

PROJECT STATUS REPORT

JANUARY 2014 - JUNE 2014

SECTION 1: PROJECT SUMMARY

PROJECT NAME: Financing emerging microfinance institutions

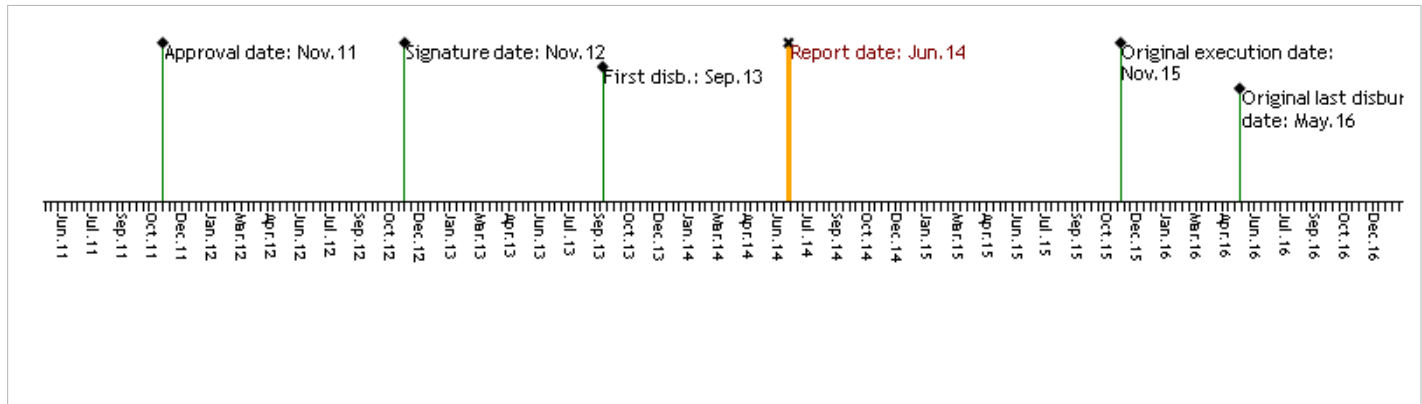
Project Number: RG-M1171 - Operation Number: ATN/ME-13012-RG

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.

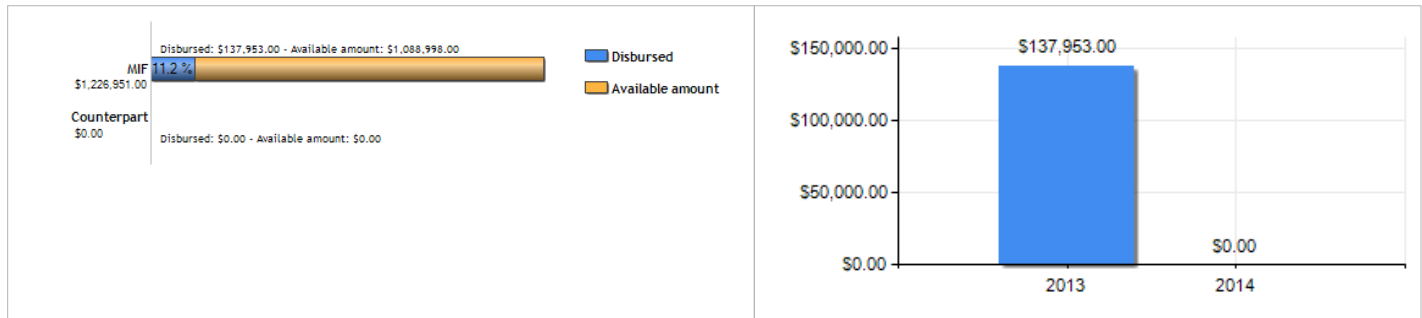
Country Administrator	Beneficiary Country	Group	Subgroup
UNITED STATES	UNITED STATES	MIC - Microenterprise Development	MFIN - Microfinance

