

# PROJECT STATUS REPORT

JANUARY 2016 - JUNE 2016

## SECTION 1: PROJECT SUMMARY

**PROJECT NAME:** Financing emerging microfinance institutions

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

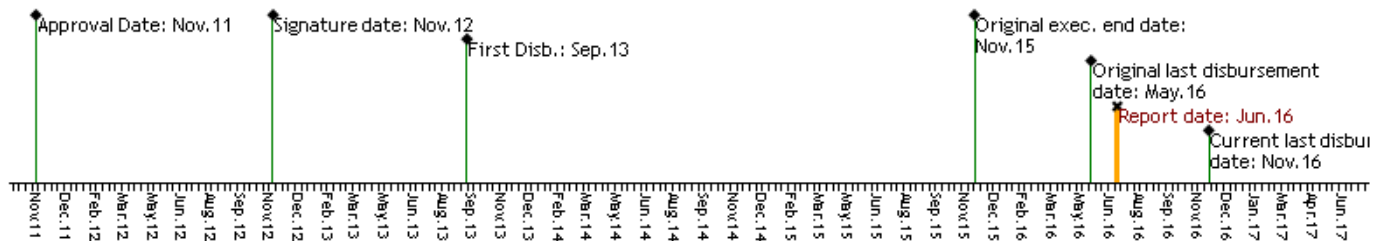
**Purpose:** Improve the capacity of VFI affiliated microfinance institutions (A-MFIs) in LAC to provide sustainable financial services to underserved rural and marginal urban (RMU) populations and generate positive changes in the lives of their clients.

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

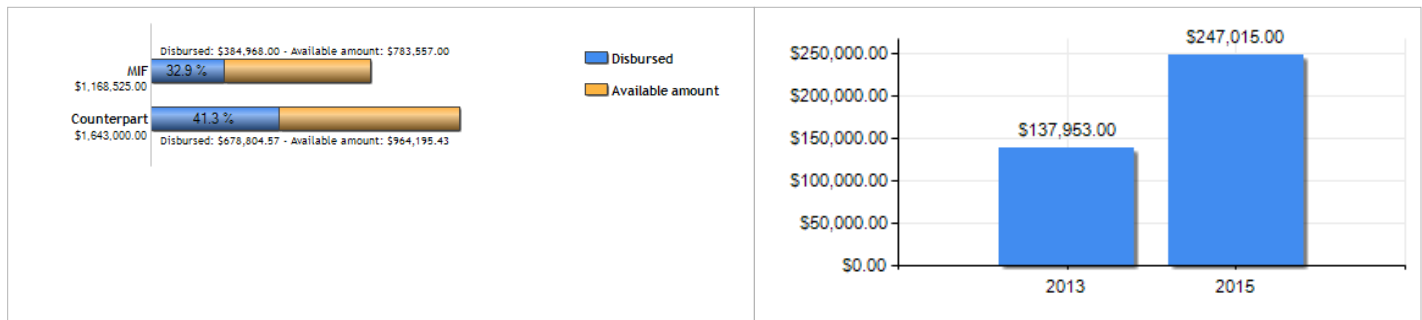
**Executing Agency:** VisionFund International Headquarters

