

# PROJECT STATUS REPORT

JANUARY 2015 - JUNE 2015

## SECTION 1: PROJECT SUMMARY

**PROJECT NAME:** Financing emerging microfinance institutions

Project Number: RG-M1171 - Project Num.: ATN/ME-13012-RG

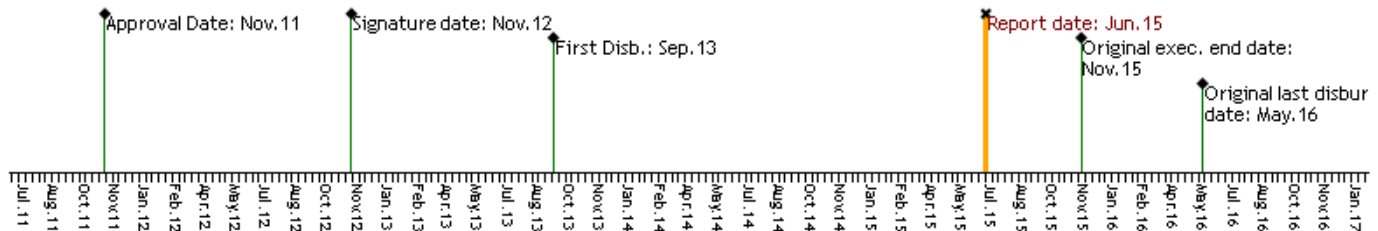
**Purpose:** Improve the capacity of VFI affiliated microfinance institutions (A-MFIs) in LAC to provide sustainable financial services to underserved rural and marginal urban (RMU) populations and generate positive changes in the lives of their clients.

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

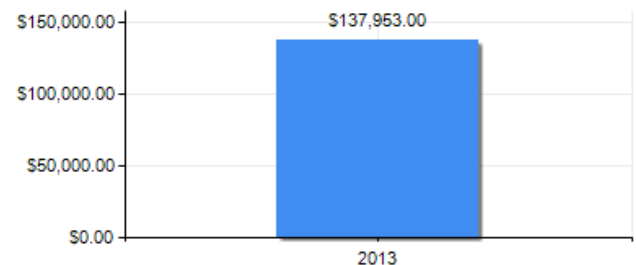
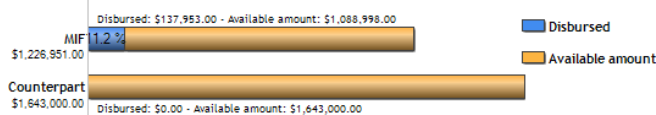
**Executing Agency:** VisionFund International Headquarters

