

PROJECT STATUS REPORT

JANUARY 2013 - JUNE 2013

SECTION 1: PROJECT SUMMARY

PROJECT NAME: Financing emerging microfinance institutions

Project Number: RG-M1171 - Operation Number: ATN/ME-13012-RG

Result: Improve the capacity of VFI affiliated microfinance institutions (A-MFIs) in LAC to provide sustainable financial services to underserved rural and marginal urban (RMU) populations and generate positive changes in the lives of their clients.

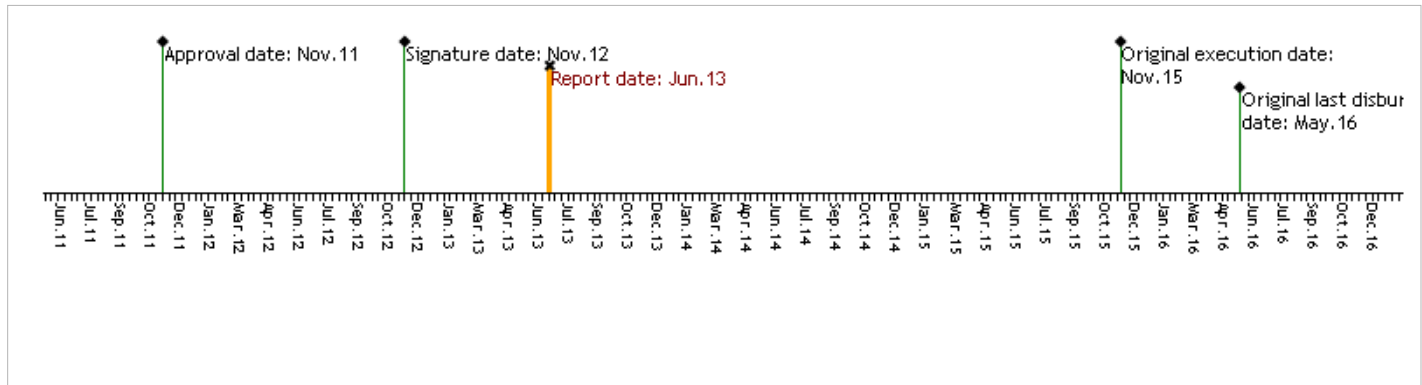
Country Administrator	Beneficiary Country	Group	Subgroup
UNITED STATES	UNITED STATES	MIC - Microenterprise Development	MFIN - Microfinance

Executing Agency:

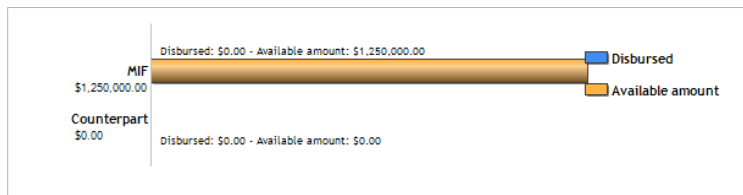
Design Team Leader:

Supervision Team Leader: Auerbach, Paula

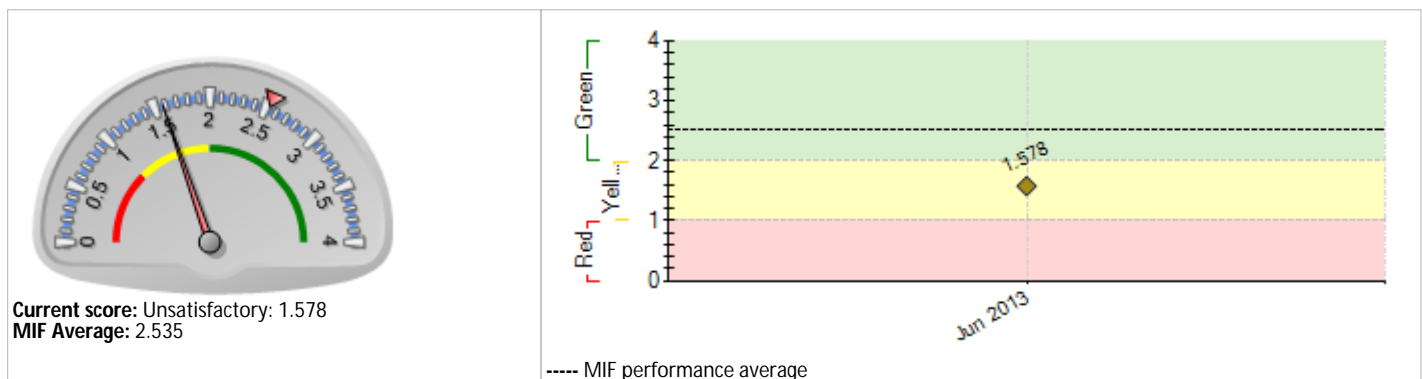
TIMELINE



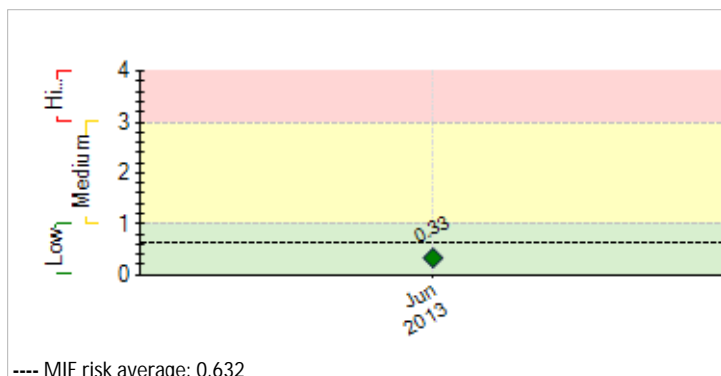
FUNDS



PERFORMANCE SCORE



EXTERNAL RISKS



INSTITUTIONAL CAPACITY

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

SECTION 2: PERFORMANCE

Summary of project performance in the last six months

Main achievements:

- * All A-MFIs (8) have signed MOUs with VFI, committing funds and their counterparts for project activities.
- * A-MFIs have also completed the launch of pilots for PPI and their Microfin projections in June 2013.
- * One of the greatest achievements has been that FODEMI (Ecuador), has managed to complete all legal requirements to become a regulated entity, it is waiting for the authorization from the regulator (SBS) to obtain its license.
- * Two MFIs' boards have received training in governance.

* The Steering Committee of the project is established and the Local Project Coordinator based at Ecuador has been hired.

Delays:

- * There were delays in the project related to the necessary documents to be eligible for the first disbursement of the Technical Cooperation (and loan). Adjustments are in progress.

Critical actions to be undertaken in the following semester will be focused on:

- * completing the first Milestone which relates to the ISPs -which are based on on-going assessments- and
- * the upgrading of the MFIs' commercial strategy within the subcomponent of Strengthening managerial and operational capacities.

