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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED

TECHNICAL ASSISTANCE GRANT

TO

**THE FOUNDATION FOR INTERNATIONAL COMMUNITY ASSISTANCE
INTERNATIONAL (FINCA INTERNATIONAL)**

FOR THE

REGIONAL CAPACITY-BUILDING PROGRAMME ON MICROCREDIT SYSTEMS



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ABBREVIATIONS AND ACRONYMS

CGAP	Consultative Group to Assist the Poor
FINCA (or FINCA International)	Foundation for International Community Assistance International
NGO	Non-governmental organization
PL	IFAD's Latin America and the Caribbean Division
RUTA	Regional Unit for Technical Assistance
TAG	Technical assistance grant
VBCF	Village Bank Capital Fund (of FINCA)



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I submit the following Report and Recommendation on a proposed technical assistance grant (TAG) to the Foundation for International Community Assistance International (FINCA International) to support the Regional Capacity-Building Programme on Microcredit Systems, in the amount of USD 600 000 for a three-year period.

I. BACKGROUND

1. IFAD's Microcredit Plan of Action (1997) recognized the importance of allocating up to 30% of the Fund's loan portfolio, equivalent to approximately USD 125 million per year, to promote financial services for the very poor, **especially women**, through the year 2005. It also acknowledged that to foster responsible and sustainable growth in the field of microfinance, there has to be a concerted effort focused on **capacity-building**, especially among local clients and the non-governmental sector; **innovative approaches** for achieving sustainability; and **dissemination of knowledge** on best practices. In order to attain these goals, IFAD committed itself to: (a) providing targeted grants for capacity-building and innovation; and (b) preparing an initiative for the generation and dissemination of knowledge on rural microfinance.

2. The Microcredit Plan of Action also calls for strengthening the organizational capacity of selected, highly promising microfinance-service providers and for assisting in establishing an organizational foundation for IFAD's larger-scale government loans. As part of this initiative, IFAD's Latin America and the Caribbean Division (PL) will strengthen its support for regional training and networking centres. PL will start by collaborating with FINCA International in the development of innovative models for rural financial services, especially microcredit, thus contributing to the incorporation of main findings in the design of future IFAD projects and to the exchange and dissemination of information from lessons drawn from similar ongoing grant operations.¹

II. RATIONALE AND RELEVANCE TO IFAD

3. **Rationale.** In Latin America today, microfinance institutions are growing but are as yet unable to meet rural microentrepreneurs' demand for financial services. These institutions are mainly NGOs, but also include credit unions, cooperative organizations, and a few commercial financial institutions. Their experience has shown that the poor are reliable borrowers, diligent savers, and committed partners in the development of their communities. The expansion of microfinance institutions has

¹ For example, the *African Regional Agricultural Credit Association* (AFRACA) and the *Caribbean Confederation of Credit Unions* (CCCU).



coincided with cutbacks in governments' and international donors' budgets, thus threatening the sustainability of such institutions unless strategies are implemented to enhance their capacity.

4. IFAD assistance would help to strengthen organizational capacity for delivering financial services to the poor throughout the region. FINCA International targets the same population as IFAD, i.e., very low-income rural residents, primarily women, who are trapped in severe poverty. The partnership with FINCA will: (a) help to reinforce IFAD's impact on its target population by increasing the quality, sustainability, and volume of financial services available to them; and (b) draw on the agencies' combined experience to disseminate best practices among practitioners, IFAD staff, and the staff of other donor/government agencies, mainly by establishing links with other development agencies and programmes in an effort to help shape donor policy in the region indirectly through the dissemination of results on the building of solid microfinance institutions.

III. FINCA INTERNATIONAL'S PREVIOUS EXPERIENCE

5. Founded in 1985, FINCA International is a tax-exempt, non-profit, private, voluntary organization with thirteen years of experience in financing microentrepreneurs and mobilizing savings in the developing world. Its mission is to support the social, economic, and personal development of families who are trapped in severe poverty. Using the **village-banking** methodology that it pioneered (see section IV, below), FINCA accomplishes its mission by creating and strengthening local institutions that provide basic financial services to very low-income entrepreneurs, primarily women. FINCA is currently present in eight IFAD-eligible countries in the Americas², and has provided more than 50 000 families with self-employment loans for amounts averaging less than USD 150. Despite the small size of these loans, the FINCA network lent over USD 20 million worldwide in working capital in 1997. The network consists of locally registered NGOs, and management of each of the affiliates has been transferred to local staff with ongoing technical assistance being provided by FINCA International.

6. FINCA's Latin American affiliates have historically been very successful in reaching the poorest sectors of the population. FINCA International has recently recognized the need to focus on **building financially sustainable, transparent institutions** that could have a potentially greater impact in the region. In 1995, FINCA created the **Central American Technical Assistance and Knowledge Centre** in Guatemala City. The centre, which is staffed with local experts, is part of FINCA's strategy for strengthening its affiliates in the region and offers technical expertise that is sensitive to the needs of the region and the individual countries in which FINCA operates. The centre is vital to achieving FINCA's medium-term objectives in the region, as well as its long-term goal of better serving the very poor.