**Design Team Leader:** FERNANDO CAMPERO  
**Supervision Team Leader:** PAULA AUERBACH

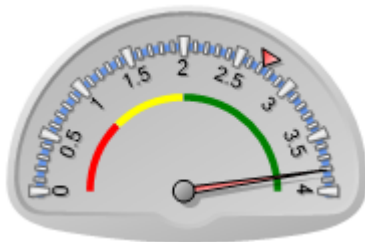
### PROJECT CYCLE



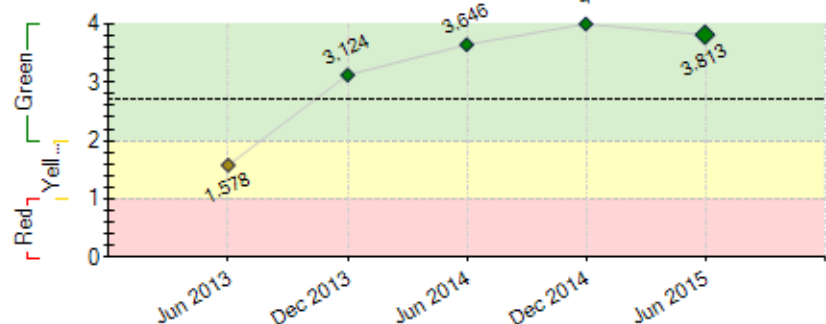
### FUNDS



### PERFORMANCE SCORE



Current score: Satisfactory: 3.813  
MIF Average: 2.726



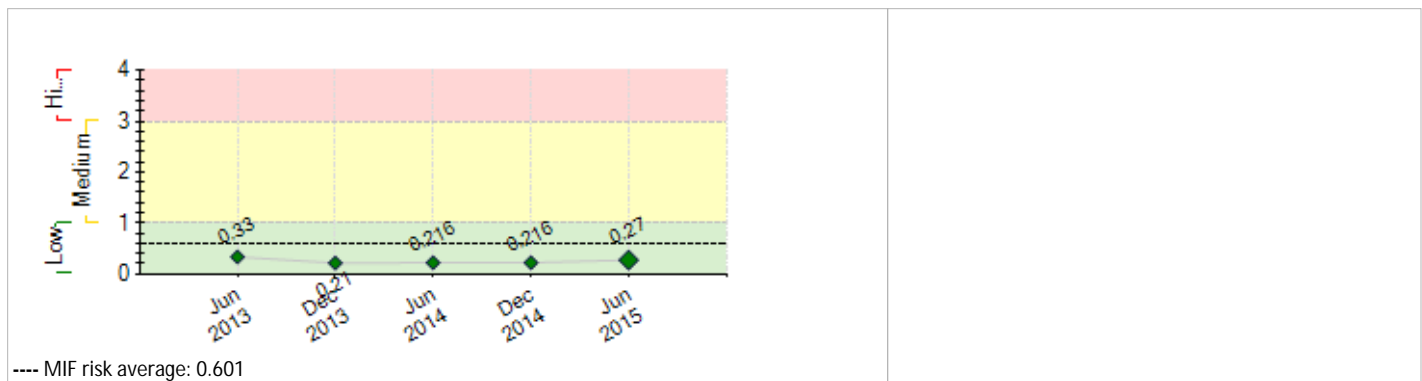
----- MIF performance average

### EXTERNAL RISKS

### INSTITUTIONAL CAPACITY

Risk

Financial Management:  
Procurement:  
Technical Capacity:



## SECTION 2: PERFORMANCE

### Summary of project performance since inception

During the project, there are still parts to be adjusted to the current reality and the changing environment for some MFIs, in the designing phase and implementation there was other expectations and realities for each IMFs and some parts of the framework for the project.

In the Institutional Strengthening component, VFI staff developed some activities such: 1.3 Strengthening of managerial and internal monitoring capabilities, training in internal controls and training in financial planning. In addition there are advances in 1.3.1. Design of Risk Management Guidelines and Toolkit and A-MFI Manual preparation and 1.3.2. Design of Internal Control Guidelines Manual and A-MFI preparation.

Component II.: Capabilities Development Management Information Systems, is delayed because it has been some difficult to establish which is the appropriate software for each MFI therefore this is fulfilled in Ecuador and Honduras with Sifisoft Software, the other sub components will need more time to meet them, anyway VFI complies with its counterpart here.

In the Social Performance component, there is some changes, the PPI certification would be supplanted by ratings in Smart Assessment, so we see here a different point of view from the design phase under logical framework.

Milestones of the project have been fulfilled so far, which is a good indicator of project execution and progress, despite having delays in funds disbursements and reimbursements.

#### Comments from the Supervision Team Leader

Partially Agree with the Executing Agency comments

There has been some delays in the fulfillment of milestone #4. Moreover the milestone was changed from 6 MFIs to 4 MFIs and the deadline was extended from Feb 20th 2015 to April 30th 2015.

4 MFIs have completed Risk Registers and have designated a responsible unit, committee, or staff person for supervising/monitoring institutional risks.

### Summary of project performance in the last six months

In the cumulative result in this month, we have some activities with NODUS Consultants, particularly activity 1.4. Commercial Strategy, is already developed the guidelines and some business strategies, especially in Ecuador, Bolivia, Guatemala, Honduras and Perú, in addition they have conducted training in customer service with all the participating MFIs.

4 MFIs (Ecuador, Perú, Honduras y Bolivia) have completed Risk Registers and designated a responsible person for supervising institutional risks, in compliance with the milestone #5

Regarding MicroFinanza Rating Consultants, they have a 90% advance for delivery Financial and Social Ratings for Guatemala, Honduras, Dominican Rep., Peru and Bolivia, this last IMF is pending but almost complete.

Activities have been conducted in April for Training on financial Planning by Nino Gonjilashvili and Mario Guity following as planned.