Comments from the Supervision Team Leader

Agree with the Executing Agency comments

SECTION 3: INDICATORS AND MILESTONES

Indicators		Baseline	Intermediate 1	Intermediate 2	Intermediate 3	Planned	Achieved	Status
Result: Improve the capacity of VFI affiliated microfinance institutions (A-MFIs) in LAC to provide sustainable financial services to underserved rural and marginal urban (RMU) populations and generate positive changes in the lives of their clients.	P.I1 Minimum % of gross loan portfolio of all participating A-MFIs will be placed in rural areas	0				35 Nov 2015	0	
	P.I2 Minimum % of the participating A-MFIs that achieve 80% of the goals in their Individual Strengthening Plans (ISPs)	0				85 Nov 2015	0	
	P.I3 Minimum % of Participating A-MFIs that have improved their external Risk Rating classification, with respect to their level at project start up.	0				85 Nov 2015	0	
	P.I4 Minimum # of participating A-MFI that has received permission to become a financial institution regulated by the Central Bank/ Supervisor of Financial Entities	0				1 Nov 2015	0	
	P.I5 Participating A-MFIs improve their social performance indicators and reach the levels defined in their ISPs					Nov 2015	No	
	P.I6 Amount in Aggregated Gross Loan Portfolio (US\$ '000)	50000 Nov 2012	55000 Nov 2013	60500 Nov 2014		66550 Nov 2015	65533 Jun 2013	
	P.I7 Aggregated number of active micro-borrowers	91152 Nov 2012	95710 Nov 2013	100495 Nov 2014		105520 Nov 2015	102574 Jun 2013	
	P.I8 % of clients in RMU areas with active microcredit loans	46 Nov 2012	50 Nov 2013	55 Nov 2014		60 Nov 2015	0	
	P.I9 Aggregated number of RMU communities served (with >20 active borrowers).	100 Nov 2012	110 Nov 2013	120 Nov 2014		130 Nov 2015	0	
	P.I10 Number of points of service (POS) in RMU areas	76 Nov 2012	80 Nov 2013	85 Nov 2014		95 Nov 2015	0	
	P.I11 Maximum % of Portfolio at Risk (Weighted Average PaR30)	7 Nov 2012	6 Nov 2013	5 Nov 2014		5 Nov 2015	0	
	P.I12 Minimum % of women in client portfolio	60 Nov 2012	60 Nov 2013	60 Nov 2014		60 Nov 2015	0	
Component 5: Loan for A-MFI intermediation Weight: 40% Classification: Satisfactory	C5.I1 Accumulated Amount on-lent by VFI to participating A-MFIs from project funding (US\$ '000)	0 Nov 2012	1500 Nov 2013	3000 Nov 2014		4000 Nov 2015		Jun 2013
	C5.I2 Accumulated Number of A-MFIs that Access Project Loan Funds	0 Nov 2012	4 Nov 2013	5 Nov 2014		7 Nov 2015		Jun 2013
	C5.I3 Minimum accumulated number of A-MFIs participating in project	0 Nov 2012	3 Nov 2013	5 Nov 2014		7 Nov 2015		Jun 2013
	C5.I4 Accumulated number of active clients that have received microcredit with loan funds	0 Nov 2012	3000 Nov 2013	5500 Nov 2014		6000 Nov 2015		Jun 2013
Component 6: Strengthening managerial and operational capacities Weight: 20% Classification: Satisfactory	C6.I1 Number of qualifying A-MFI have been diagnosed and completed 3-year Individualized Strengthening Plans (ISP), which include detailed institutional and financial targets.	0				7 Nov 2015		Jun 2013
	C6.I2 Accumulated number of qualifying A-MFI have joined the project and signed agreements with VFI to implement their ISP	0	4 Sep 2013			7 Dec 2013	7 May 2013	Finished
	C6.I3 Participating A-MFI's have formally committed counterpart funds towards the implementation of their ISPs.					Nov 2013	May 2013	Finished
	C6.I4 Minimum % of Board of Director (BOD) members, committee members and top executives of all participating A-MFIs that have received at least one session of training on corporate governance for microfinance institutions, covering identified disciplines	0				85 Nov 2015	10 Jan 2013	