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

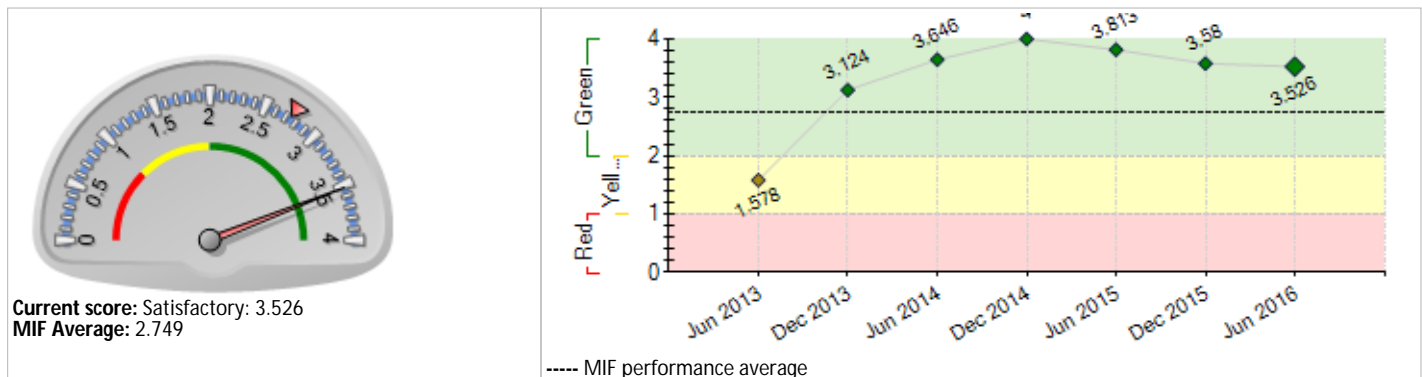
### PROJECT CYCLE



### FUNDS



### PERFORMANCE SCORE

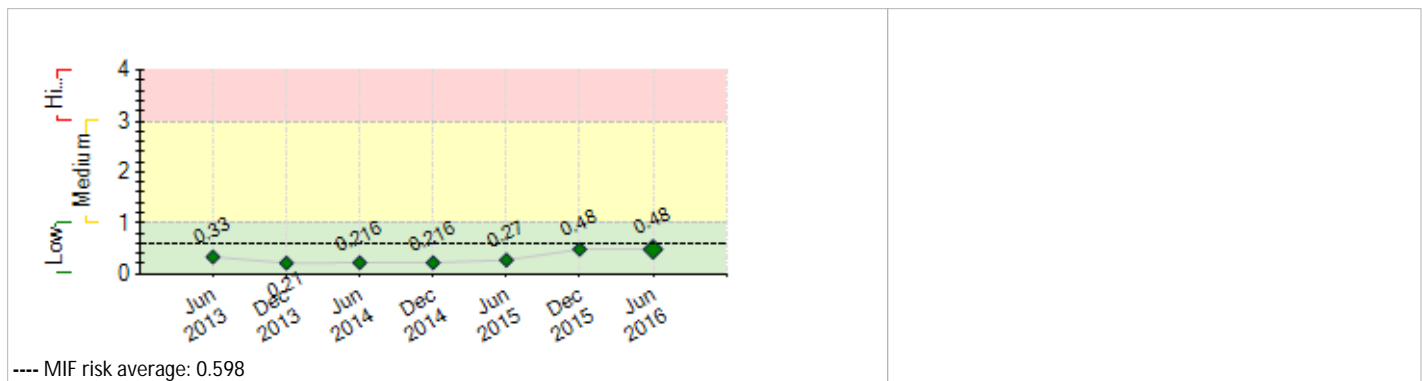


### EXTERNAL RISKS

#### INSTITUTIONAL CAPACITY

Risk

Financial Management:  
Procurement:  
Technical Capacity:



## SECTION 2: PERFORMANCE

### Summary of project performance since inception

The Project has been approved for an extension of 6 more months (until 20 Nov 2016), in which the main results achieved so far are: (i) 5 MFIs have completed ISPs and have given written commitment to the project; (ii) 8 MFIs have completed three year projections in Microfin, (iii) FODEMI has transformed into a regulated IMF in compliance with all local laws, and they are now ready to get their license to become a Bank, (iv) 1 rural savings product has been developed for one MFI (VFE), (v) 2 rural credit products that have been developed (still pending pilots) for DR and Perú.

On the other hand, the project encountered difficulties in the following tasks: (i) Delay in the disbursement Submission (ii) Complete 80% of the revolving fund. (iii) Delays in Mid evaluation and first Audit.

The main obstacles faced were: (i) Lack of support from the CEO of some participating MFI (ii) Change priorities in some goals from each MFI. (iii) Staff turnover in some key points to support the Project in VFI LACRO.

Through the end of the project, the Executing Unit will give special emphasis to the following critical actions: (i) submit reimbursements and funds justification (ii) Complete the Design of Internal Control Guidelines and A-MFI Manual preparation (iii) Procurement of Software (Mambu Project) ( CEC-701/2016 ATN/ME-13012-RG) (iv) Certification of 2 A-MFIs in Smart Assessment (Ecuador and Bolivia) (v) VF Ecuador's training center for clients and staff.

### Comments from the Supervision Team Leader

Agree with the Executing Agency comments

Since this project has been run by VFI network, the priorities are not the same for the MFIs. There has been limited time availability from MFI's CEOs and its personnel

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

The main achievements of the semester were: (i) One rural savings product has been developed for one MFI (Ecuador) (ii) 2 rural credit products have been developed for Dominican Republic and Peru. (iii) Training on Financial Planning across VFI LACRO (iv) Mambu Software Implementation it started in México, is still pending to do the same implementation y two more MFIs (v) Certification of 2 A-MFIs in Smart Assessment is on the way for Ecuador y Bolivia.

The audit and evaluation process of the project is starting.

In the next 5 months, the Executing Unit's efforts will be concentrated on: (i) Submit reimbursement and funds justification (ii) Audit and evaluations, (iii) Procurement of Software Mambu Project ( CEC-701/2016 for ATN/ME-13012-RG) (iv) VF Ecuador's training center for clients and staff.

