Mujer is based in Puno; Lima-based Prisma conducted its pilots in Junin and Huancavelica; and Movimiento Manuela Ramos, also based in Lima, conducted its pilot in La Libertad.

Training of Trainers: The Philippines and Peru

Within a six-month period, Grameen Foundation conducted two Training-of-Trainers (TOT) workshops in the Philippines and Peru. Ten participants—seven Oikocredit staff members and representatives of the four selected MFIs—attended the September 2007 training in the Philippines; and 12 participants—seven Oikocredit staff and five representatives from the three selected MFIs—attended the January 2008 training in Peru. The next step was for newly trained Oikocredit staff to facilitate pilot testing of the PPI with the designated MFIs.

"We wanted to develop in-house capacity for the PPI and so it was decided that the first training would be for a core of Oikocredit staff," Ledesma explained. By February 2008, 14 Oikocredit staff in the Philippines and Peru had been trained in the implementation of the PPI. Basic training in the use of the PPI included the following three components: 1) preparation and planning for a pilot survey, 2) conducting the survey, and 3) responding to the data acquired. The training included two days of classroom work—interactive activities, lectures, group discussions—and three days of field visits including one day of field testing.

Shortly after the TOT training, Oikocredit began the pilot phase of its PPI implementation with its MFI partners in both countries. In Peru, in an effort to reach greater economies of scale, Oikocredit extended the reach of its TOT course to include Jack Burga, Coordinator for the Catholic Relief Services project, MISION[2] . This allowed for an additional three institutions to be included in the pilot phase: MIDE, Caritas Peru, and FONDESURCO. Within an eight-month period, a total of ten MFIs in the Philippines and Peru had been trained and had completed pilot surveys of the PPI.

Case Study: PRISMA

Prisma was the first MFI in Peru to complete its pilot and analyze the results. The Prisma pilot team was headed by Program Manager Miguel Salas, who had attended the Peru TOT. Prisma hired external surveyors to conduct the interviews of 349 clients. The surveyors were accompanied by loan officers who were familiar with clients' locations, and were known to—and trusted by—the clients.

Prisma's analyzed survey revealed 36.55 percent of those clients below the national poverty line, and 63.45 percent above the poverty line.

2. The MISION project, financed in part by the Ford Foundation, is working with MFIs in the Americas to help them measure their social impact, with the ultimate goal of reaching more than 100 institutions by project's end.

Of those below the poverty line, 19.62 percent were considered poor and 16.93 percent were found to be very poor.

Prisma also chose to analyze the PPI data by gender, urban and rural settings, type of loan, and type of business. The MFI found that the ability to break out these categories was an additional benefit of the PPI. Prisma intends to implement the PPI in all of its 17 branches within six months. It needs to train individual staff to conduct future surveys.

Through funding for technical assistance from Oikocredit, Prisma has already incorporated the PPI into its management information system (MIS).

In July 2008, Prisma staff and staff from the five other Peruvian MFIs involved in piloting the PPI met with representatives from Oikocredit, Grameen Foundation and MISION to share their experiences and compare challenges and solutions. Some of the issues discussed were:

- Origin and timeliness of some indicators in the PPI scorecard
- Monitoring and supervision of data collection
- Data interpretation and analysis
- Comparison of PPI data with data from other tools
- Understanding and using poverty levels for targeting, tracking and improving products and services

Meeting participants concluded that the group would profit from regular interaction to channel the learning and the momentum. In addition, the group developed with Grameen Foundation a Peru action plan that included the following steps:

- Update the Peru scorecard with data from the 2006 National Household Survey
- Conduct a training for all PPI users in Peru on data collection and analysis.

PRISMA at a Glance

History: Founded in 1986
Status: Non-governmental organization
Active clients: 20,741
Loan portfolio: (USD) 8,645
Financial Products and Services: microfinance loans
Non-financial Products and Services: health and nutrition, agriculture, environment, medical research, institution-building

Case Study: Rangtay sa Pagrang-ay (RSPI)

RSPI was not present at the TOT workshop when Oikocredit introduced the PPI to MFIs in the Philippines. Applying their training as trainers, Oikocredit staff introduced the PPI to RSPI and facilitated the MFI's pilot process.

The PPI was a good fit for RSPI; the MFI wanted to serve its targeted clients according to its mission and vision. "RSPI's decision to pilot the PPI survey is part of its continuous development effort toward monitoring transformation," the organization stated. "Transformation refers to holistic life improvements—economically, physically, politically, socially, spiritually."

