

Impact Report

December 2016



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1. CEO Overview

a. Organisational Summary

Oikocredit is a cooperative based in the Netherlands that has a strong regional/local presence and membership spanning the globe. It offers loans and other investments to mostly microfinance institutions, cooperatives, fair-trade, and small- and medium-sized enterprises in developing countries. It is one of the world's largest sources of private funding for the microfinance sector, with €1.03 billion in total assets and €900 million in capital outstanding. Targeting rural agricultural communities and women, in 2015 Oikocredit had 809 partners in 69 countries. Through its primary investments and through the microfinance institutions (MFIs) in which it invests, Oikocredit reaches 46 million beneficiaries worldwide.

Oikocredit International's operations are managed by a two-tier board. An 11-member supervisory board oversees the company and an executive board, the management team, handles the day-to-day operations¹.

Oikocredit's decentralised structure reaches from the international office in Amersfoort, the Netherlands, to all corners of the globe. There are 33 regional and country offices, staffed by local experts who work directly with our partners in the field.

Investments in Oikocredit are attracted by 31 support associations (SAs), largely run by volunteers in 12 different countries and by national support offices (NSOs) in Austria, Canada, Germany, France, UK and Ireland.

b. Commitment to Social Value

Supporting our partner organizations in serving the needs of financially excluded people is the essence of Oikocredit's approach to development finance. As a social investor, we are committed to helping partners improve their financial and social performance by empowering low-income earners to realize a better future for themselves and their families. We also strive to be transparent and accountable in meeting our own social, financial and environmental goals.

Our partners need more than finance alone. Improving the quality of life of people and their communities in a sustainable way calls for more than just credit or equity, important as these are. At Oikocredit, we offer a 'development finance plus' approach, which incorporates social performance monitoring and capacity building. Through capacity building, we help our partners acquire new knowledge, skills and technology, strengthen their governance, and improve their business planning, access to markets and overall performance. Effective social performance monitoring helps identify where partners need support most. Working with partners, we track their outreach, products and client services as well as the quality of their data.

Social performance management is a priority for Oikocredit. Measuring and demonstrating social return on investments is essential, as we strive to know that our investments lead to positive change. We also aim to increase our reach to rural, agricultural communities and are committed to women's empowerment.

¹ See <http://www.oikocredit.coop/about-us/organization/supervisory-board> and <http://www.oikocredit.coop/about-us/organization/management-team> for biographies of the supervisory and management team members.

This report encompasses all existing operations of Oikocredit and covers the period of 2015.

2. Social Purpose and Context

Oikocredit was initiated by the World Council of Churches who wanted a socially responsible investment channel that would enable organisations and individuals to invest their money for positive development – an idea that was radical for its time. From these early roots, Oikocredit has become one of the oldest and largest sources of social investment in the world. Oikocredit's mission is to challenge all to invest responsibly by providing financial services and technical support to enterprises in the developing world that improve the quality of life of low-income people and communities in a sustainable way.

Investment areas

Microfinance

Around 2.7 billion people lack access to basic financial services. Without credit or savings, many people cannot get loans to start businesses or improve their living conditions. When traditional banks are unwilling or unable to operate, deep-rooted poverty, aid-dependency or local loan sharks often move in to fill the gap. Microfinance can prevent this happening, by offering a more positive long-term solution.

Microfinance provides access to affordable, sustainable credit, which allows people to invest in themselves and their future. The smallest of loans can create income-generating businesses, send children to school, buy medicine and nutritious food, or fix a leaky roof.

By providing loan and equity investment and capacity building to microfinance institutions (MFI) in Latin America, Africa, Eastern Europe and Asia, we improve both their financial and social performance meaning that MFIs are both financial sustainable but at the same time adhere to their social mission.

Agriculture and fair trade

One in four of the world's poorest people live in rural areas. Many of these, from farmers to seasonal workers, rely on agricultural activities to meet their daily needs. Vital insurance products to protect against floods, droughts and hurricanes are almost non-existent and a lack of knowledge about new farming methods and trade results in uneven competition with commercial players. For these reasons, Oikocredit provides financing to producer organisations, such as agricultural co-operatives and fair trade organisations.

