

PROJECT STATUS REPORT

JULY 2016 - DECEMBER 2016

SECTION 1: PROJECT SUMMARY

PROJECT NAME: Rural finance partnership for Latin America and the Caribbean

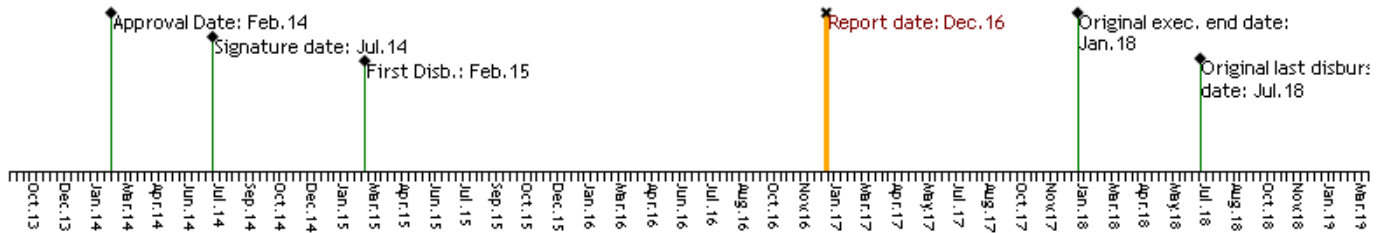
Project Number: RG-M1230 - Project Num.: ATN/ME-14307-RG

Purpose: Increase outreach and improve the capacity (operational and financial) of selected MFIs in LAC to provide adequate sustainable financial services catering the needs of rural poor and low income population

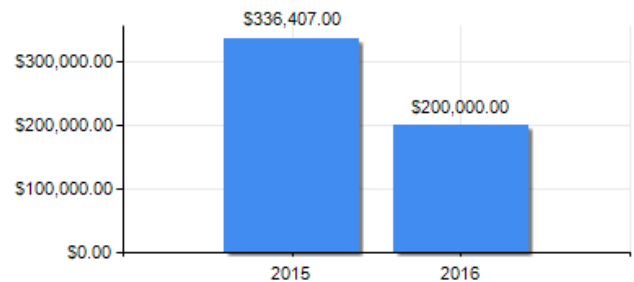
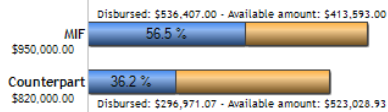
Country Admin	Country Beneficiary	Group	Subgroup
UNITED STATES	COLOMBIA, ECUADOR, GUATEMALA, MEXICO, PERU	MIC - Microenterprise Development	MFIN - Microfinance

Executing Agency: INCOFIN INVESTMENT MANAGEMENT COMM VA **Design Team Leader:** GABRIELA TORREZ
Supervision Team Leader: GABRIELA TORREZ