The Baguio-Benguet Branch (now split into two branches) of RSPI was selected to pilot-test the PPI in late 2007. Oikocredit helped RSPI conduct a half-day PPI orientation of all operations staff (area managers, branch supervisors and program assistants). Then program assistants carried out the survey during their weekly visit to clients. The sample size was 300 of 1,200 clients.

RSPI found surprising results from the survey. The test indicated that 19 percent of the sample size was below the national poverty line, while 81 percent was above the national poverty line.

An RSPI report cites the percentage of those above the poverty line as "disturbing," with implications for "future discussions and policy changes." Management and staff raised questions about a course of action if the majority of other branches yielded the same results. "RSPI will then have to evaluate the trade-offs between implementing more stringent client selection guidelines and continuous growth," said the report.

While surprised by these findings, RSPI found the PPI beneficial: "The results are refreshing considering that it is easy to administer and that we can readily cite probability statistics," the RSPI reported. "This is the weakness of most of the tools that RSPI has tried over the years."

RSPI at a Glance

History: Founded in 1987
Status: Microfinance Non-Governmental Organization
Active clients: Active clients: 21,013
Loan portfolio (USD): 1,501,505
Financial Products and Services: General Loans, Savings Mobilization, Collateralized and Non-collateralized Loans
Non-Financial Products and Services: Business Development and Community Development, Adult Learning and Skills Training

RSPI intends to implement the PPI in all its branches. “With the MIS already in full use,” RSPI reports, “the PPI indicators will be cross- tabulated with other factors relating to clients’ performance—like repayment rates, capitalization and number of businesses. There is also a chance of segmenting clients and developing products that will suit each segment.”

Challenges and Solutions

Oikocredit quickly applied its learnings from the TOT workshops. In the Philippines, MFIs piloting the PPI—ASKI, PI, RSPI, and Nueva Segovia—received ongoing training assistance from Oikocredit staff.

“We facilitated the training activities for the loan officers and other branch and head office key officers of all four partners,” said Maria Theresa Pilapil, Oikocredit’s Southeast Asia Regional Director. “With some partners, we even conducted two batches of training because we did not think we would be effective in training large groups.”

The inititial TOT workshop was aimed at training Oikocredit staff to be able to conduct MFI-specific trainings. The TOT also was geared to building support and “buy-in” from key MFI leadership.

“The TOT workshop was mainly for MFI leaders and Oikocredit staff,” said Yolirruth Nunez, SPM Training Coordinator for the Oikocredit Peru Regional Office. “It was important to train them first. They need to feel secure about the PPI. Then we could move on to the technical people.”

As in the Philippines, Oikocredit Peru staff also trained the loan officers, survey takers and supervisors being sent to do the field interviews following the TOT. In addition, Oikocredit directly trained staff from Movimiento Manuela Ramos in the fundamentals of the PPI. As Oikocredit staff trained additional MFIs in the implementation of the PPI, challenges emerged.

Accuracy of the PPI

First was the questioning of—and in some cases, resistance to—some of the individual indicators in the PPI as valid and reliable measures for poverty or movement out of poverty. These concerns were addressed in several ways.

"This was a major issue which was resolved in the Philippines through constant dialogue and repeated interaction with the MFI partners," says Ledesma.

Pilapil agrees. "We explained in very basic terms the background and statistical underpinning of the tool," she says. "Even with some doubts in mind, partners made a conscious decision to take the integrity of the tool in its entirety rather than let one or two indicators that seemed odd affect their decision," she says. Further, Pilapil commented, "It was also helpful that all four partners had a good working knowledge of their clientele and that three of the four had been using other social performance management tools."

MFIs in Peru raised similar questions about some indicators. In addition, some were concerned that a PPI based on a 2003 national household survey, rather than the newer, 2006 survey, may be out of date. For example, the PPI question related to cell phone ownership was considered not to be a relevant measurement of poverty since, as of 2008, 65 percent of the Peruvian population already have cell phones. Fortunately, a design strength of the PPI methodology is that regular updates of each country PPI are possible whenever newer national data sets become available. In the Peru example, an updated Peru PPI based on the latest survey will address MFIs' questions. This also will assist in encouraging more MFIs to use the tool in Peru over the coming year.

A common concern among practitioners is that the indicators within a given country PPI do not answer all the questions that an MFI might have about its clients. Trainers were encouraged to respond to such concerns with a few key points:

- The PPI measures one thing: economic poverty levels.
- Institutions that go through a process of identifying additional information needs are free (and indeed encouraged) to determine additional information sources in conjunction with the PPI.
- The PPI should be considered a robust and objective data collection tool within a larger coherent performance measurement system.