C6.15	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on risk management	0				4	1	
						Nov 2013	Dec 2012	
C6.16	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on internal controls	0				4		
						May 2014	Jun 2013	
C6.17	Minimum number of A-MFIs that have designated a permanent responsible unit, committee or staff person for supervising/monitoring institutional risks	0				4		
						Nov 2014	Jun 2013	
C6.18	Minimum number of A-MFIs that have operational Internal Audit Departments, staffed by at least one (full-time) professional each.	0				3		
						Nov 2015	Jun 2013	
C6.19	Minimum number of top and middle level managers from each participating A-MFIs that received at least 40 hours of training in risk management (20 hours) and in internal controls (20 hours).	0				25		
						Nov 2015	Jun 2013	
C6.110	FODEMI is ready to meet regulatory requirements with Internal Controls, Internal Audit and Financial Services.						Yes	Finished
						Nov 2015	Jun 2013	
C6.111	Financial Directors of all participating MFIs are able and prepare annual institutional financial projections in Microfin						Yes	Finished
						Nov 2013	Jun 2013	
C6.112	% of participating MFIs that have completed an analysis of the profitability (financial sustainability) of: i) at least 70% of their branches and established a plan with indicators to track subsequent progress ii) at least 70% of their financial products (cost/benefit analysis)	0				80		
						Nov 2014	Jun 2013	
C6.113	A-MFIs have approved internal policies to guide the pricing of their Credit/Financial Products						No	
						Nov 2014	Jun 2013	
C6.114	Minimum % of credit, branch managers and credit personnel from each participating A-MFIs that has received at least 20 hours of training in customer service (10 hours) and in customer service (10 hours).	0				60		
						Nov 2014	Jun 2013	
C6.115	Minimum number of BODs of A-MFIs that have approved updated Commercial Strategy and Marketing Plan, with corresponding targets for a 5-year span, with per-semester performance monitoring indicators.	0				4		
						May 2014	Jun 2013	
C6.116	Minimum number of credit, branch managers and credit personnel from each participating A-MFIs that has received at least 40 hours of training in commercial planning design, implementation and monitoring (20 hours) and in customer service (20hours)	0				20		
						Dec 2014	Jun 2013	
C6.117	Minimum number of new rural financial products that have been implemented by participating A-MFIs, each product surpassing 1,000 clients, per implementing institution.	0				3		
						Nov 2015	Jun 2013	
C6.118	Of the products, at least one is designed for agriculture financing and another (1) uses the individual credit methodology.						No	
						Nov 2015	Jun 2013	
C6.119	Minimum number of products that have been designed with corresponding Manuals of Policies and Procedures	0				2		
						Nov 2013	Jun 2013	
C6.120	Minimum number of products have been piloted by at least 2 A-MFIs.	0				2		
						May 2014	Jun 2013	
C6.121	Minimum number of A-MFIs that have introduced 2 or more new credit products	0				5		
						Nov 2015	Jun 2013	
C6.122	Minimum number of A-MFIs that have introduced at least 1 new credit product	0				2		
						Nov 2015	Jun 2013	
C6.123	Minimum number of rural savings products developed and piloted (for FODEMI to use after receiving license)	0				1		
						Nov 2015	Jun 2013	
C6.124	Accumulated number of products implemented & placed	4	6	8		10		
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2013	
C6.125	Accumulated number of POS with new rural products	7	10	15		20		
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2013	
C6.126	A-MFIs have developed in-house capacity to conduct (or supervise) market studies for the creation of rural credit products, as evidenced by market research undertaken directly by the A-MFI. At least one person per A-MFI has been formally designed to take up this responsibility.						No	
						Nov 2015	Jun 2013	
C6.127	Minimum % of credit unit and branch managers that have received at least 24 hours of training in risk management (12 hours) and in internal controls 12 hours).	0				95		
						Nov 2015	Jun 2013	
C6.128	Minimum % of credit officers from each participating A-MFIs that have received at least 24 hours of training in risk management (12 hours) and in internal controls 12 hours).	0				80		
						Nov 2015	Jun 2013	

Component 7: Development of Management Information Systems Capabilities

Weight: 15%

Classification: Satisfactory

C7.11	Minimum number of A-MFIs that have functioning computerized MIS with integrated accounting and loan tracking functions that are tailored to the size of their operations.	0				5		
						Nov 2015	Jun 2013	
C7.12	Installed MIS systems satisfy the system requirements established by VFI and, if applicable, local regulatory requirements						No	
						Nov 2015	Jun 2013	
C7.13	Minimum % of A-MFI's that issue monthly financial statements	0				80		
						Nov 2015	Jun 2013	
C7.14	Minimum % of A-MFI's with New or revised policies and manual(s) approved at participating A-MFIs which are consistent with VFI's standards, in the areas of accounting, treasury, human resources and internal controls	0	65			100		
			Nov 2014			Nov 2015	Jun 2013	
C7.15	Percentage of A-MFIs that have access to Product Manuals and Management Tools such as Vintage Analysis, Customer Services, Credit Bureau and others if available.	0				100		
						Nov 2015	Jun 2013	
C7.16	Number of MIF's where IT managers and IT staff have been trained on system management, and are fully capable of service the MIS	0				5		
						Nov 2015	Jun 2013	
C7.17	A-MFIs have a roadmap for the potential innovative uses of technology to improve efficiency and the quality of their service to their low income clients in rural areas						No	
						Nov 2015	Jun 2013	

Component 8: Client Fidelity and Social Performance Management

Weight: 10%

Classification: High Satisfactory

C8.11	A-MFIs have completed pilot exercise on PPI tool application						Yes	Finished
						Nov 2013	Jun 2013	
C8.12	Minimum number of A-MFIs that monitor and report at least annually systematized poverty scorecard indicators	0				6	1	
						Nov 2015	Dec 2012	
C8.13	Minimum number of participating A-MFIs that have collected PPI information for >90% of new clients	0				6		
						Nov 2015	Jun 2013	
C8.14	Number of A-MFI with >80% of branches reporting poverty scorecard results	0	4			7		
			Nov 2014			Nov 2015	Jun 2013	
C8.15	Minimum % of the clients responses that have been audited (quality spot check)	0				5		
						Nov 2015	Jun 2013	
C8.16	Minimum number of A-MFIs that obtained PPI certification	0				3	1	
						Nov 2015	Dec 2011	