The Fairtrade movement takes a market-based approach towards empowering local producers. Fair trade organizations promote social justice through:

- fair payments to producers and employees
- anti-child labour policies
- long-term trading relationships
- environmentally sustainable production methods

By supporting fair trade organisations Oikocredit contributes to build a robust market for fair trade products so that fair trade organisations can grow to reach more people.

Renewable energy

1.2 billion people live without access to clean, affordable energy – four fifths living in rural (often remote) areas. Harmful emissions from fossil fuels are a major contributor to climate change. With CO₂ levels at their highest in 650,000 years, the economic livelihoods of low-income earners are increasingly threatened. At the same time, there is a growing demand for electricity in low-income countries.

By investing in renewable energy, Oikocredit supports organisations to provide access to electricity in underserved regions in a way that is economically, socially and foremost environmentally sustainable.

Partner selection

To avoid any kind of mission drift, selection of the microfinance organizations and producer enterprises that we partner with is a crucial decision. Potential partners' aims and approaches need to be aligned with our own. We must be able to work and learn together as likeminded organizations sharing the same mission of empowering low-income earners, their families and their communities.

Therefore, in 2010, we introduced environmental, social and governance (ESG) scorecards to evaluate potential partners in relation to key selection criteria. This includes commitment and ability to create jobs and income for disadvantaged people. For cooperatives, microfinance institutions and small to medium enterprises, we also rate them on their suitability of management structure, proportion of women in management positions, approach to environmental sustainability, actual or potential financial sustainability and the degree of need for investment from overseas. We exclude organizations involved in such activities as child labour or production of arms or other dangerous materials.

To be able to prevent any kind of fraud or corruption, we have an extensive anti-money laundering policy in place. In addition to applying the ESG scorecards for all new or existing partners during the due diligence process, we also conduct a world check on politically exposed people. Another risk in the microfinance sector are high interest rates charged to microfinance borrowers. Therefore, we check whether the interest rates are in line with the averages charged in that country and are within a range which is acceptable for us.

3. Who Benefits

Oikocredit provides loans, capital and capacity building to its 805 partners which in turn strive for empowering people to improve their livelihoods. The beneficiaries of Oikocredit are:

- 1) Microfinance and inclusive finance institutions (MFIs)
- 2) Production and services partners (including agricultural, Fairtrade and small-to-medium sized organisations)
- 3) End-beneficiaries