Executing Agency:	VisionFund International Headquarters	Design Team Leader:	
		Supervision Team Leader:	Auerbach, Paula

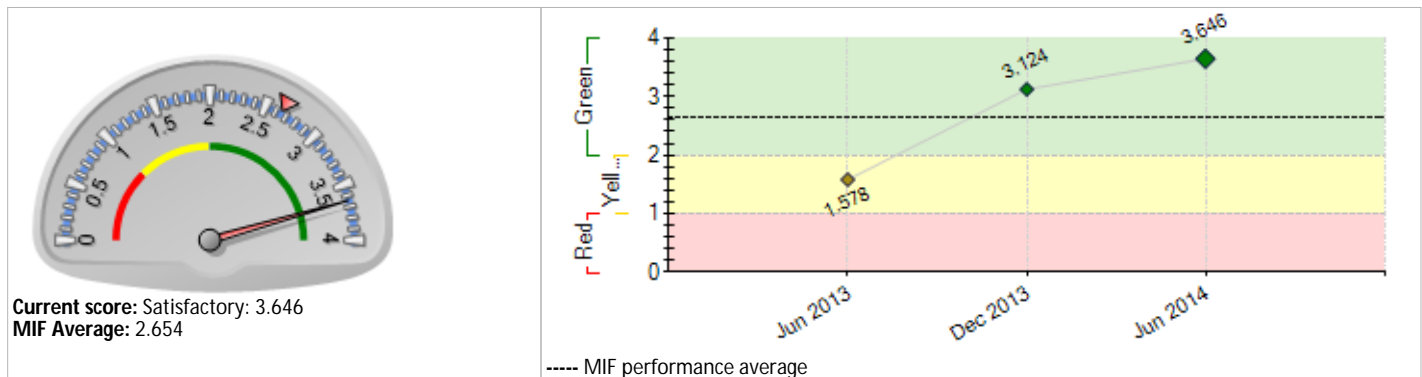
TIMELINE



FUNDS



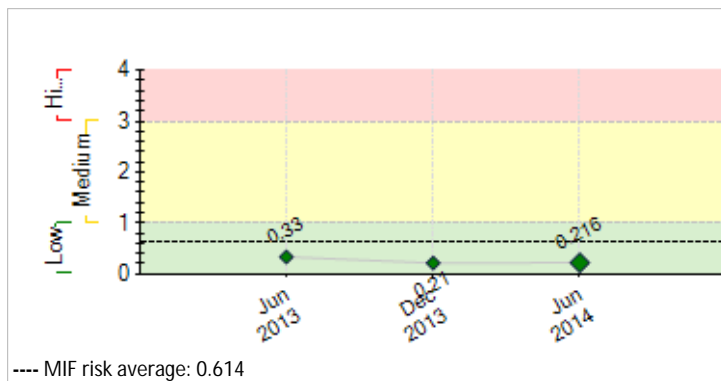
PERFORMANCE SCORE



EXTERNAL RISKS

INSTITUTIONAL CAPACITY

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



SECTION 2: PERFORMANCE

Summary of project performance since inception

5 MFIs have completed ISPs and have given written commitment to the project, and we still continue some activities that have been executed with the help of VFI's staff time.

Times have been recorded for the staff in task 1.3.8. In-house preparation of financial projections, which recorded a progress of 80% when compared to the budget and the POA.

VFI develops subcomponent B.2: Development Information Systems Management Capabilities, there are advances on activity 2.2.3. Procurement of Hardware for which invoices of purchases made by VFI at MFIs where the new system requires renovation of equipment are recorded and archived, also in activity 2.2.4. Procurement of Software there was the purchase of 3 Sifisoft Licenses for Ecuador, Honduras and Mexico (which implementation is about to start), with a value of USD184,400.

One of the components with higher progress is the IV. Subcomponent B.4: Institutional Transformation of MFI into a Regulated Financial Intermediary, where FODEMI of Ecuador is ready with the certification to become a regulated MFI by the Ecuadorian Superintendence of Banks Ecuador, and they have started the re-branding strategy to become VisionFund Ecuador.

