

PROJECT STATUS REPORT

JULY 2013 - DECEMBER 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.

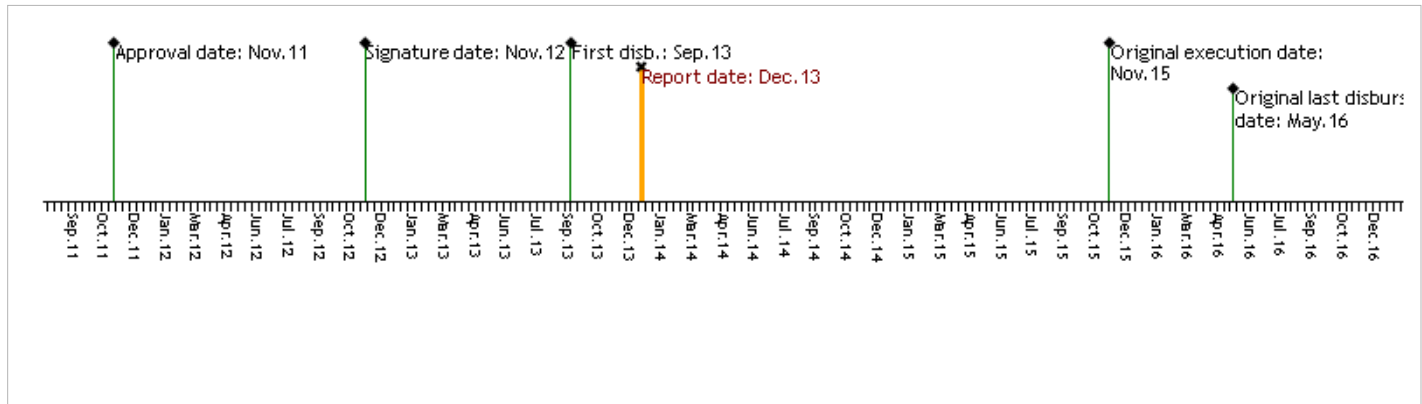
Country Administrator UNITED STATES	Beneficiary Country UNITED STATES	Group MIC - Microenterprise Development	Subgroup MFIN - Microfinance
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Executing Agency:

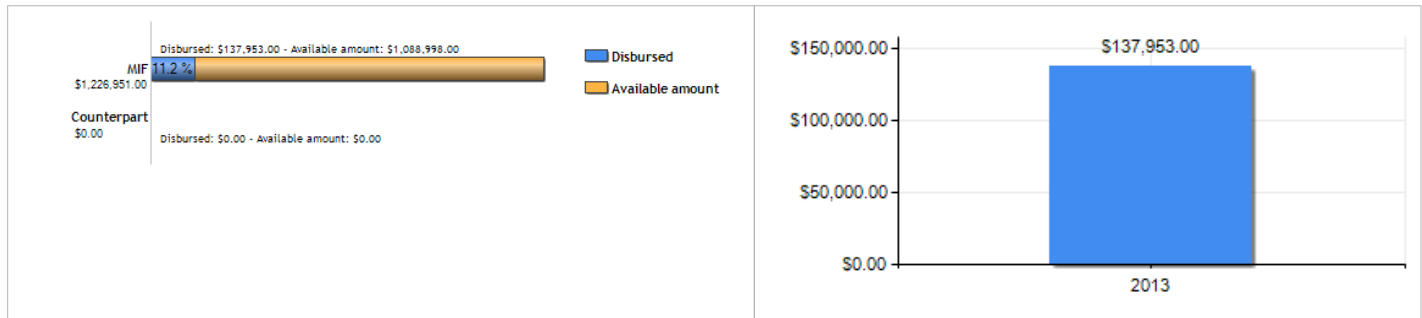
Design Team Leader:

Supervision Team Leader: Auerbach, Paula

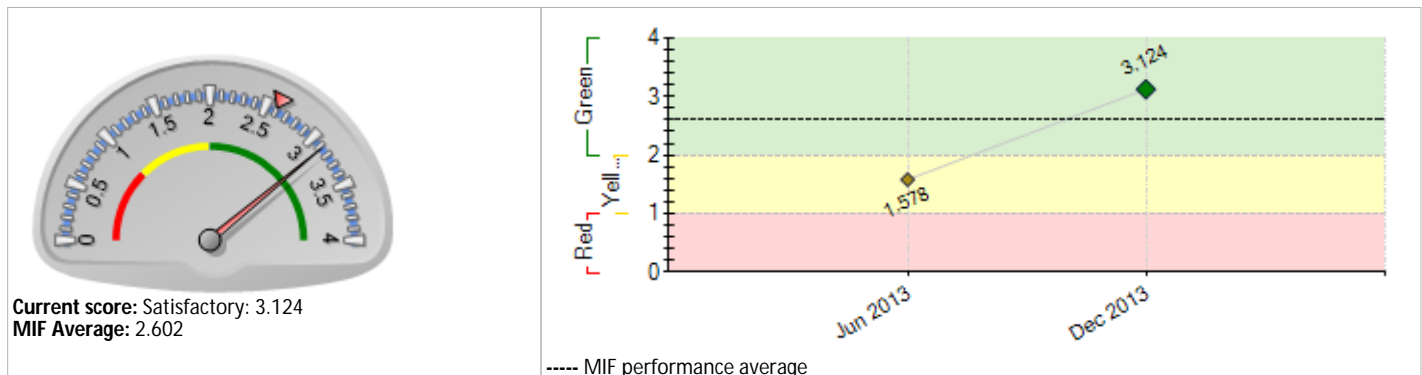
TIMELINE



FUNDS



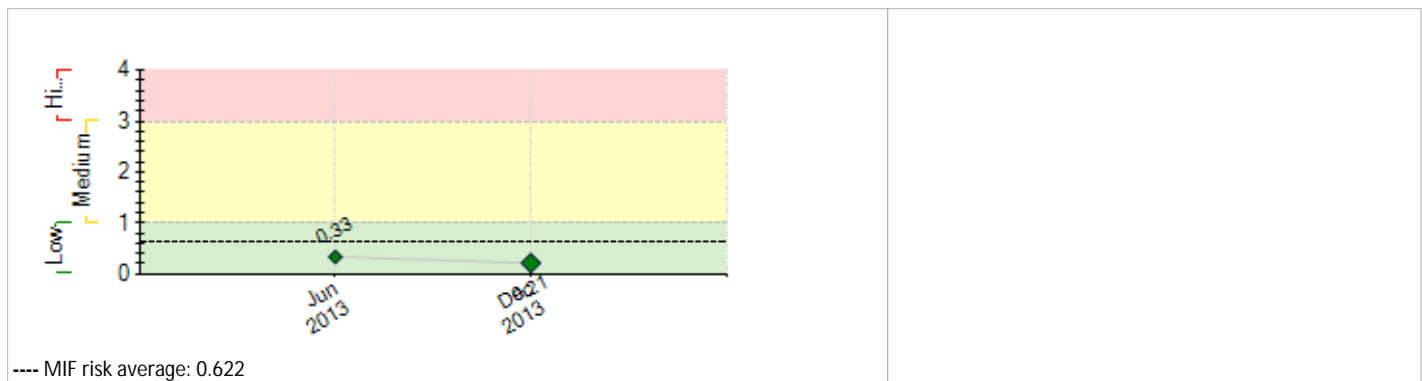
PERFORMANCE SCORE



EXTERNAL RISKS

INSTITUTIONAL CAPACITY

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



SECTION 2: PERFORMANCE

Summary of project performance since inception

Accumulated progress in the project is already with the ISPs for 5 A-MFIs, there are also developments in PPI indicators for 7 A-MFIs. There has been some adjustments since the beginning of the project, some activities that have been executed with the help of VFI's staff time, these activities are: 1.2.1 Develop Training Plan and modules, 1.2.2. Training on Governance, 1.3.1. Design of Risk Management Guidelines and Toolkit Regarding PPI implementation, important steps have been taken in activity 3.6. Preparation of Client Protection Guidelines, where especially in Ecuador there is a solid background that may be replicated in Lacro.