### Comments from the Supervision Team Leader

Agree with the Executing Agency comments

The new financial products developed have not been implemented by the MFIs yet.

## 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 Nov 2015	53.43 Jun 2016	
	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	107481 Jun 2016	
	R.7	Aggregated number of active micro-borrowers	91152 Nov 2012	95710 Nov 2013	100495 Nov 2014	105520 Nov 2015	170420 Jun 2016	
	R.8	% of clients in RMU areas with active microcredit loans	46 Nov 2012	50 Nov 2013	55 Nov 2014	60 Nov 2015	53.43 Jun 2016	
	R.9	Aggregated number of RMU communities served (with >20 active borrowers).	100 Nov 2012	110 Nov 2013	120 Nov 2014	130 Nov 2015	0	
	R.10	Number of points of service (POS) in RMU areas	76 Nov 2012	80 Nov 2013	85 Nov 2014	95 Nov 2015	0	
	R.11	Maximum % of Portfolio at Risk (Weighted Average PaR30)	7 Nov 2012	6 Nov 2013	5 Nov 2014	5 Nov 2015	3.03 Jun 2016	
	R.12	Minimum % of women in client portfolio	60 Nov 2012	60 Nov 2013	60 Nov 2014	60 Nov 2015	67.14 Jun 2016	
<b>Component 1:</b> Loan for A-MFI intermediation  <b>Weight:</b> 40%  <b>Classification:</b> High Satisfactory	C1.I1	Accumulated Amount on-lent by VFI to participating A-MFIs from project funding (US\$ '000)	0 Nov 2012	1500 Nov 2013	3000 Nov 2014	4000 Nov 2015	3954 Dec 2015	Finished
	C1.I2	Accumulated Number of A-MFIs that Access Project Loan Funds	0 Nov 2012	4 Nov 2013	5 Nov 2014	7 Nov 2015	5 Dec 2014	Finished
	C1.I3	Minimum accumulated number of A-MFIs participating in project	0 Nov 2012	3 Nov 2013	5 Nov 2014	7 Nov 2015	7 Jun 2014	Finished
	C1.I4	Accumulated number of active clients that have received microcredit with loan funds	0 Nov 2012	3000 Nov 2013	5500 Nov 2014	6000 Nov 2015	5356 Nov 2015	Finished
<b>Component 2:</b> Strengthening managerial and operational capacities  <b>Weight:</b> 20%  <b>Classification:</b> Satisfactory	C2.I1	Number of qualifying A-MFI have been diagnosed and completed 3-year Individualized Strengthening Plans (ISP), which include detailed institutional and financial targets.	0			7 Nov 2015	7 Mar 2016	Finished
	C2.I2	Accumulated number of qualifying A-MFI have joined the project and signed agreements with VFI to implement their ISP	0	4 Sep 2013		7 Dec 2013	7 May 2013	Finished
	C2.I3	Participating A-MFI's have formally committed counterpart funds towards the implementation of their ISPs.				Nov 2013	Yes May 2013	Finished
	C2.I4	Minimum % of Board of Director (BOD) members, committee members and top executives of all participating A-MFIs that have received at least one session of training on corporate governance for microfinance institutions, covering identified disciplines	0			85 Nov 2015	85 Dec 2014	Finished
	C2.I5	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on risk management	0			4 Nov 2013	4 Dec 2013	Finished
	C2.I6	Minimum number of A-MFIs BODs have approved new or revised policies and manual(s) on internal controls	0 Nov 2012			4 Dec 2015		Delayed
	C2.I7	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	5 Nov 2014	Finished
	C2.I8	Minimum number of A-MFIs that have operational Internal Audit Departments, staffed by at least one (full-time) professional each.	0			3 Nov 2015	3 Jun 2016	Finished
	C2.I9	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	34 May 2014	Finished
	C2.I10	FODEMI is ready to meet regulatory requirements with Internal Controls, Internal Audit and Financial Services.				Nov 2015	Yes Jun 2013	Finished
	C2.I11	Financial Directors of all participating MFIs are able and prepare annual institutional financial projections in Microfin				Nov 2013	Yes Jun 2013	Finished
	C2.I12	% 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 Oct 2015	85 Sep 2015	Finished
	C2.I13	A-MFIs have approved internal policies to guide the pricing of their Credit/Financial Products				Nov 2015		Delayed
	C2.I14	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	51 Dec 2015	Finished
	C2.I15	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	7 May 2016	Finished
	C2.I16	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 Nov 2015	28 Oct 2015	Finished
	C2.I17	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 Apr 2016	3 May 2016	Finished
	C2.I18	Of the products, at least one is designed for agriculture financing and another (1) uses the individual credit					Yes	Finished