VFEcuador completed its counterpart contribution regarding Marketing Materials, and VFI completed the component 2.2.3. Procurement of Hardware, this was made in Ecuador because they have Sifisoft software fully installed, set up and running.

In the month of June it was made Funds Justification by 121,184.60 USD to IADB, so a new Funds Advance will be required in July 2015.

Again some delays for Justification and Funds Advance, leading to delays in schedules, VFI makes efforts to move forward in the Project, but it is necessary to review agendas and think about the idea for extending Project over time.

#### Comments from the Supervision Team Leader

Agree with the Executing Agency comments

A new milestone has been set for the second semester in 2015

H.5 One rural savings product has been developed for one MFI

We expect that the project execution will run faster and smooth next semester

### SECTION 3: INDICATORS AND MILESTONES

Indicators	Baseline	Intermediate 1	Intermediate 2	Intermediate 3	Planned	Achieved	Status
<b>Purpose:</b> 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	63.14	
	R.2 Minimum % of the participating A-MFIs that achieve 80% of the goals in their Individual Strengthening Plans (ISPs)	0			Nov 2015	Dec 2014	
	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			Nov 2015	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	55000	60500	66550	98425	
	R.7 Aggregated number of active micro-borrowers	Nov 2012	Nov 2013	Nov 2014	Nov 2015	Dec 2014	
	R.8 % of clients in RMU areas with active microcredit loans	91152	95710	100495	105520	159366	
	R.9 Aggregated number of RMU communities served (with >20 active borrowers).	Nov 2012	Nov 2013	Nov 2014	Nov 2015	Dec 2014	
	R.10 Number of points of service (POS) in RMU areas	46	50	55	60	52	
	R.11 Maximum % of Portfolio at Risk (Weighted Average PaR30)	Nov 2012	Nov 2013	Nov 2014	Nov 2015	Dec 2014	
	R.12 Minimum % of women in client portfolio	76	80	85	95	0	
<b>Component 1:</b> Loan for A-MFI intermediation  <b>Weight:</b> 40%  <b>Classification:</b>	C1.11 Accumulated Amount on-lent by VFI to participating A-MFIs from project funding (US\$ '000)	0	1500	3000	4000	3953	Finished
	C1.12 Accumulated Number of A-MFIs that Access Project Loan Funds	Nov 2012	Nov 2013	Nov 2014	Nov 2015	Dec 2014	Finished
	C1.13 Minimum accumulated number of A-MFIs participating in project	0	Nov 2013	Nov 2014	Nov 2015	Dec 2014	Finished
	C1.14 Accumulated number of active clients that have received microcredit with loan funds	0	3	5	7	7	Finished
		Nov 2012	Nov 2013	Nov 2014	Nov 2015	Jun 2014	Finished
<b>Component 2:</b> Strengthening managerial and operational capacities  <b>Weight:</b> 20%  <b>Classification:</b>	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
	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
	C2.13 Participating A-MFI's have formally committed counterpart funds towards the implementation of their ISPs.		Sep 2013		Dec 2013	May 2013	Finished
	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				Nov 2013	May 2013	Finished
	C2.15 Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on risk management	0			85	85	Finished
	C2.16 Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on internal controls	0			4	4	Finished
	C2.17 Minimum number of A-MFIs that have designated a permanent responsible unit, committee or staff person for supervising/monitoring institutional risks	Nov 2012			Nov 2013	Dec 2013	Finished
	C2.18 Minimum number of A-MFIs that have operational Internal Audit Departments, staffed by at least one (full-time) professional each.	0			4	5	Finished
	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			Nov 2014	Nov 2014	On Course
	C2.10 FODEMI is ready to meet regulatory requirements with Internal Controls, Internal Audit and Financial Services.	0			3	1	On Course
	C2.11 Financial Directors of all participating MFIs are able and prepare annual institutional financial projections in Microfin	0			Nov 2015	Oct 2013	Finished
	C2.11 % of participating MFIs that have completed an analysis of	0			25	34	Finished
					Nov 2015	May 2014	Finished
					Nov 2015	Jun 2013	Finished
					Nov 2013	Jun 2013	On Course