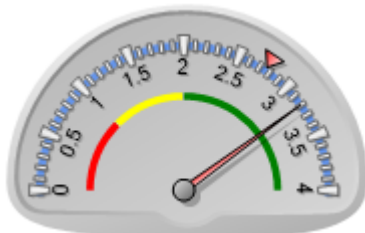
PROJECT CYCLE



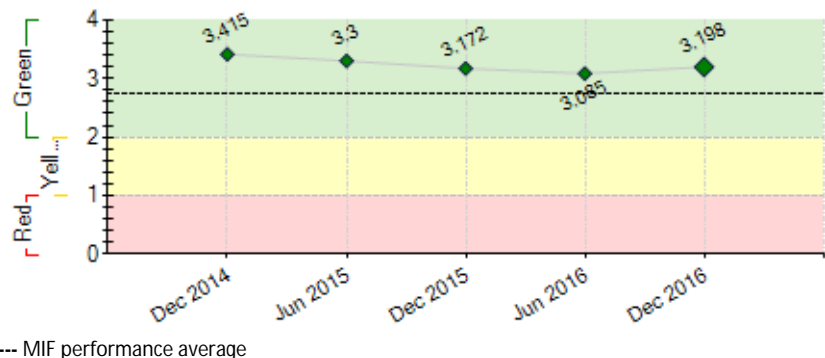
FUNDS



PERFORMANCE SCORE



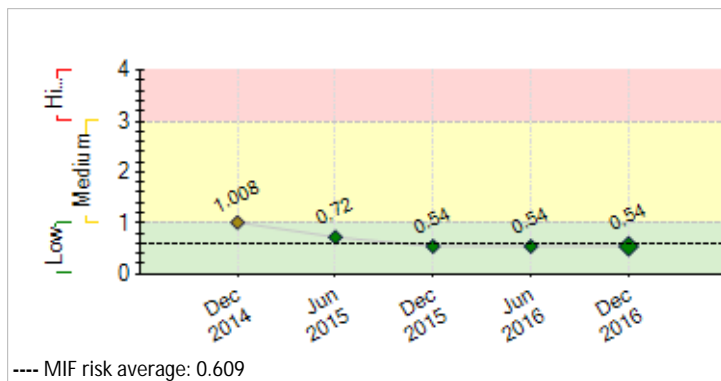
Current score: Satisfactory: 3.198
MIF Average: 2.759



EXTERNAL RISKS

INSTITUTIONAL CAPACITY

	Risk
Financial Management:	Medium
Procurement:	High
Technical Capacity:	Medium



SECTION 2: PERFORMANCE

Summary of project performance since inception

8 Institutions are currently benefiting from the RFP. 5 MFIs: Crezcamos (Colombia); Edpyme Alternativa and Fondesurco (Peru); FUNDEA (Guatemala) and Fundeser (Nicaragua), and 3 Producer Organizations (POs): COCAFELOL and COCAFAL (Honduras) and UCA San Juan (Nicaragua). Totally, these Institutions serve 200,000 clients through a 213 M USD loan portfolio.

Out of the total MIF committed budget, USD 547k have been allocated as follows: 67% to product development, 13% to SPM, 10% to digital financial services (ADC), 7% to knowledge sharing and 3% to risk management.

Main challenges in the RFP execution include: i) assuring a timely implementation of the projects, ii) design innovative and impactful projects, iii) involving other actors, such as POs, to explore new paths to financial inclusion.

To date, the likelihood to achieve the foreseen objectives is highly possible. 4 out of the 8 on-going projects will finalize in Q1 2017. 4 MFIs are piloting/rolling out saving and credit products to reach rural and agricultural segments. 2 MFIs are exploring new delivery channels to attain rural areas while 3 MFIs are improving their SPM. 3 POs are revising their lending methodology to provide greater access to finance to their members.

For the next semester, the Executing Agency will work on the launch of 4 new projects, thus allocating the total RFP budget and will extensively engage in the implementation of the on-going projects.

Comments from the Supervision Team Leader

Agree with the Executing Agency comments
I agree with the report.

Summary of project performance in the last six months

4 new projects were launched: i) 3 POs are revising their lending methodology, enhancing credit risk and portfolio management practices; ii) A learning sharing event attended by 22 MFIs and service providers was held in conjunction with the FOROMIC in October 2016 and the drafting of a Toolkit is in progress.

Relating to the other 5 on-going projects: i) Fondesurco piloted 4 savings products attaining so far 34 clients, enhanced its CPP practices by training 135 staff and subsequently conducted a social rating (BB); ii) Edp. Alternativa rolled out its reviewed agro-lending products and opened 8 new branches in rural areas; iii) Fundea launched an agriculture value chain finance methodology, attaining so far 5 clients, iv) Fundeser is finalizing the saving business plan for approval by the Superintendencia; v) Crezcamos piloted an embedded financial education scheme reaching 640 clients and rolled out a client relationship management strategy, which increased retention rate from 75% to 84%. The MFI finalized the design of a strategy to implement/enhance delivery channels and it is currently piloting its housing and asset finance lines of products.

Some difficulties have been encountered in the execution of the TA projects causing some delays: i) leveraging consultants and MFIs' expectations in terms of strategies and work plans ii) managing internal revision and approval processes for deliverables submitted, iii) integrating new tools and products into MFIs' operations.

