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A Guide for Fiduciaries and Institutional Investors

News

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New Guidelines to Help Investors Measure Success of Microfinance Institutions

by Robert Kropf

Grameen Foundation employs data from its Progress out of Poverty Index to develop checklist of questions for investors to ask about the social benefits of microfinance.

Socially responsible investors, both individual and institutional, choose to invest in microfinance in order to help alleviate poverty. By means of often very small loans, financial services, and technology, microfinance helps the poor, often women, to start self-sustaining businesses in order to escape poverty.

Microfinance has become an increasingly popular investment choice. As of December 2007, there were 91 microfinance investment funds with \$5.4 billion in assets under management, representing a year-over-year growth of 79%.

Most microfinance institutions (MFIs) measure the success of their investments by the financial improvement in the lives of their clients. The [Grameen Foundation](#), a global nonprofit organization whose efforts to empower the world's poorest people to escape poverty reach an estimated 45 million people in 28 countries, also found a growing demand among investors for greater transparency in the double bottom line of both social and financial returns.

In order to help MFIs measure and manage the social progress of their clients, the Grameen Foundation commissioned the development of the [Progress out of Poverty Index \(PPI\)](#) in 2005. PPIs have been created for nine countries thus far, including Bangladesh, Bolivia, Haiti, India, Mexico, Morocco, Pakistan, Peru and the Philippines. In cooperation with the [Consultative Group to Assist the Poor \(CGAP\)](#) and the Ford Foundation, the Grameen Foundation is developing additional PPIs and expects a total of 36 to be in use by June 2009.

Through country-level household surveys of microfinance clients, PPIs use ten predictive indicators that allow for comparison of likely poverty levels of clients within a country as well as globally. PPIs allow MFIs to create organizational profiles on poverty outreach and highlight their track records on poverty alleviation.

The first social investor to support the use of the PPI was [Oikocredit](#), a Netherlands-based cooperative financial institution that offers loans or investment capital for microfinance institutions, cooperatives, and small and medium sized enterprises in developing countries. Oikocredit is one of the largest financiers of the microfinance sector worldwide. Its investees are now implementing the PPI in the Philippines and Peru and will begin implementations in Ecuador and Cambodia in 2009.

The cooperative efforts of the Grameen Foundation and Oikocredit led to the establishment of the first ever guidelines designed to help institutional and individual investors rigorously evaluate the social returns on their microfinance investments. The guidelines are intended to help investors determine if MFIs are reaching poor clients and if they are helping clients move out of poverty.

The checklist developed by the Grameen Foundation includes questions tailored to the concerns of both institutional and individual investors.

The checklist directs institutional investors to ask what percentage of the MFIs in a portfolio is using the PPI or a comparable poverty measurement tool, how effective the MFIs are at alleviating poverty, if social outreach and outcome information is available by country, if investment dollars are reaching the poor and very poor, how many clients are moving out of poverty, and how long it takes for MFIs to attain sustained movement above the poverty line for their clients.

Individual investors are directed to ask what measures are taken to ensure that investments support the poor and poorest populations, how often the poverty profiles of MFIs are updated, how investment managers define poor, very poor, and extremely poor, and if investment

managers base their definitions on national or international standards of poverty.

"As more investors looking for social impact turn to microfinance, they need to ask the right questions about how well the microfinance institutions are meeting their social mission, which has traditionally been more difficult to measure and benchmark than their financial performance," said Alex Counts, president and CEO of Grameen Foundation. "Using this new microfinance investing checklist, investors can better ensure that their investments are reaching the poorest people and helping them to escape poverty."

Ging Ledesma, Manager, Monitoring and Administration Unit of Oikocredit's Department of Credit Operations, said, "Investors choose Oikocredit expecting an investment with a strong social effect and a modest financial return. They want to know if we are fulfilling our social goals of reaching the poor and helping to bring about positive change in their lives and we need to be able to demonstrate that."

At a briefing hosted by the Grameen Foundation on February 23, Counts said, "The benefit of our approach is that it has real operational benefits for MFIs, who have used the PPI to help them improve their performance. We believe the PPI can contribute to social audits of MFIs as well."

Counts added, "Social investors prompt MFIs to develop real-time data on demographics and to look at not just transactional analysis but transformational analysis as well."

Ledesma said, "Microfinance allows Oikocredit to reach the poor, who would not have access to credit otherwise. The Progress out of Poverty Index helps us identify more relevant and responsive financial products and services that would help facilitate the empowerment of the poor."

Nigel Biggar, Director of the Grameen Foundation's Social Performance Management Center, said, "Having to focus on short-term goals can cause MFIs to suffer mission drift. Social investors provide patient capital that focuses more on long-term importance. They want to differentiate among different levels of poverty in order to make more responsible investment decisions."

"We want to help microfinance institutions be more effective at poverty alleviation," Biggar continued.

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