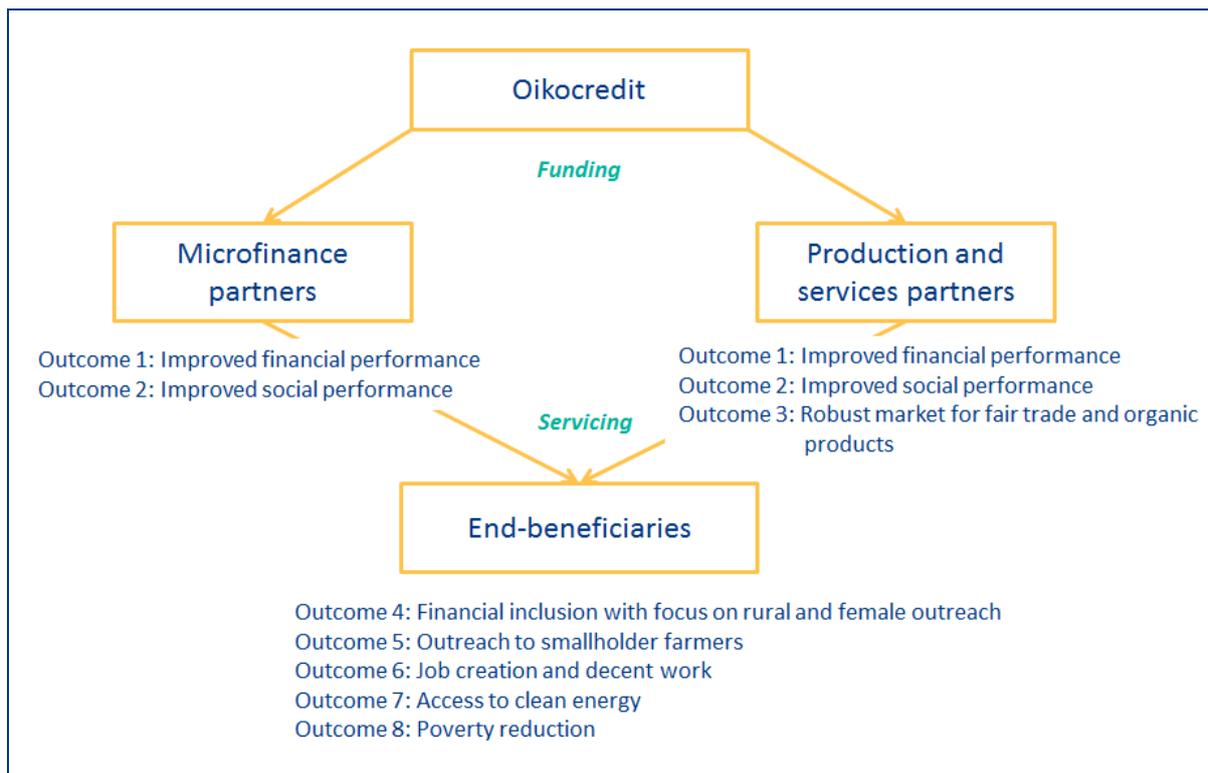


Figure 1: Beneficiaries of Oikocredit and related outcomes

Figure 1 shows that Oikocredit is working through intermediaries which are the microfinance and production and services partners. While one set of outcomes therefore reflects the benefits for our partners, i.e. the microfinance and production and services, another set of outcomes addresses the actual benefit to end-beneficiaries as a result of the work of our partners. All the beneficiaries are described below.

Microfinance institutions

In 2015, around 82% of the development financing portfolio, € 735 million, was invested in microfinance through 544 cooperatives, non-banking financial institutions, banks offering diverse financial products, small to medium enterprises (SME) and wholesale funds. MFIs provide financial products and services, such as credit, savings and insurance products to their clients.

One of Oikocredit's competitive advantages is that it serves relatively small microfinance organizations with a limited number of clients that are often not reached by other investors. In 2008, 59% of our partner MFIs had fewer than 10,000 borrowers. This number has dropped to 44% in 2015, which is still a significant percentage of the portfolio. Investments in larger MFIs increased partly due to existing partners having grown.

Production and services partners

Around 18% of the development financing portfolio, € 165 million, was directly invested in 265 social businesses through production and services partners. This part of the portfolio, which includes agricultural producers and importers, cooperatives and universities and hospitals, aims to offer further direct support to the local economy through decent job creation and supporting fair trade and organic production. After increasing steadily from 2008 to 2011,

growth in production and services levelled off for three years. We were pleased to see renewed growth in 2014 and 2015.

End beneficiaries

Aligned with Oikocredit's mission key beneficiaries are low-income people who are reached through our microfinance, production and services and renewable energy partners.

The end beneficiaries of our microfinance portfolio are end-borrowers which receive microloans from MFIs. Due to the diversity of our production and services portfolio there are various groups of end-beneficiaries. Wage earners and smallholder farmers belong to the biggest group among them.

4. Activities and Operations

Outcome 1: Improved financial performance

By providing a loan or equity investment, Oikocredit improves the financial performance of its partners.

We measure operational sustainability which is captured by the indicator of operational self-sufficiency (OSS). For microfinance partners, this is defined as the total financial income expressed as a percentage of the total operational cost (financial costs, provision to the loan loss reserve and other operating expenses). For production and services partners this is calculated by dividing the gross margin by the operating expenses. If there is an operational profit, the percentage will be more than 100%. Taxes, grants and extra-ordinary income are not included in this figure.