Comments from the Supervision Team Leader

Agree with the Executing Agency comments
I agree with the report

SECTION 3: INDICATORS AND MILESTONES

Indicators

Baseline Intermediate Intermediate Intermediate Planned Achieved Status
1 2 3

Purpose: Increase outreach and improve the capacity (operational and financial) of selected MFIs in LAC to provide adequate sustainable financial services catering the needs of rural poor and low income population	R.1	Number of MFIs participating in the RFP	0	3	6		10	8	
				Jul 2015	Jul 2016		Jul 2018	Jul 2016	
	R.2	Number of active clients with microloans in rural areas from the RFP MFIs	0	60000			130000	132493	
				Jul 2016			Jul 2018	Dec 2016	
	R.3	Increase in Gross portfolio in rural areas from the RFP MFIs (in US\$ millions)	0	100			250	143	
				Jul 2016			Jul 2018	Dec 2016	
	R.4	Growth rate of agro-related portfolio from RFP MFIs	0	3			6	1.6	
				Jul 2016			Jul 2018	Dec 2016	
	R.5	Portfolio quality of RFP MFIs (Max. Avg PAR 30)	10	10	10		10	4.7	
			Jul 2014	Jul 2016	Jul 2017		Jul 2018	Dec 2016	

Component 1: Product Development Weight: 35% Classification: Satisfactory	C1.1	Number of rural clients of the participating MFIs using new financial products developed by the RFP at the end of reporting period	0	500			2500	501	On Course
				Jan 2017			Jan 2018	Dec 2016	
	C1.12	Number of new / reviewed financial products developed and rolled out	0	1	2		6	4	On Course
				Jan 2017	Jul 2017		Jan 2018	Jun 2016	
	C1.13	Number of new financial products focusing on agro-related activities rolled out	0	1	2		2	3	On Course
				Jul 2016	Jan 2017		Jan 2018	Jun 2016	
	C1.14	Number of RFP MFI staff trained to deliver new financial products	0	50			100	134	On Course
				Jan 2017			Jul 2018	Dec 2016	

Component 2: Exploring delivery channels Weight: 10% Classification: Satisfactory	C2.1	Number of MFIs conducting a feasibility study for innovative delivery channels	0	1			3	2	On Course
				Jan 2017			Jan 2018	Jun 2016	
	C2.12	Number of strategies approved to set up a new delivery channels in the coming two years	0	1			3	2	On Course
				Jan 2017			Jan 2018	Dec 2016	

Component 3: Social Performance Management Weight: 25% Classification: Satisfactory	C3.1	Number of RFP MFIs who have developed a SPM/ CPP action plan	0	3			6	3	On Course
				Jul 2016			Jul 2018	Jun 2016	
	C3.12	Number of RFP MFIs who have changed/started a good practice in client protection/prevention of over-indebtedness	0	2			4	3	On Course
				Jul 2016			Jul 2018	Jun 2016	
	C3.13	Number of RFP MFIs that improved at least one level in the ECHOS Tool rating	0	3			5	3	On Course
				Jul 2016			Jul 2018	Dec 2016	
	C3.14	Number of RFP MFIs using an SPM tracking tool	0	2			4	2	On Course
				Jul 2016			Jul 2018	Jun 2016	

Component 4: Capacity building in specific areas Weight: 15% Classification: Satisfactory	C4.1	Number of RFP MFIs that adopted and/or adjusted risk management practices	0	1			3	1	On Course
				Jul 2016			Jul 2018	Jun 2016	
	C4.12	Number of RFP MFIs that adopted new human resources best practices/ governance practices	0	1			3	2	On Course
				Jul 2016			Jul 2018	Jun 2016	

Component 5: Knowledge Management and Strategic Communication Weight: 15% Classification: Satisfactory	C5.1	Number of Regional workshops	0	2			3	1	On Course
				Jan 2017			Jul 2018	Dec 2016	
	C5.12	External event of dissemination	0				1		
							Jul 2018		
	C5.13	Number of people attending the events	0	10			50	52	On Course
				Jan 2017			Jul 2018	Dec 2016	