C8.I7	Minimum number of A-MFI that have approved and apply best practice Client Protection principles based on VFI-developed Guidelines	0				7	Nov 2015	Jun 2013	
--------------	---	---	--	--	--	---	----------	----------	--

Component 9: Institutional Transformation of Leading MFI to Regulated Financial Intermediaries
Weight: 10%

Classification: High Satisfactory

C9.I1	Report indicating feasibility of Institutional Transformation, approved by FODEMI's board and VFI						May 2013	May 2013	Yes	
C9.I2	Agreement of FODEMI's BOD supporting decision to Transform into a regulated institution						Aug 2013	Jan 2013	Yes	Finished
C9.I3	VFI head quarter's inspection visit / audit establishes operational readiness for transformation						May 2015	Jan 2013	Yes	Finished
C9.I4	Request of license is completed and presented						Jun 2015	Jun 2013	Yes	Finished
C9.I5	License to establish regulated entity is granted to A-MFI						Nov 2015	Jun 2013	No	

Component 10: Systematization and dissemination of experiences
Weight: 5%

Classification: Satisfactory

C10.I 1	A-MFI rating reports available on WVI/VFI intranet						May 2013	Jun 2013	No	Delayed
C10.I 2	Lessons from PPI implementation available on WVI/VFI intranet						Nov 2014	Jun 2013	No	
C10.I 3	Guidelines on effective knowledge sharing and learning among MFI network members available on WVI/VFI intranet							No		
C10.I 4	Guidelines for effective MFI integration with local development programs available on WVI/VFI intranet						May 2015	Jun 2013	No	
C10.I 5	Lessons on project implementation updated semiannually and available on WVI/VFI intranet						May 2015	Jun 2013	No	
		0	1	1	1	1				
		Nov 2012	Nov 2013	May 2014	Nov 2014		Nov 2015	Jun 2013		

Milestones	Planned	Due Date	Achieved	Date achieved	Status
M1 Conditions Prior	1	May 2013	0	May 2013	Not Achieved
M2 MFIs have completed ISPs and have given written commitment to the project	4	Oct 2013	7	May 2013	Achieved
M3 3 MFIs have launched PPI pilots & 5 MFIs have completed three year projections in Microfin	1	Feb 2014	8	Jun 2013	Achieved
M4 FODEMI's business plan for transformation has been developed and they have the legal documentation ready for submission to the local regulatory body	1	Aug 2014	1	Jun 2013	Achieved
M5 MFIs have completed Risk Registers and have designated a responsible unit, committee, or staff person for supervising/monitoring institutional risks.	6	Feb 2015	0	Jun 2013	
M6 Number of rural credit products that have been piloted in three MFIs (minimum 1 per MFI).	3	Aug 2015	0	Jun 2013	
M7 MFIs will have functional MIS with integrated accounting.	5	Feb 2016	0	Jun 2013	