Outcome 2: Improved social performance

Oikocredit is committed to help its partners to improve their social performance, i.e. to adhere to their social mission and to put end-beneficiaries at the centre of their activities, products and services.

One indicator to measure social performance are the ESG Scorecards (one for microfinance partners and one for production and services partners) which are applied by Oikocredit during the due diligence process for to evaluate potential partners. It measures how "social" each partner is, on a scale of 0 to 100%. The tool can be found in the Annex. For the purpose of this report, we are using the average ESG score for the entire microfinance and production and services portfolio respectively. Due to the diversity of our portfolio, internally we usually look at the scores on a regional and/or country level.

For microfinance partners, another indicator to measure social performance is the percentage of MFIs which have endorsed the Client Protection Principles (CPP). These are sector-wide accepted minimum standards that clients should expect to receive when doing business with an MFI. These principles were set by the microfinance sector including MFIs, investors, international networks, and national microfinance associations. Please find them in the Annex.

Outcome 3: Robust market for fair trade products

By supporting fair trade organisations Oikocredit contributes to building a robust market for fair trade products. Whether an organisation is following the Fairtrade standards can be seen by looking at fair trade certifications. This ensures that our partners contribute to sustainable

development by offering better trading conditions, securing decent work and promoting environmentally friendly production processes.

The indicator used for this outcome by looking how many partners with a Fairtrade certification, e.g. Fair trade, Rain Forest Alliance, we have supported.

Outcome 4: Financial inclusion with focus on rural and female outreach

Through its microfinance partners, Oikocredit contributes to financial inclusion, i.e. giving access to financial services for people who are excluded from the formal financial sector otherwise. We measure this by looking at the number of borrowers reached by all microfinance partners of our portfolio.

As part of our social mission, we strive to reach female clients as well as people living in rural areas. We therefore ask all our microfinance partners to report the percentage of female and rural clients of their portfolio.

Outcome 5: Outreach to smallholder farmers

Through our production and services partners, especially by investing in agricultural cooperatives and fair trade organisations, we are reaching smallholder farmers, which benefit from building local economies and stronger communities. The indicator used for this outcome is the number of farmers and cooperative reached by our partners.

Outcome 6: Job creation

For both microfinance and production and services partners, job creation and decent work is one of the most important development objectives. 'Decent' work is defined by the International Labour Organization as work that provides safe conditions, adequate free time and rest, takes into account family and social values, provides for adequate compensation in case of lost or reduced income and permits access to adequate healthcare. By investing in small enterprises microfinance clients can contribute to job creation by hiring additional employees.

We are aiming at reporting job creation for our microfinance portfolio. We already have collected a couple of indicators such as the number of wage workers per borrower and the type of employment. These, however, are indicators which only a few MFIs are collecting and the data quality is not yet very good. Therefore, also for 2015 we state the number of microfinance partners which have reported employment data.

Production and services partners report on the number of wage workers employed.

Outcome 7: Access to clean energy

In our 2020 strategy we have set the goal of reaching the number of 25,000 households getting access to clean energy. As the renewable energy unit was only founded in 2014, we have not yet collected data on this indicator. We hope to be able to report it for the year ended 2016.

Outcome 8: Poverty reduction

Through investing in microfinance institutions, cooperatives, fair-trade, and small- and medium-sized enterprises in developing countries Oikocredit aims to contribute to poverty reduction. 62% of our microfinance partners and 70% of production and services partners report that they have poverty reduction as a development objective.

The main indicator we are using is the Progress out of Poverty Index (PPI), a scorecard to measure the probability to be below a certain poverty line). In 2015, 79 microfinance partners

reported PPI data. Collectively, these partners surveyed more than 5.4 million borrowers of whom approximately 24.1% live below the international poverty line of US\$ 1.25 and 58.2% live under the low-income line of US\$ 2.

Of course, an important question to ask is whether microfinance borrowers are moving out of poverty. In section 7, we describe a programme we have launched in 2014. We aim at moving from only reporting poverty levels to measuring changes in client lives by building the capacity of our partners to analyse and use their own data.