Milestones	Planned	Due Date	Achieved	Date of achievement	Status
M1 Conditions Prior	1	Jan 2015	1	Jul 2014	Achieved
M1 Signature of 2 TA agreements	2	Jul 2015	4	Apr 2015	Achieved
M2 Signature of 5 TA agreements (cumulative)	5	Jul 2016	5	Aug 2015	Achieved
M3 Participant MFI actively implementing the SPM action plan	1	Jul 2016	3	Jun 2016	Achieved
M4 Participant MFIs that adopted and /or adjusted risk management practices/department	1	Jul 2016	1	Jun 2016	Achieved
M5 Three pilot testing of products launched	3	Jan 2017	3	Jun 2016	Achieved
M6 Signature of TA Agreements (cumulative)	9	Jul 2017	8	Dec 2016	
M7 Number of rural clients using the new financial products developed	375	Jul 2017			
M9 Number of participant MFIs that are actively implementing the SPM action plan	3	Jan 2018			
M10 Number of participant MFIs that improved at least one level in the ECHOS tool assessment	4	Jan 2018			
M12 Number of clients benefitted of the new products rolled out	2000	Jan 2018			
M8 [*] Number of regional workshops with the RFP participant MFIs	2	Jan 2018			
M11 Number of participant MFIs with social rating completed	2	Jul 2018	1	Jun 2016	

[*] Indicate that the milestone has been reformulated

CRITICAL ISSUES THAT HAVE AFFECTED PERFORMANCE*[None reported in this period]***SECTION 4: RISKS****MOST IMPORTANT RISKS AFFECTING FUTURE PERFORMANCE**

	Level	Mitigation action	Responsible
1. Low consultant performance resulting in low quality of deliverables of the project	Medium	Incofin will sign results-based contracts with the consultants as well as will include strict selection processes combined with close follow-up and review of the deliverables. In the past 12 month implementation, it has emerged that there is a limited number of available and knowledgeable consultants in the specific areas of intervention. A combination of time availability, budget constraints and limited number of expert with the relevant expertise have often hindered and delayed the selection process.	Project Guest

		Both Incofin IM and the MFI are doing their best to look for performing and knowledgeable consultants to assure a high quality of deliverables	
2. No adoption of Social Performance Management principles by the MFIs due to increase of costs of implementing them and/or issues with credibility of the tools in the microfinance industry.	Low	This risk will be mitigated with eligible criteria (ECHOS Tool score more than 50%) that shows initial commitment and driven social mission as well as close monitoring by Incofin. In most of the projects focusing on SPM, the MFI has to improve at least one dimension of the social performance. The new effort at the Social performance task force (SPTF) to enhance and harmonise SPM standar can foster the implementation of good SPM best practices	Project Guest
3. Lack of committment of participant MFIs in improving capacity and performance	Low	INCOFIN will apply strict selection criteria to choose the participant MFIs and will accompany them in preparing and developing the TA project. All MFIs are genuinely committed to the programme. In most cases, the RFP responds to their needs and priorities. Additionally, within each MFI, a coordinator has been appointed to assure a timely and effective execution of activities.	Project Guest
4. External risks in terms of political, economic and financial downturns might be an issue of concern, including changes in the microfinance business enabling environment (new Laws, regulation procedures relating to the microfinance industry), financial crisis that affect liquidity/returns/portfolio quality in countries, as well as economic crisis in the real sector affecting agro related or rural markets and lack of security in rural areas.	Low	Even though, these risks are difficult to mitigate with the project, the vast experience and knowledge of the MIF and Incofin IM can contribute to provide early warnings and useful insights to help MFIs to endure the difficulties. The risk of economic and financial downturns continues being relevant in the region. As outlined in the IMF website, incertainties dominate across Latin America and the Caribbean. Regional growth is projected at just 1¼ percent, about the same low rate as in 2014 and almost 1 percentage point below IMF projections. investment. In the case of Peru, weak exports and investment have driven a sharp recent slowdown. Nonetheless, the outlook for Central America has improved as a result of lower oil prices and the robust U.S. recovery. Nonetheless, the outlook for Central America has improved due to the growth in remittances (9%) together with stronger exports, will continue to underpin domestic activity.	Project Guest
PROJECT RISK LEVEL: Low TOTAL NUMBER OF RISKS: 5 IN EFFECT RISKS: 4 NOT IN EFFECT RISKS: 0 MITIGATED RISKS: 1			

SECTION 5: SUSTAINABILITY

Likelihood of project sustainability after project completion: P - Probable

CRITICAL ISSUES THAT MAY AFFECT PROJECT SUSTAINABILITY

[None reported in this period]