In PSR we can see some delays on activities. 1.4 Commercial Strategy upgrading and 1.5 New Rural Microfinance Products Implemented. . Actions taken to mitigate these delays have been taken for the selection and hiring of a consulting firm. We hope to start developing the work in August 2014

Comments from the Supervision Team Leader

Agree with the Executing Agency comments

Summary of project performance in the last six months

As we mentioned in 2013 for activities 1.4. and 1.5, actions were taken to mitigate this, and currently apart from the ToRs the contract is also ready for hiring NODUS Consultores (a Spanish consulting firm). We hope to start developing the consulting work on August 2014 to comply with what is projected in the POA and PSR.

In this semester it was also decided –after an assessment process of proposals submitted by 3 rating forms- the hiring of Microfinanza Rating, to develop activity 6.3.2. External Financial and Social Ratings.

Component 4 is ready, and the next step is that activity 4.8. Fodemi Branding will be done in December 2014.

It is expected to pay attention to the milestone No.4 which mentions: 6 MFIs have completed Designated Risk Registers and have a responsible unit, committee, or staff person for supervising / monitoring institutional Risks this will be ready on February 2015. And have a basis for the development of milestone number 5 which says: 3 rural credit products That Have Been piloted in three MFIs. For this milestone we will have hired the consultants in charge of development.

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	67.83	
	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	1	
	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	69406	
	R.7	Aggregated number of active micro-borrowers	91152	95710	100495	105520	121543	

		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2014	
R.8	% of clients in RMU areas with active microcredit loans	46	50	55		60	54	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2014	
R.9	Aggregated number of RMU communities served (with >20 active borrowers).	100	110	120		130	0	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015		
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	4.16	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2014	
R.12	Minimum % of women in client portfolio	60	60	60		60	68.29	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2014	

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	3953	On Course
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Jun 2014	
C1.12	Accumulated Number of A-MFIs that Access Project Loan Funds	0	4	5		7	5	On Course
			Nov 2013	Nov 2014		Nov 2015	Jun 2014	
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	Jun 2014	
C1.14	Accumulated number of active clients that have received microcredit with loan funds	0	3000	5500		6000	5432	On Course
			Nov 2013	Nov 2014		Nov 2015	Jun 2014	