5. Stakeholders

End-beneficiaries

As described in section 4, end-beneficiaries are low-income people whose lives Oikocredit aims to improve through investing in a diverse set of organisations.

Partners

As described above Oikocredit works through two groups of intermediaries which are microfinance and production and services partners.

Support associations / members

The Oikocredit Ecumenical Development Co-operative Society U.A., or the Oikocredit Co-operative for short, was incorporated in 1975 as a co-operative society under the laws of the Netherlands. Oikocredit International Share Foundation is a sister body established in 1995 for raising investment from the public by using depository receipts and which invests its funds by way of shares in Oikocredit.

In some countries, such as Germany, investors buy shares in an Oikocredit support association that then invests in the Oikocredit Co-operative. The Support Associations of Oikocredit are its largest shareholders, holding around 75% of the total capital. Where there is no support association, such as in the UK, investors can instead purchase depository receipts in the Oikocredit International Share Foundation.

Only the Oikocredit International Share Foundation, Oikocredit Support Associations, church based organisations and other organisations that share Oikocredit's social mission are eligible to become direct shareholding members of the Oikocredit Co-operative.

Supervisory board and management team

In 2014, the annual general meeting approved a motion to change the governance structure of Oikocredit. The new adopted two-tier model is composed to two separate bodies, the supervisory board and the management team. Members of the supervisory board are elected to hold office for a period of three years and are eligible for re-election for one term. The Management Board consists of the managing director and four management team directors. They are appointed by the supervisory board.

Staff members

At the end of 2015, Oikocredit's staff totalled 258 full-time equivalent posts, slightly less than the previous year's total of 253. 54% of our staff were female, 46% male. 43 nationalities are represented across the organization.

6. Evidencing Social Value

a. Evidence

Beneficiaries	Outcome	Indicator	2014	2015	2020 Strategy
Microfinance partners	1) Improved financial performance	Average OSS	114%	114%	
	2) Improved social performance	Average ESG score	64%	62%	60% above 55%
		Endorsement of client protection principles	76%	81%	
Production and services partners	1) Improved financial performance	Average OSS	131%	152%	
	2) Improved social performance	Average ESG score	67%	70%	60% above 55%
	3) Robust market for fair trade and organic products	% of partners with fair trade / organic certification	35%	54%	
End-beneficiaries	4) Financial inclusion with focus on rural and female outreach	Total number of borrowers reached	37 million	46 million	50 million
		% rural clients	50%	51%	
		% female clients	86%	86%	75%
	5) Outreach to smallholder farmers	Number of smallholder farmers reached	325,630	373,693	
		Number of cooperative members reached	337,750	746,634	
	6) Job creation and decent work	Percentage of microfinance partners reporting employment data	19%	36%	
		Number of jobs created and / or sustained by production and services partners	47,000	84,000	4 million (including MFIs)
	7) Access to clean energy	Number of households with access to clean energy	NA	NA	25,000
	8) Poverty reduction	Total number of end clients surveyed by PPI	3,269,594	5,364,469	
		Percentage of end clients living below international poverty line (US\$ 1.25 per day)	25.5%	24.1%	
Number of partners reporting panel data on client outcomes		3	4	50	

b. Current Management

Oikocredit has collected social performance data from its microfinance partners since 2006 and from its production and services partners since 2008. Data is collected annually in December. Analysis focuses on aggregated social performance outcomes at partner level using longitudinal panel data. Analysis is performed in line with the MIV disclosure guidelines (CGAP 2010). In 2013, Oikocredit's social performance monitoring received an 'excellent' score from Planet Rating highlighting that 'the level of analysis of the social performance of investees is now similar to that of their financial or institutional performance' (Planet Rating, 2013,1-2).

Sample

Only partners meeting the following criteria are included for social performance monitoring:

- Partners that have an amount outstanding excluding those who have a contract foreclosed.
- Partners with credit lines or equity investments.
- A small number of partners are excluded for specific reasons.