2	the profitability (financial sustainability) of: i) at least 70% of A-MFIs have approved a plan with indicators for branch credit portfolio growth and at least 70% of their financial products (cost/benefit analysis)					Oct 2015	Apr 2015	
C2.11						Nov 2015		
3						60	50	Finished
C2.11	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				Dec 2015	Apr 2015	Finished
4								
C2.11	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	5	On Course
5						Jun 2015	May 2015	
C2.11	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		
6						Nov 2015		
C2.11	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		
7						Apr 2016		
C2.11	Of the products, at least one is designed for agriculture financing and another (1) uses the individual credit methodology.					Jan 2016		
8								
C2.11	Minimum number of products that have been designed with corresponding Manuals of Policies and Procedures	0				2		
9		Nov 2011				Jan 2016		
C2.12	Minimum number of products have been piloted by at least 2 A-MFIs.	0				2		
0						Mar 2016		
C2.12	Minimum number of A-MFIs that have introduced at least 1 new credit product	0				2		
1						Mar 2016		
C2.12	Minimum number of rural savings products developed and piloted (for FODEMI to use after receiving license)	0				1		
2						Jan 2016		
C2.12	Accumulated number of products implemented & placed	0	1	3		6		
3		Nov 2012	Jan 2016	Feb 2016		Apr 2016		
C2.12	Accumulated number of POS with new rural products	0	6	12		20		
4		Nov 2012	Jan 2016	Feb 2016		Apr 2016		
C2.12	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		
5								
C2.12	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
6						Nov 2015	Dec 2013	

**Component 3: Development of Management Information Systems Capabilities**

**Weight:** 15%

**Classification:**

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				3	2	On Course
						May 2015	Dec 2013	
C3.12	Installed MIS systems satisfy the system requirements established by VFI and, if applicable, local regulatory requirements						Yes	On Course
						Nov 2015	Jul 2014	
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	20	Delayed
			Nov 2014			Nov 2015	Jun 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:**

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	5	Finished
						Nov 2015	Jan 2015	
C4.14	Number of A-MFI with >80% of branches reporting poverty scorecard results	0	4			7	5	On Course
			Nov 2014			Nov 2015	Jan 2015	
C4.15	Minimum % of the clients responses that have been audited (quality spot check)	0				5	3	On Course
						Nov 2015	Jan 2015	
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:**

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:**

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							Delayed
						May 2015		
C6.14	Guidelines for effective MFI integration with local development programs available on WVI/VFI intranet							Delayed
						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 of achievement	Status
M0 Conditions Prior	1	May 2013	1	Nov 2012	Achieved
M1 MFIs have completed ISPs and have given written commitment to the project	4	Oct 2013	5	Nov 2013	Achieved late
M2 3 MFIs have launched PPI pilots & 5 MFIs have completed three year projections in Microfin	1	Feb 2014	8	Jun 2013	Achieved
M3 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
M4 [*] 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
M5 One rural savings product has been developed for one MFI	1	Dec 2015			
M6 MFIs will have functional MIS with integrated accounting.	5	Feb 2016			
M7 [*] 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

**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. 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
3. 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
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 have been taken in the reporting period:**

In the first semester of 2015 VFI continues to make efforts to ensure the sustainability of the project, the most important task has been started with Nodus Consultants, in the first phase they have been developing guidelines for commercial strategies and are working on the business strategies and marketing plans. It is expected that in the second half of 2015 there should be advances in the development and implementation of new MF rural products. It is important to have on time disbursements for futures consultancies' payments, as well as to comply with pending payments to hired consultants.

Participating IMFs present good financial results so far, and have been strengthened with the project's activities.

## SECTION 6: PRACTICAL LESSONS

	<b>Relative to</b>	<b>Author</b>
1. It is needed in the first month of the second half of 2015, the new advance of funds and the approval for funds to be reimbursed to VFI. This ensures the execution of the new tasks projected in 2015. A further delay in this phase would be a risk for not meeting the schedule of some activities which have already begun.	Risk	Rea, Hugo
2. Social and Financial environments of each IMF are changing over time, so VFI policies will adapt and change with them too, the Project must also be adjusted to this reality and strengthen the IMF in what they really need. Considering this, we should hear a new feedback from each participating IMF to know where they need support to strengthen it, and then analyze it within the Project	Sustainability	Rea, Hugo