Component 2: Strengthening managerial and operational capacities

Weight: 20%

Classification: 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	On Course
						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	On Course
						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	Finished
						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	On Course
						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		
C2.11 0	FODEMI is ready to meet regulatory requirements with Internal Controls, Internal Audit and Financial Services.						Yes	Finished
						Nov 2015	Jun 2013	
C2.11 1	Financial Directors of all participating MFIs are able and prepare annual institutional financial projections in Microfin						Yes	Finished
						Nov 2013	Jun 2013	
C2.11 2	% 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		
						Jun 2015		
C2.11 3	A-MFIs have approved internal policies to guide the pricing of their Credit/Financial Products							
						Jun 2015		
C2.11 4	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		
						Dec 2015		
C2.11 5	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		
						Jun 2015		
C2.11 6	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		
						Jun 2015		
C2.11 7	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		
C2.11 8	Of the products, at least one is designed for agriculture financing and another (1) uses the individual credit methodology.							
						Jun 2015		
C2.11 9	Minimum number of products that have been designed with corresponding Manuals of Policies and Procedures	0				2		
		Nov 2011				Jun 2015		
C2.12 0	Minimum number of products have been piloted by at least 2 A-MFIs.	0				2		
						Sep 2015		
C2.12 1	Minimum number of A-MFIs that have introduced 2 or more new credit products	0				3		
						Nov 2015		
C2.12 2	Minimum number of A-MFIs that have introduced at least 1 new credit product	0				2		
						Nov 2015		
C2.12 3	Minimum number of rural savings products developed and piloted (for FODEMI to use after receiving license)	0				1		
						Nov 2015		
C2.12 4	Accumulated number of products implemented & placed	0	3	6		10		
		Nov 2012	Sep 2015	Dec 2015		Mar 2016		
C2.12 5	Accumulated number of POS with new rural products	0	6	12		20		
		Nov 2012	Sep 2015	Dec 2015		Mar 2016		
C2.12 6	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		
C2.12 7	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		
C2.12 8	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% Classification: Satisfactory	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	On Course
							Nov 2015	Dec 2013	
	C3.12	Installed MIS systems satisfy the system requirements established by VFI and, if applicable, local regulatory requirements					Nov 2015		
	C3.13	Minimum % of A-MFI's that issue monthly financial statements	0				80		
							Nov 2015		
	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			100		
				Nov 2014			Nov 2015		
	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				100		
	C3.16	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	1	On Course
							Nov 2015	Jan 2012	
	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						Yes	Finished
							Nov 2013	Jun 2013	
	C4.12	Minimum number of A-MFIs that monitor and report at least annually systematized poverty scorecard indicators	0				6	6	Finished
							Nov 2015	Dec 2013	
	C4.13	Minimum number of participating A-MFIs that have collected PPI information for >90% of new clients	0				6	2	On Course
							Nov 2015	Jul 2013	
	C4.14	Number of A-MFI with >80% of branches reporting poverty scorecard results	0	4			7	2	On Course
				Nov 2014			Nov 2015	Jul 2013	
	C4.15	Minimum % of the clients responses that have been audited (quality spot check)	0				5	1	On Course
							Nov 2015	Dec 2013	
	C4.16	Minimum number of A-MFIs that obtained PPI certification	0				3	1	On Course
							Nov 2015	Dec 2011	
	C4.17	Minimum number of A-MFI that have approved and apply best practice Client Protection principles based on VFI-developed Guidelines	0				7		
							Nov 2015		

Component 5: Institutional Transformation of Leading MFI to Regulated Financial Intermediaries Weight: 10% Classification: Satisfactory	C5.11	Report indicating feasibility of Institutional Transformation, approved by FODEMI's board and VFI						Yes	Finished
							May 2013	May 2013	
	C5.12	Agreement of FODEMI's BOD supporting decision to Transform into a regulated institution						Yes	Finished
							Aug 2013	Jan 2013	
	C5.13	VFI head quarter's inspection visit / audit establishes operational readiness for transformation						Yes	Finished
							May 2015	Jan 2013	
	C5.14	Request of license is completed and presented						Yes	Finished
							Jun 2015	Jun 2013	
	C5.15	License to establish regulated entity is granted to A-MFI						Yes	Finished
							Nov 2015	May 2014	

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		Delayed
			Nov 2012	Jun 2014	Dec 2014	Jun 2015	Dec 2015		

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
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 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
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	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
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

Issue

[X] Lack of a **sustainability plan** or its inadequate implementation

Comments

to do during 2015 second semester

Actions related to sustainability which will be or have been implemented:

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

VF continues to make efforts to develop some activities, especially the support of VF staff, the project is sustainable with the work of the consultants, as in activities 1.4 and 1.5, deliverables of these activities will be an important contribution to long-term sustainability, since there will be guidelines, procedures and structures for new financial products.

One of the most important achievements of the semester is to have designated a ratings company to be in charge of the Social and Financial Ratings.

SECTION 6: PRACTICAL LESSONS

	Relative to Implementation	Author
1. Still with a few adjustments, but moving forward, we see that some activities are developed by VF staff, so the MIF contribution to those activities might be better in others, eg . 4.10 VF Ecuador's		Rea, Hugo

training center for clients and staff. (New activity)

2. To ensure sustainability, it was necessary to have some changes in the approved project budget, and then we can have funds to other activities that will be developed in the second half of 2014 and in 2015.

Sostenibilidad

Rea, Hugo