Since 2010 we have seen an improvement in data collection processes as evidenced by strong submission rate varying between 92%-94%.

c. Future Plans

Oikocredit's 2016-2020 strategy aims to enhance our position as a leading SPM practitioner. We intend to scale up our three global capacity building programmes to achieve greater positive impact for low-income people. We will hire a fundraiser to increase our funding for the programmes. We plan to continue directing our partners' attention to social outcomes at client level and to using data to improve their products and services. We will, as always, strive to share our learning across the regions and with industry peers. Following the 2015 Paris climate talks, we will continue working to reduce and offset our carbon footprint, and we will develop environmental indicators beyond our current ESG criteria.

Oikocredit is often asked by academic researchers to join forces on in-depth studies, especially on client outcomes. We are keen to develop more such collaborations, whose practical value to our partners and their clients is clear.

Furthermore, we will improve our reporting and indicators for the renewable energy partners.

7. Other Issues

Client outcomes programme for microfinance: measuring change in clients' lives

For Oikocredit, the ultimate test of the value of our work is the way we impact upon lives and communities. As a responsible investor, we strive to increase our understanding of client outcomes and the impacts achieved. If we and our partners are to be truly accountable, we need to address such questions as: What happens in clients' lives? and Does microfinance make a lasting difference to clients' wellbeing?

Today, Oikocredit has a wealth of information about its partners and their SPM practices. However, we continue to be challenged by the question, What is actually happening in the lives of clients? Therefore, in 2014, we initiated the 'client outcomes' programme with seven MFIs in India, the

Philippines, Cambodia and Tajikistan. The programme is a natural next step in Oikocredit's overall approach to social performance management. After focusing on our own partner databases, we are now focusing on our partners' databases on clients. The outcomes programme enables MFI partners to gain insight into changes in their clients' lives over time. During a training week, we support partners in data collection, analysis and usage and we help them build dynamic prototype dashboards that allow them to track poverty and employment data over time for clients in the portfolio.

We also offer a workshop with management on the use of data, for tracking their social mission, product development and credit operations. Where partners already have strong data, we examine if financial services offered by the MFIs can plausibly be associated with the changes in client lives. Although the data does not allow us to estimate the impact of microfinance, as we lack a control group and data on people who ceased to be clients, we can examine the relationship between credit and poverty by analysing large sample monitoring data.

The programme continues in 2015 and we aim at working with 50 MFIs by 2020.

Impact study on production and services partner, SEKEM

Previous Oikocredit studies measuring outcomes and impact have mainly focused on microfinance institutions (MFIs) and it was felt that a study should be conducted on a production and services partner. Therefore, in September 2014, Oikocredit initiated an impact evaluation study on its Egyptian agricultural partner, SEKEM. The study was coordinated by Oikocredit International in close cooperation with SEKEM staff and carried out by a team from the Centre for Development Innovation (CDI) of Wageningen University and Research Centre (WUR), in the Netherlands. The team was supported by staff and students of Heliopolis University for sustainability in Egypt. The study focusses on the impact SEKEM has on its farmer suppliers.

SEKEM is an agricultural enterprise founded in 1977 with the reclamation of 70 ha of desert. It is a partner that pays particular attention to economic, social, cultural and ecologic life, inspired by insights from anthroposophy and Islam. Today it has grown to 3,000 ha and the SEKEM holding consists of nine companies selling organic food, textiles and phytopharmaceuticals with an integrated value chain supplying national and international markets. SEKEM cultivates its own biodynamic farms and, with the establishment of the Egyptian Bio Dynamic Association (EBDA) in 1994, has helped over 700 farmers in Egypt shift from conventional to biodynamic agriculture. It also established the SEKEM Development Foundation (SDF) in 1984, which runs educational and health projects and opened the Heliopolis University for Sustainable Development in 2012.

ANNEX

Client Protection Principles²

Appropriate product design and delivery

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

Prevention of over-indebtedness

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

Transparency

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

Responsible pricing

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

Fair and respectful treatment of clients

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

Privacy of client data

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

Mechanisms for complaint resolution

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

² Source: <http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>