

PROJECT STATUS REPORT

JULY 2014 - DECEMBER 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.

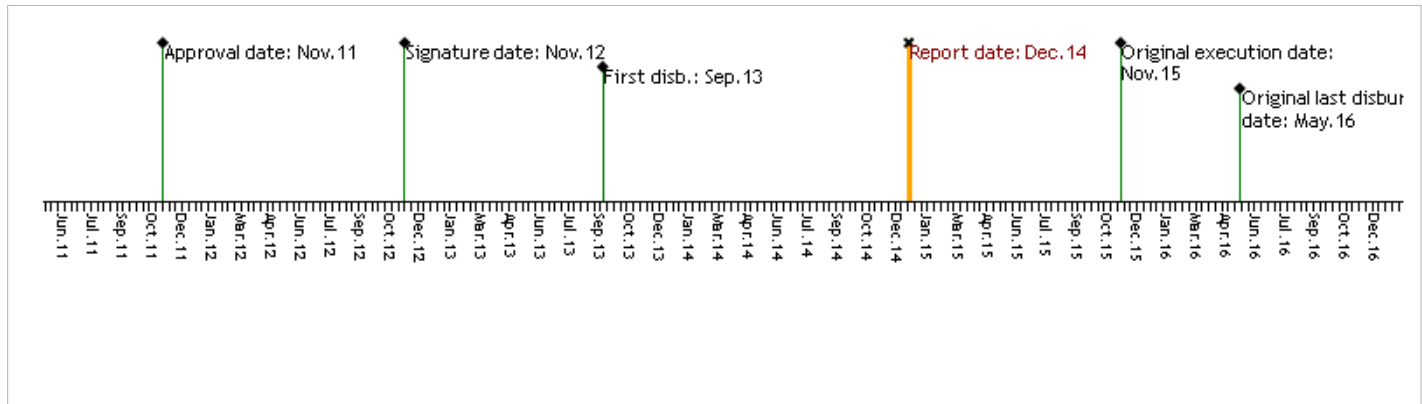
Country Administrator	Beneficiary Country	Group	Subgroup
UNITED STATES	UNITED STATES	MIC - Microenterprise Development	MFIN - Microfinance

Executing agency: VisionFund International Headquarters

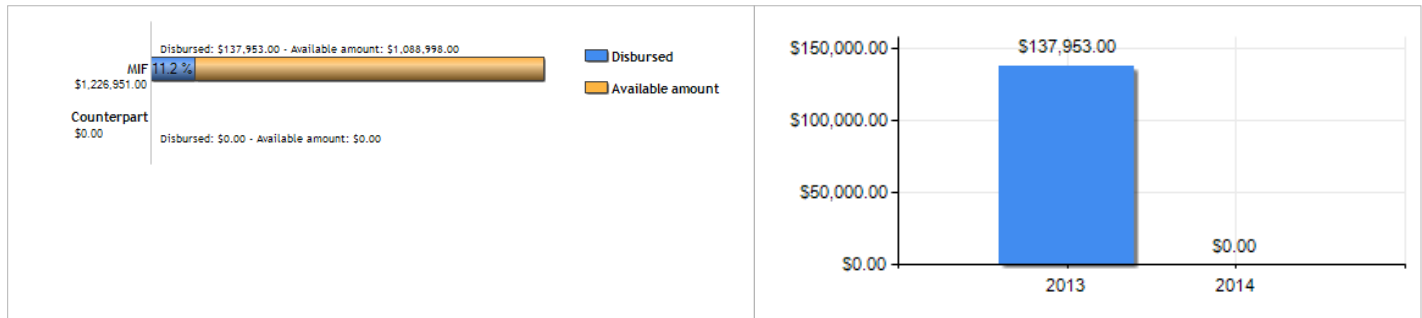
Design Team Leader:

Supervision Team Leader: Auerbach, Paula

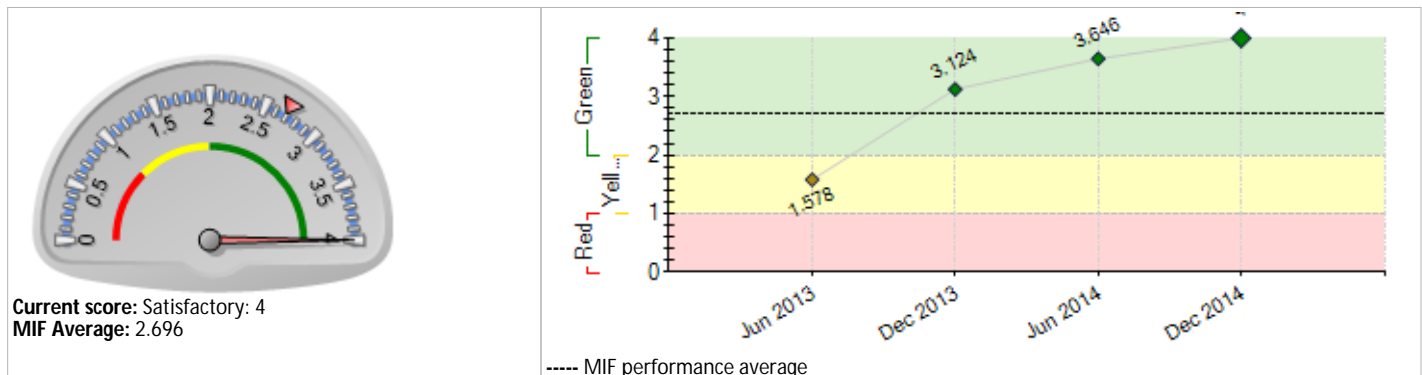
TIMELINE



FUNDS



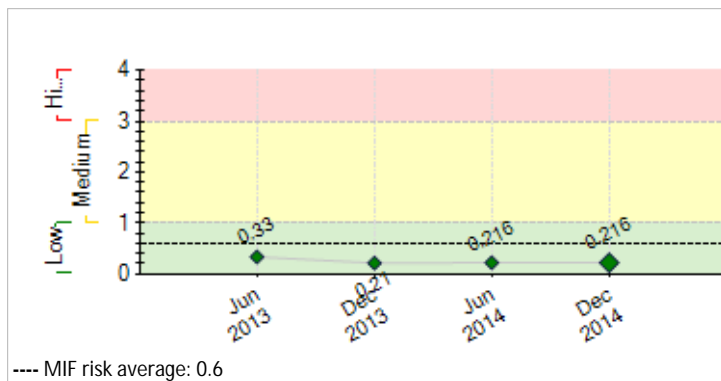
PERFORMANCE SCORE



EXTERNAL RISKS

INSTITUTIONAL CAPACITY

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



SECTION 2: PERFORMANCE

Summary of project performance since inception

The Project has helped to expand and diversify the supply of microfinance services to underserved populations in rural and marginal urban (RMU) areas. The milestones achieved are: 5 MFIs have completed ISPs and have given written commitment to the project, also 7 MFIs have launched PPI pilots and have completed three year projections in Microfin, one of the most important achievements is that FODEMI's business plan for transformation has been developed and submitted to the ecuadorian superintendence and the MFI is now a regulated Financial Society, VisionFund Ecuador. There have been advances in 5 MFIs that have completed Risk Registers and have designated a responsible unit for supervising and monitoring institutional risks. The Financial resources available with the FOMIN-BID loans in the volumes required to fund the growth of the loan portfolio, helped to improve the capacity of VFI affiliated microfinance institutions in LAC to provide sustainable financial services to underserved rural and marginal urban populations and generate positive changes in the lives of their clients, given the social orientation of the work of those MFIs. The portfolio of A-MFIs has a 63.14% concentration in rural areas, and 68% of the portfolio has been disbursed to female clients.

Comments from the Supervision Team Leader

Agree with the Executing Agency comments

Summary of project performance in the last six months

During the last semester (July – Dec 2014) some strategic guidelines were taken such as the replacement of Nicaragua with Bolivia within the scope of the project, this has been duly approved by MIF.

By the end of the semester 85% of board of directors' (BOD) members, committee members and top executives of all Participating A-MFIs have received at least one session of training on corporate governance for Microfinance Institutions. Similarly, 34 members from top and middle managements from each participating A-MFIs have received training in risk management and internal controls. MFIs participants have their financial projections (developed in Microfin) for 3 years in a row, and 3 of them have begun to manage vintage analysis as part of their strengthened credit risk management abilities.