Data Capture and Processing

A key challenge that emerged during training and after field testing was the question of data processing, especially among MFIs piloting in the Philippines, where management information systems were varied and often unconnected internally. "The system for data capture and data processing became an urgent need," says Ledesma. This was tied to the need to support MFIs in analyzing data and, as a consequence, maximizing the tool.

Oikocredit moved quickly to address this basic shortcoming. Pilapil explains: "We commissioned the development of a data capture and processing software program with a local IT consultant. We dialogued with all partners to identify the key reporting references, such as crossing poverty profile with loan cycle; type of businesses; loan amount; location—rural/urban; among others, for the pilot phase," she says. "Then we consolidated the common references to create a foundation for the design of the data capture program. Fortunately, the design of the program also allows partners to add new fields for additional reporting factors and cross-referencing."

Applying lessons from the initial period of training and pilot-testing, Oikocredit developed new approaches for training and pilot-testing. They revolve around two main areas: the collection and interpretation of data. For the Philippines, Oikocredit developed: 1) a detailed guide to the questionnaire, or scorecard, which outlines key pointers to observe before, during and after the client interview, and 2) a guide for dealing with unusual or unexpected situations that may be encountered by loan officers as they conduct interviews and score questions.

Data Interpretation

Beyond data processing, the analysis and interpretation of PPI data was a challenge in both countries. Nuñez explains: "Already some MFIs know they can break out data by district, loan officer, urban and rural settings, and more. But how to use those results to make new products, target clients differently, do market research—is a question for many."

Both Nuñez and Ledesma have discussed the need for more assistance from Grameen Foundation on how to use PPI data to develop new products and services and, in general, to meet individual MFIs' goals and objectives. Nuñez believes that more MFIs would want to use the PPI if they understood how to use the valuable data it generates. Grameen Foundation is planning to develop a course to address this need.

Results

Following are key results from the first eight months of the Oikocredit-Grameen Foundation partnership:

- Oikocredit is the first social investor to support the Progress out of Poverty Index (PPI).

- 14 Oikocredit staff and 8 representatives of Oikocredit partner MFIs have participated in TOT workshops.

- A total of 10 MFIs, four from the Philippines and six from Peru, have piloted the PPI as a result of the Oikocredit-Grameen Foundation program.

- Oikocredit managers and staff in the Philippines, recognizing the need to answer questions being generated by the PPI process, created new forms to address details about loan products, loan amounts and loan cycles.

- Oikocredit created customized mechanisms for validating survey forms in the Philippines.

- All MFIs that piloted in the Philippines decided to adopt or continue to assess the PPI as their new way to target and track clients after pilot-testing it. In Peru, one of the three Oikocredit pilots has already adopted the tool, while another one will implement the PPI next year. In addition, Oikocredit is planning to train a second group of MFIs interested in adopting the PPI. MISION is doing the same with its partners.

- Oikocredit in the Philippines is in the process of improving the MIS it has developed for the PPI. It commissioned the development of a data capture and data processing system.

- Oikocredit in the Philippines developed new approaches for training and pilot-testing, applying lessons from the initial period of training and pilot-testing. The approaches focus on two main areas: the collection of data and the interpretation of data.

- Two MFIs in the Philippines found that their pilot surveys showed that an unexpectedly high percentage of clients interviewed were above the national poverty line, prompting action to address this concern. In Peru, one MFI´s results showed that more than 70 percent of their new clients were above the national poverty line, which was a surprise for them.

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- ▶ The six Peruvian MFIs testing the PPI met to share their experiences and compare challenges and solutions. Meeting participants concluded that the group would profit from regular interaction to channel the learning and the momentum. A similar group of practitioners will meet regularly in the Philippines.

Looking Ahead

With its scale and depth, Oikocredit has the capacity to significantly influence the microfinance marketplace. As the first large investor to pilot the PPI, Oikocredit's experience has helped develop credibility for the PPI in the Philippines and Peru. In addition, the Oikocredit "stamp of approval" can help create a PPI-amenable environment, easing barriers that may exist in getting other social investors to adopt the PPI as a vital social performance management tool. Finally, if Oikocredit expands its promotion and use of the PPI among investees, it could create a large sample of data that can be used to assess poverty movement at local, national, and regional levels.