The delays in the project are related with the internal organization for the authorization and availability of funds assigned to the project by the MIF, the matter has been coordinated with the Finance Dept. of VFI in Monrovia.

The perspectives of the project are optimistic because we have begun the search and selection of consultants who will develop some key activities within the project and especially the component Strengthening managerial and operational Capacities and its activities: 1.4. and 1.5

We have also coordinated some consulting work and activities to be done with areas responsible for other components of the project.

We continue to monitor the internal administration of the project, in terms of tasks designation of some activities and internal communication in order to have the necessary resources from our finance department.

Comments from the Supervision Team Leader

Agree with the Executing Agency comments

Summary of project performance in the last six months

In this semester have been the presentation of the project financial statements to IDB MIF in the month of October 2013. Also there are Assessment reports of 5 A-MFIs in Ecuador, Mexico, Nicaragua, Guatemala and Peru, having achieved 5 Strengthening Individualized Plans (ISP) for Participating A-MFIs. There have been advances of some 30% on the Training modules developed for training courses imparted to BOD members, that has reached approximately 25 BOD members. The VFI team has developed reports with Risk Management Guidelines for LACRO approved by VFI. Advance in each MFI regarding preparation of financial projections (MICROFIN). As a reference it has been taken the time spent in the MFI of Ecuador that sums USD7,500.

Component 2, Development Management Information Systems Capabilities, MIS solutions already have 2 MFIs, Ecu. and Honduras with their hardware and software licenses. In subcomponent B.3: Improving Social Performance Management at A-MFIs there has been advancements in the Action Plan for Implementation approved. The Advancement in component 4 is significant, and the next step is that the activity 4.8. Branding MFI VisionFund Ecuador is starting to register FODEMI committed investments in the project for Re-branding Marketing strategy. In this semester, emphasis will be on hiring consultants to develop subcomponents 1.4 and 1.5, although that will depend on the work plan to coordinate with the consultant.

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.	R.1	Minimum % of gross loan portfolio of all participating A-MFIs will be placed in rural areas	0			35	68.33	
	R.2	Minimum % of the participating A-MFIs that achieve 80% of the goals in their Individual Strengthening Plans (ISPs)	0			85	0	
	R.3	Minimum % of Participating A-MFIs that have improved their external Risk Rating classification, with respect to their level at project start up.	0			85	0	
	R.4	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	0	
	R.5	Participating A-MFIs improve their social performance indicators and reach the levels defined in their ISPs				Nov 2015	No	
	R.6	Amount in Aggregated Gross Loan Portfolio (US\$ '000)	50000	55000	60500	66550	66173	
	R.7	Aggregated number of active micro-borrowers	91152	95710	100495	105520	111761	
	R.8	% of clients in RMU areas with active microcredit loans	46	50	55	60	53	
	R.9	Aggregated number of RMU communities served (with >20 active borrowers).	100	110	120	130	0	
	R.10	Number of points of service (POS) in RMU areas	76	80	85	95	0	

		Nov 2012	Nov 2013	Nov 2014		Nov 2015		
R.11	Maximum % of Portfolio at Risk (Weighted Average PaR30)	7	6	5		5	3.73	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2013	
R.12	Minimum % of women in client portfolio	60	60	60		60	68.62	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2013	

Component 1: Loan for A-MFI intermediation**Weight:** 40%**Classification:** High Satisfactory

C1.11	Accumulated Amount on-lent by VFI to participating A-MFIs from project funding (US\$ '000)	0	1500	3000		4000	3350	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2013	
C1.12	Accumulated Number of A-MFIs that Access Project Loan Funds	0	4	5		7	4	
			Nov 2013	Nov 2014		Nov 2015	Dec 2013	
C1.13	Minimum accumulated number of A-MFIs participating in project	0	3	5		7	7	Finished
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jul 2013	
C1.14	Accumulated number of active clients that have received microcredit with loan funds	0	3000	5500		6000	4233	
			Nov 2013	Nov 2014		Nov 2015	Dec 2013	

Component 2: Strengthening managerial and operational capacities**Weight:** 20%**Classification:** High Satisfactory