NODUS consulting for activities 1.4 and 1.5 have started and results are expected in 2015.

In August 2014, Mark Schreiner was hired to develop a consultancy for the social performance component of the project, systematizing lessons on PPI implementation, the results of this work could allow for replicated best practices both regionally as well as elsewhere across the network.

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 Nov 2015	63.14 Dec 2014	
	R.2 Minimum % of the participating A-MFIs that achieve 80% of the goals in their Individual Strengthening Plans (ISPs)	0				85 Nov 2015	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 Nov 2015	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 Nov 2015	1 May 2014	
	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 Nov 2012	55000 Nov 2013	60500 Nov 2014		66550 Nov 2015	98425 Dec 2014	
	R.7 Aggregated number of active micro-borrowers	91152	95710	100495		105520	159366	

		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2014	
R.8	% of clients in RMU areas with active microcredit loans	46	50	55		60	52	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 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	1.97	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2014	
R.12	Minimum % of women in client portfolio	60	60	60		60	68	
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 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	Finished
		Nov 2012	Nov 2013	Nov 2014		Nov 2015	Dec 2014	
C1.12	Accumulated Number of A-MFIs that Access Project Loan Funds	0	4	5		7	5	Finished
			Nov 2013	Nov 2014		Nov 2015	Dec 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	5354	Delayed
			Nov 2013	Nov 2014		Nov 2015	Dec 2014	

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	On Course
						Nov 2015	Dec 2014	
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	85	Finished
						Nov 2015	Dec 2014	
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				Sep 2015		
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	5	Finished
						Nov 2014	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	34	Finished
						Nov 2015	May 2014	
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	21	On Course
						Nov 2015	Dec 2013	
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	51	On Course
						Nov 2015	Dec 2013	

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	Jul 2014	On Course
								Yes	
	C3.13	Minimum % of A-MFI's that issue monthly financial statements	0				80	100	Finished
							Nov 2015	Jul 2014	
	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		Delayed
				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	100	Finished
							Nov 2015	Jul 2014	
	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	3	On Course
							Nov 2015	Dec 2014	

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						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	Aug 2014	

Component 6: Systematization and dissemination of experiences Weight: 5% Classification: Satisfactory	C6.11	A-MFI rating reports available on WVI/VFI intranet							Delayed
							Nov 2014		
	C6.12	Lessons from PPI implementation available on WVI/VFI intranet						Yes	Finished
							Nov 2014	Aug 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	1	Finished
			Nov 2012	Jun 2014	Dec 2014	Jun 2015	Dec 2015	Aug 2014	

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 [*] 6 MFIs have completed Risk Registers and have designated a responsible unit, committee, or staff person for supervising/monitoring institutional risks.	4	Apr 2015	5	Dec 2014	Achieved
M7 MFIs will have functional MIS with integrated accounting.	5	Feb 2016			
M6 [*] 3 rural credit products that have been piloted in three MFIs (minimum 1 per MFI).	3	Feb 2016			

[*] Indicate that the milestone has been reformulated

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 WVFI. VFI is likely to continue receiving this stable supply of funds in the coming years. VFI has secured the commitment of WVFI 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

[None reported in this period]

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

To ensure sustainability of the project were taken actions such as:

Introduce Bolivia, and leave out Nicaragua for strategic reasons.

We have also hired the consulting with NODUS to comply with an important part of PSR and componenen 1. Strengthening managerial and operational capacities. These results are expected in 2015.

The loan component funds have continued to keep Micro loans in the MFIs, with excellent results.

SECTION 6: PRACTICAL LESSONS

	Relative to Implementation	Author
1. The request for information within VFI has been complicated, it takes a long time to get reports, then it will coordinate more frequently and followed those responsible for each requirement.		Rea, Hugo
2. Time to get the reimbursement has been extended for a long time, then it will be coordinated	Risk	Rea, Hugo

better with MIF in Quito.

3. The time to hire consultants has taken longer than expected. So a better and faster method of procurement will be sought.

Sustainability

Rea, Hugo