Nevertheless, the experience during this year has caused Oikocredit to temper its initially high expectations regarding large-scale implementation in the short term. MFIs generally seem to accept the tool but, as evidenced in Peru, not all have accepted it and the process will take more time. Even in the Philippines, where Grameen Foundation has been active the longest, more work needs to be done to introduce MFIs to the PPI and to demonstrate the value of the information generated by this tool. The data collection, processing and interpretation still requires greater technical support. Also, large-scale implementation will require a much greater effort on the part of Grameen Foundation and Oikocredit in terms of staff commitments and resources.

Expanding the Reach

Oikocredit intends to roll out the PPI in two-three countries every year. It has identified Cambodia and Ecuador as priority countries for the 2009 calendar year. As Oikocredit develops country learning capacity, it can expand to regional and then organization-wide capacity. This is the goal Frank Rubio is pursuing for Oikocredit in the South America Northern region.

"In Peru, we are creating alliances to expand use of the PPI," he says. "We can rely on Prisma to promote the PPI to others. Within two years, we could have critical mass in Peru." To achieve this goal, Rubio noted, the Peru program would require ongoing technical support from Grameen Foundation, including updating the Peru scorecard and assistance in data processing and analysis. Going forward, says Rubio, "we are developing a PPI for Ecuador, where we will replicate the Peru experience with three pilots. And our plan is to create a PPI for Colombia in 2009."

Ledesma reports that Oikocredit's continuing work in Peru and the Philippines also has as its goals generating substantial data and observing how MFI partners use the PPI. She expects Oikocredit to report on these results and share them with other social investors as it participates in upcoming fora.

Ledesma is also interested in a national peer learning approach to building PPI training capacity among Oikocredit staff. She is in favor of cross-regional conversations about MFI experiences in implementing the PPI in the Philippines, for example. She also would like to pilot the PPI with a non-MFI project partner of Oikocredit.

Growing Ongoing Support

Grameen Foundation will continue to work with Oikocredit to help launch pilots through training, and to provide technical and operational support to MFIs. And a key effort going forward will be additional training from Grameen Foundation on the use of the PPI data, as requested. In addition, Grameen Foundation partners already using the PPI can begin to serve as mentors to regional MFIs seeking to pilot the tool. For example, Negros Women for Tomorrow (NWTF), plans to host a PPI training for 20 MFIs in the Philippines, expanding the regional network of MFIs which could pilot and adopt the PPI.

Ledesma recognizes the internal challenges for Oikocredit's management, and application, of its PPI information. A key one is the need for enhanced data analysis capacity at different levels. Not all MFIs have staff with information systems knowledge. For now, Oikocredit is maintaining a separate database of MFI activity with the PPI. The organization seeks to integrate this database into its current data systems so that it can combine data from different pilots in a meaningful way. Oikocredit is looking to Grameen Foundation for assistance with this. In addition, Ledesma recognizes the importance of PPI pilots that can segment, then aggregate information by gender and loan product. Finally, in order to see when movement out of poverty begins to shift, Ledesma anticipates pilot studies that track loan cycles three and five (assuming six-month loan cycles) as a beginning effort.

In promoting the PPI, Oikocredit will be proactive by convening meetings and promoting partner-to-partner advocacy. Oikocredit already presented its experience at the Planet Rating Global Microfinance Investment Congress, for example, and may present the PPI at the meeting of Dutch Social Investors Forum in late 2008.

"Oikocredit has been a truly engaged partner," says Nigel Biggar, Director of Grameen Foundation's Social Performance Management Center. "Its pioneering role in the ongoing monitoring and facilitating of the implementation of the PPI for their MFIs has been critical. Additionally, as Oikocredit begins to explore how to integrate PPI data from its various investees, the industry will have an important example of network-level use of poverty level data. Our mutual learning has formed the basis of best practices in addressing challenges and creating solutions."

Oikocredit Facts & Figures

History of Name: "Oiko" from the classical Greek word "Oikos" ("house", "community", "world") "Credit" from the Latin "credere" (believing)

Investment criteria: Investee focus on sustainability, feasibility, women, cooperative structure, special concern for animal welfare and the environment, need for foreign investment

Financing products: loans, equity investments, credit lines, syndicated loans, guarantees

Product features: hard/local currency, maturity up to 10 years, flexible interest rates

Figures (updated per 31 March 2008)

Total member capital:	322.5 (mln EUR)
Number of projects:	665
Active countries:	67
MFI projects:	419 (63% of portfolio)
Clients reached by MFIs:	Approximately 11.2 million
Clients reached by Oikocredit:	719,700 (MFIs only)