C2.11	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	5	
						Nov 2015	Oct 2013	
C2.12	Accumulated number of qualifying A-MFI have joined the project and signed agreements with VFI to implement their ISP	0	4			7	7	Finished
			Sep 2013			Dec 2013	May 2013	
C2.13	Participating A-MFI's have formally committed counterpart funds towards the implementation of their ISPs.						Yes	Finished
						Nov 2013	May 2013	
C2.14	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	25	
						Nov 2015	Aug 2013	
C2.15	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on risk management	0				4	4	
						Nov 2013	Dec 2013	
C2.16	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on internal controls	0				4		
		Nov 2012				Dec 2014		
C2.17	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		
C2.18	Minimum number of A-MFIs that have operational Internal Audit Departments, staffed by at least one (full-time) professional each.	0				3	1	
						Nov 2015	Oct 2013	
C2.19	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		
C2.110	FODEMI is ready to meet regulatory requirements with Internal Controls, Internal Audit and Financial Services.						Yes	Finished
						Nov 2015	Jun 2013	
C2.111	Financial Directors of all participating MFIs are able and prepare annual institutional financial projections in Microfin						Yes	Finished
						Nov 2013	Jun 2013	
C2.112	% 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		
C2.113	A-MFIs have approved internal policies to guide the pricing of their Credit/Financial Products							
						Nov 2014		
C2.114	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		
C2.115	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		
C2.116	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		
C2.117	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		
C2.118	Of the products, at least one is designed for agriculture financing and another (1) uses the individual credit methodology.							
						Dec 2014		
C2.119	Minimum number of products that have been designed with corresponding Manuals of Policies and Procedures	0				2		
		Nov 2011				Dec 2014		
C2.120	Minimum number of products have been piloted by at least 2 A-MFIs.	0				2		
						Jun 2015		
C2.121	Minimum number of A-MFIs that have introduced 2 or more new credit products	0				5		
						Nov 2015		
C2.122	Minimum number of A-MFIs that have introduced at least 1 new credit product	0				2		
						Nov 2015		
C2.123	Minimum number of rural savings products developed and piloted (for FODEMI to use after receiving license)	0				1		
						Nov 2015		
C2.124	Accumulated number of products implemented & placed	0	3	6		10		
		Nov 2012	May 2015	Nov 2015		Mar 2016		
C2.125	Accumulated number of POS with new rural products	0	6	12		20		
		Nov 2012	May 2015	Nov 2015		Mar 2016		
C2.126	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.							
						Nov 2015		
C2.127	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		
C2.128	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		

Component 3: Development of Management Information Systems Capabilities**Weight:** 15%

C3.11	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	2	
						Nov 2015	Dec 2013	
C3.12	Installed MIS systems satisfy the system requirements established by VFI and, if applicable, local regulatory							

Classification: High Satisfactory		requirements					Nov 2015		
	C3.13	Minimum % of A-MFI's that issue monthly financial statements	0				80		
	C3.14	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			Nov 2015		
				Nov 2014			100		
	C3.15	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				Nov 2015		
	C3.16	Number of MFI's where IT managers and IT staff have been trained on system management, and are fully capable of service the MIS	0				5	1	
	C3.17	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					Nov 2015		

Component 4: Client Fidelity and Social Performance Management Weight: 10% Classification: High Satisfactory	C4.11	A-MFIs have completed pilot exercise on PPI tool application					Nov 2013	Yes	Finished
	C4.12	Minimum number of A-MFIs that monitor and report at least annually systematized poverty scorecard indicators	0				6	6	Finished
	C4.13	Minimum number of participating A-MFIs that have collected PPI information for >90% of new clients	0				Nov 2015	Dec 2013	
	C4.14	Number of A-MFI with >80% of branches reporting poverty scorecard results	0	4			Nov 2015	Jul 2013	
	C4.15	Minimum % of the clients responses that have been audited (quality spot check)	0				7	2	
	C4.16	Minimum number of A-MFIs that obtained PPI certification	0				Nov 2015	Jul 2013	
	C4.17	Minimum number of A-MFI that have approved and apply best practice Client Protection principles based on VFI-developed Guidelines	0				5	1	
							Nov 2015	Dec 2013	