CRITICAL ISSUES THAT HAVE AFFECTED PERFORMANCE

[X] Delays in fulfilling the contract terms

SECTION 4: RISKS
MOST IMPORTANT RISKS AFFECTING FUTURE PERFORMANCE

	Level	Mitigation action	Responsible
1. Credit risk. The financial income and recovery of the capital lent to VFI will depend largely on the quality of the investments, on the repayment capacity of the A-MFIs to which it lends in its second tier operations, and on VFIs net asset adequacy. Many of A-MFI's are not subject to external financial supervision. In addition, many A-MFIs operate in rural areas, which could add climate and other factors that affect production to the level of of credit risk.	Low	(i) VFI uses a credit scoring analysis methodology, with qualitative and quantitative elements, to track the performance of their loans and the risks involved, provisioning the portfolio according to their risk levels; (ii) the sub-loans it makes with MIF funding will go only to A-MFIs that meet predefined eligibility criteria, which will prevent the lowest performing entities from increasing their portfolio share; and (iii) although adding operational complexities, the geographic diversification of VFI's portfolio across countries reduces the likelihood of the whole portfolio being negatively affected by catastrophic, political or economic factors. In addition, VFI is a highly capitalized institution, (with unrestricted Net Assets of US\$77.3 MM) and a low non-performing portfolio (PaR30=0.3% as of June 2011), which provide equity cushion in case A-MFI increase their risk profile.	Project Guest
2. Exchange risk. MIF's loan to VFI will be denominated in U.S. dollars. An exchange rate risk could arise if VFI loans and investments in A-MFIs lost value due to changes in foreign exchange rates. VFI operates in a number of countries, many of which use currencies other than U.S. dollars.	Low	To mitigate currency conversion risk in borrowing, VFI utilizes forward contracts arranged by World Vision's Treasury Centre (WVTC). WVTC is also able to take advantage of World Vision's non-credit operations in a number of countries where VFI operates to gain access to local currencies. At the end of 2010 and as to the most recent financial statements, an important portion of VFI's cash flows for loans made in a foreign currency were hedged. Diversification by countries and the use of a variable rate in their second tier operations is another strategy used to reduce this risk.	Project Guest
3. Market Risk. The rural economies where the A-MFIs operate and have their clients, are exposed to the risks that affect agricultural production and rural areas, such as natural disasters, unforeseen climate change, variations in agricultural commodity prices, and the like, which if realized, could affect the corresponding A-MFI's cash flows. Some of the smaller A-MFIs, also have relative limited ability to diversify geographically in a significant way.	Low	This risk is expected to be partially mitigated by the A-MFIs themselves, who, in addition to clients in rural areas are expected to acquire a portion of their clientele in urban marginal areas that are less correlated to agricultural risk. A-MFIs direct their loans to clients in rural areas who have activities not directly linked to agriculture, such as commerce, small-scale manufacturing, to reduce the risk of this exposure. The technical cooperation component foresees the provision of technical assistance on risk management to the A-MFIs that will borrow from VFI, to look at these sort of risks and respond accordingly. A microfinance rating diagnostic will also be conducted at the project outset to evaluate the degree of the exposure of these A-MFIs to different risks, which should facilitate the identification of potential weaknesses. Ultimately, however, given the nature of the project which targets A-MFIs with rural presence, VFI will be exposed to some of this risk.	Project Guest

4. Risk of failing to break even. VFI has been operating below the break-even point, as its volume of operations is still relatively small in relation to the fixed costs it has to keep, in order to maintain a worldwide operation while it gradually fulfills its mandate of channeling funds and coordinating technical assistance to A-MFIs. Failure to reach break - even point, in the absence of alternative contributions, might mean the need to scale down operations, decrease their quality, or the need

Low

Although it is hard to mitigate this risk, VFI has been taking some measures to address operational sustainability. First, VFI still has as its goal gradually reducing the break even gap, and closely monitors this indicator. It is also increasing the size of its loan portfolio, to generate a higher level of income, at reasonable levels of risk, by lending only to network members of whom it has sufficient information. Secondly, it has recently taken the decision to divest from some MFIs that were performing below expectations, which consumed considerable amount of staff attention in the aftermath of the global financial crisis. Finally, in the past the budgetary shortfalls run in operations have been funded by contributions it has received from WVI. VFI is likely to continue receiving this stable supply of funds in the coming years. VFI has secured the commitment of WVI to continue to support VFI operations in the next 4 years, while this project lasts.

Project Guest

PROJECT RISK LEVEL: Low **TOTAL NUMBER OF RISKS:** 5 **IN EFFECT RISKS:** 4 **NOT IN EFFECT RISKS:** 1 **MITIGATED RISKS:** 0

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 will be or have been implemented:

1. Steering committee has been appointed and is currently functioning.
2. Local project coordinator has been hired since April 8th, 2013.
3. A-MFIs have committed to the project via the signature of MOUs with VFI.

SECTION 6: PRACTICAL LESSONS

	Relative to Risk	Author
1. Although there have been some changes within VFI staff involved directly with the project, measures taken to mitigate that risk have proven effective for the development of the project. Communication within different levels of the organization has helped in this regard.		Hassenteufel, Hans
2. Some activities of the project have been developed using VFI's internal capabilities which resulted useful and have allowed to save resources of the project that may well be used in future activities of the project.	Implementation	Hassenteufel, Hans
3. 1. For the proper implementation of the project it is important, although it may sound obvious, to have all stakeholders involved from the beginning through seminars and/or presentations that allow people to actively engage with the project.	Implementation	Hassenteufel, Hans