Actions related to sustainability which have been taken in the reporting period:

The main actions to assure the sustainability of the RFP programme included:

- Accurately select the consultants who can add value to the current performance of the MFIs.
- Devote a great focus on learning, knowledge sharing, training and coaching on the job to assure that MFIs staff can highly benefit from the TA.
- Promote a collaborative environment between the staff of the MFIs and the consultants in order to assure a fruitful cooperation and high quality outputs that really fit MFIs' strategy and operations.
- Collaborate with and boost RFP MFIs to share their experiences with a broader audience.
- Focus on projects that really impact on the MFIs performance and their capacity to better serve their clients.
- Focus of projects that are highly innovative and can effectively respond to the changing trends in the industry.
- Involve different type of actors, such as POs, and explore different channels and ways to promote financial inclusion in rural areas and for the agricultural sector.

SECTION 6: PRACTICAL LESSONS

	Relative to Risk	Author
<p>1. - Continuity in terms of staff is a challenge. Having a steering committee who can follow-up the project or a second person within the MFI/PO/Executing Agency who backs-up can be beneficial.</p> <p>- Payments to the consultants should be conditional to the approval of the deliverables.</p> <p>- During the procurement process, conducting interviews and reference checks with new consultants is recommended. Expanding the database of experts with references on projects the Executing Agency has been collaborating can be helpful.</p> <p>- External market conditions, socio-economic situation of clients, and new issues such as climate changes could affect the success and results of the RFP. The design of new financial products and services should take these variables into account to support the MFI to cope with unpredictable events.</p> <p>- Involving POs is a risky attempt considering their higher vulnerability to shocks. It is key to assess POs' resilience and implement strategic and long-term impact projects.</p>		Leoni, Milena
<p>2. - It is key to design TA projects that properly frame within the strategy and operations of the MFI/PO. The TA project should be able to grasp market trends and position the MFI/PO at the upfront to better serve its clients and gain key market segments.</p> <p>- It is key that the MFI/PO perceives the TA project as highly useful to improve its overall performance. This will entail full commitment along the whole TA project cycle.</p> <p>- It is important to determine whether the MFI/PO dispose of the necessary financial and human resources to endorse the TA project and to roll it out. Similarly, it is fundamental to promote knowledge transfer at all levels in order to assure full ownership.</p> <p>- The Consultants should focus on transferring key knowledge through a participative process, thus transferring competences and skills which might be used by the MFI/PO to replicate similar</p>	Sustainability	Leoni, Milena

assignments.

3. - It is fundamental to have a prepared and grounded project champion within the MFI/PO.
 - Close monitoring is essential. It is important to put in place a monitoring plan, to set-up monthly calls, to update the work plan on a regular basis as well as to follow-up on the progress of the log frame.
 - It is highly recommendable that the consultants and the MFI/PO define clear and effective communication vehicles who allow them to closely collaborate and exchange information.
 - When needed, the Executing Agency should be involved in key discussions which might affect the execution of the project. Similarly, the mediation of the Executing Agency when particular issues arise between the consultants and the MFI might be extremely useful.
 - When dealing with complex multi-donor and multi-beneficiary projects, devote a budget for appointing a Project Coordinator can be extremely useful to assure the adequate coordination and monitoring of activities.

Implementation

Leoni, Milena

4. - It is key to involve all parties who can substantially contribute to properly identify needs and room for improvements: i) The management of the MFI, ii) the Investment Manager of Incofin.
 - It is key with POs to train them in advance on how TA works as well as on requirements and procedures.
 - It is key to assess the capacity of the MFI/PO to endorse a TA project in order not to develop a proposal that is too much complex for the MFI/PO to implement and manage.
 - It is key to prioritize areas of intervention: i) focus on no more than 2/3 modules, ii) when possible and applicable not to superimpose project modules.
 - It is a challenge to define both project budget and project timeframe ex ante, since during the implementation unexpected events or conditions might affect the initial work plan.
 - Design TA projects, which involve more MFIs/POs, can result as an effective strategy to: i) share experiences and best practices, ii) grasp lessons learnt and insights from different contexts

Design

Leoni, Milena

Draft