Component 5: Institutional Transformation of Leading MFI to Regulated Financial Intermediaries Weight: 10% Classification: High Satisfactory	C5.11	Report indicating feasibility of Institutional Transformation, approved by FODEMI's board and VFI					May 2013	Yes	
	C5.12	Agreement of FODEMI's BOD supporting decision to Transform into a regulated institution					Aug 2013	Yes	Finished
	C5.13	VFI head quarter's inspection visit / audit establishes operational readiness for transformation					May 2015	Yes	Finished
	C5.14	Request of license is completed and presented					Jun 2015	Yes	Finished
	C5.15	License to establish regulated entity is granted to A-MFI					Nov 2015	No	

Component 6: Systematization and dissemination of experiences Weight: 5% Classification: Satisfactory	C6.11	A-MFI rating reports available on WVI/VFI intranet					Nov 2014		
	C6.12	Lessons from PPI implementation available on WVI/VFI intranet					Nov 2014		
	C6.13	Guidelines on effective knowledge sharing and learning among MFI network members available on WVI/VFI intranet					May 2015		
	C6.14	Guidelines for effective MFI integration with local development programs available on WVI/VFI intranet					May 2015		
	C6.15	Lessons on project implementation updated semiannually and available on WVI/VFI intranet	0	1	1	1	1		

Milestones		Planned	Due Date	Achieved	Date achieved	Status
M1	Conditions Prior	1	May 2013	1	May 2013	Achieved
M2	MFIs have completed ISPs and have given written commitment to the project	4	Oct 2013	5	Nov 2013	Achieved late
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			
M6	Number of rural credit products that have been piloted in three MFIs (minimum 1 per MFI).	3	Aug 2015			
M7	MFIs will have functional MIS with integrated accounting.	5	Feb 2016			

Covenants		Target	Achieved	Date achieved
1.	Leverage. Measures the level of debt (liabilities) of the entity compared to its level of equity.	< 3	5.76	Dec 2011
2.	Portfolio at risk. Measures the percentage of the portfolio at risk of not recovering.	< 5 %	2 %	Dec 2011
3.	Open Exposure Equity Ratio (O.E.E.R). Measures the percentage of assets exposed to potential losses from unrecovered and unprovisioned portfolio.	< 5 %	0 %	Dec 2011
4.	Operating Efficiency Ratio. Measures the operational efficiency of the entity operating costs compared with the average portfolio size.	< 50 %	9 %	Dec 2011

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

Level	Mitigation action	Responsible
Low	1. 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	Project Guest
	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	

changes in foreign exchange rates. VFI operates in a number of countries, many of which use currencies other than U.S. dollars.

2. 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

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. 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 VFI's 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 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

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:

For the project to be sustainable, we think some changes in some components of the project are needed. For example on PPI implementation, hiring a consultant that can help overcoming the difficulties faced regarding data collection and other issues. Another issue to consider for the sustainability of the project is to introduce some changes in component 2 Concerning facilities and software development in the region, specifically a shift from the licensing costs to those of the implementation is needed. This comes as a recommendations from the specialist at VFI on MIS implementation.

SECTION 6: PRACTICAL LESSONS

1. To be sustainable the project, we must adjust effectively the real cash flow and project the procurement plan, determining where we will need to invest resources to develop activities. In this way we can also save resources that could maximize on other important activities. A point to be considered is the search for funding the ratings needed as a base line of the project.

Relative to
Sustainability

Author
Rea, Hugo

2. Some activities of the original project design have to be changed, because some activities designed to engage external consultants, have been developed by VF staff, as well as some training tasks. Then those funds for such activities could move to other activities, where these funds could be better used, for example, 2.2.2. Systems Analyst 2.3.4 Governance Guidelines. Technical Support and Software Servicing and Training, 2.3.5. Hardware installation and setup, 3.7. Preparation of Client Protection Guideliness, 3.8. Training on application of Client Protection Guidelines, to take some examples.

Design

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