	methodology.					Jan 2016	May 2016	
C2.11	Minimum number of products that have been designed with corresponding Manuals of Policies and Procedures	0				2	2	Finished
9		Nov 2011				Jan 2016	Apr 2016	
C2.12	Minimum number of products have been piloted by at least 2 A-MFIs.	0				2		
0						Oct 2016		
C2.12	Minimum number of A-MFIs that have introduced at least 1 new credit product	0				2		
1						Oct 2016		
C2.12	Minimum number of rural savings products developed and piloted (for FODEMI to use after receiving license)	0				1		
2						Oct 2016		
C2.12	Accumulated number of products implemented & placed	0	1	3		6		Delayed
3		Nov 2012	Jan 2016	Aug 2016		Oct 2016		
C2.12	Accumulated number of POS with new rural products	0	6	12		20		Delayed
4		Nov 2012	Jan 2016	Aug 2016		Oct 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		Delayed
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:** 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				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	66.66	Delayed
			Nov 2014			Nov 2015	Jan 2016	
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	3	Delayed
						Nov 2015	Jun 2016	
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							Delayed
						Nov 2015		

**Component 4: Client Fidelity and Social Performance Management**

**Weight:** 10%

**Classification:** 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	6	Finished
						Nov 2015	Oct 2015	
C4.14	Number of A-MFI with >80% of branches reporting poverty scorecard results	0	4			7	6	Finished
			Nov 2014			Nov 2015	Oct 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	5	Delayed
						Nov 2015	Apr 2016	
C4.18	Minimum number of A-MFIs that obtained Smart Campaign certification	0				2		
		Nov 2014				Nov 2016		

**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:** Unsatisfactory

C6.11	A-MFI rating reports available on WVI/VFI intranet						Yes	Finished
						Nov 2014	Jan 2016	
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						Yes	Finished
						May 2015	Apr 2016	
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	May 2016	1	May 2016	Achieved

M6	[*] 3 MFIs will have functional MIS with integrated accounting.	3	May 2016	3	May 2016	Achieved
M7	[*] 3 rural credit products that have been piloted in three MFIs (minimum 1 per MFI).	2	May 2016	2	May 2016	Achieved
M8	Number of MFIs that complete training on Internal Control Guidelines	5	Nov 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. Credit risk. The financial income and recovery of the capital lent to VFI will depend largely on the quality of the investments, on the repayment capacity of the A-MFIs to which it lends in its second tier operations, and on VFIs net asset adequacy. Many of A-MFI's are not subject to external financial supervision. In addition, many A-MFIs operate in rural areas, which could add climate and other factors that affect production to the level of 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 Coordinator
2. Exchange risk. MIF's loan to VFI will be denominated in U.S. dollars. An exchange rate risk could arise if VFI loans and investments in A-MFIs lost value due to changes in foreign exchange rates. VFI operates in a number of countries, many of which use currencies other than U.S. dollars.	Low	To mitigate currency conversion risk in borrowing, VFI utilizes forward contracts arranged by World Vision's Treasury Centre (WVTC). WVTC is also able to take advantage of World Vision's non-credit operations in a number of countries where VFI operates to gain access to local currencies. At the end of 2010 and as to the most recent financial statements, an important portion of VFI's cash flows for loans made in a foreign currency were hedged. Diversification by countries and the use of a variable rate in their second tier operations is another strategy used to reduce this risk.	Project Coordinator
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 Coordinator
4. 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 Coordinator

**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:**

The Finances in VFI MFIs have shown improvements with sustainability in their portfolios.

The MFIs clients are trying to be integrated with National Offices of World Vision serving clients from ADPs and Rural areas.

MFIs Branches have invested on the quality of the facilities and the Operational stability look for sustainability and productivity in each IMF.

In the specific case of Ecuador, the institution is taking a big step to conversion into a Bank, which certainly is a great example in the region and shows a sustainability work, this example must be followed by the others MFIs in VFI LACRO.

## SECTION 6: PRACTICAL LESSONS

<p>1. The implementation of certain project activities faces with the strategic moment that the MFIs are going through. This has proved true regarding the product development and its implementation at MFI level. For instance, given that VFE is in a period where it has available liquidity it does not need to pursue the piloting of the savings product developed within the project.</p> <p>2. Staff turnover requires that project stops at some activities and not have the same continuity.</p> <p>3. The economic environment in each country and new laws for microfinance operations, require that project changes its logical framework and some components.</p>	Relative to Implementation	Author Hassenteufel, Hans
	Risk Implementation	Rea, Hugo Rea, Hugo