IV. THE PROPOSED PROGRAMME

7. The proposed programme would use a **village-banking methodology**. Village-banking groups are community-based savings and loan associations. They typically consist of 25 to 50 low-income clients, mainly women, who are seeking to improve their quality of life through self-employment. Although FINCA provides the initial capital, the groups are member-run; they make decisions on membership, elect officers, establish by-laws, disburse loans, collect payments, and establish savings. Loans are backed not by goods or property but rather by moral collateral: the promise that the group stands behind each individual loan.

² Active affiliates have been established in Ecuador, El Salvador, Haiti, Honduras, Mexico, Nicaragua, and Peru, with a technical assistance and knowledge centre in Guatemala.



8. Village-banking groups lend in four-month cycles. Loans are repaid in weekly instalments of capital, interest, and savings. After the first cycle, loan amounts are pegged to savings: the more a member saves, the more she/he may borrow. By emphasizing savings, the programme promotes financial independence; over three years (i.e., nine loan cycles), the typical borrower accumulates USD 300 in savings, a level that ensures sustainable self-sufficiency.

9. Regarding the proposed programme, the FINCA Technical Assistance and Knowledge Centre has developed manuals and a methodology addressing the major issues involved in village-banking operations. These tools will be updated as needed to ensure a better fit with IFAD's activities.

V. IMPLEMENTATION ARRANGEMENTS

10. Based on the pooled experience of IFAD and FINCA, the proposed TAG programme focuses on two areas: (a) capacity-building, and (b) institutional strengthening. The Central American Technical Assistance and Knowledge Centre in Guatemala, with support from FINCA, would perform the activities described below.

Capacity-Building

11. **Regional training sessions.** Training will be provided in the form of workshops, seminars, and short courses on various operational, tactical, and strategic issues, including microfinance best practices, programme promotion, training of trainers, planning, and budgeting. Training activities will target IFAD's staff in the field, FINCA affiliates, and other identified intermediate organizations that work with IFAD's target group.

12. **Travelling workshops.** These workshops, which would not exceed one week in duration, will inform the field staff of participating institutions and FINCA affiliates about lessons learned and interim findings under the programme. An annual **brainstorming workshop** would be held jointly with the Consultative Group to Assist the Poor (CGAP), FIDAMERICA, and the Regional Unit for Technical Assistance (RUTA) regional programmes³ in order to capitalize on these programmes' findings and lessons learned. The idea would be to coordinate activities, exchange information and methods, find solutions to common concerns, and possibly undertake joint activities.

13. **Studies.** The centre will conduct specific studies for IFAD-supported projects and other successful experiences in the region as well as comparative studies with other regions. The purpose of the studies will be to explore and assess innovations and methodologies that have proven effective in enhancing sustainability and outreach and in reducing transaction costs.

14. **Dissemination of information.** The centre will distribute technical-assistance packages to FINCA affiliates and IFAD-funded projects addressing: (a) basic **operational** issues that could strengthen operational aspects of the organization, including management information systems and internal controls (accounting and administration); (b) **tactical/organizational** issues of field work and human-resource management; and (c) **strategic** issues, such as planning and control, financial management, resource mobilization, and expansion.

15. As part of the dissemination effort, the findings and lessons learned from the programme will be communicated to other countries and regions through the FIDAMERICA network.

³ Given the limited resources available, each agency (CGAP, FIDAMERICA, RUTA) would defray the costs for its own attendance.



16. **Pilot projects.** These projects will seek to strengthen monitoring and evaluation methodologies and other microcredit activities, focusing on sustainability, safety, soundness, and innovative mechanisms and tools that, if successful, could be replicated on a larger scale.

17. The arrangements for implementing the above-mentioned activities would be based on the demand expressed by FINCA's affiliates and the staff of IFAD-funded projects. The programme would be monitored regularly through: (a) **joint periodic supervision** by IFAD/PL and FINCA; (b) **annual work plans and budget**, to be reviewed and approved by IFAD; (c) **mid-year and annual progress reports** prepared by FINCA; and (d) an **evaluation mission** six months before programme completion, intended to evaluate the results obtained and make recommendations for the future. FINCA International will submit to IFAD annual reports prepared by independent auditors acceptable to the Fund.

Institutional Strengthening

18. This activity will include: (a) institutional development to ensure the sustainability of the FINCA Technical Assistance and Knowledge Centre network; (b) financial products and systems development; and (c) technical assistance missions to FINCA affiliates aimed at building programme capacity.

19. **Expected outputs and benefits.** By the end of the programme, the following products would be available: (a) IFAD's staff in the field, FINCA affiliates, and other intermediate organizations that work with IFAD's target group will have been trained in microfinance best practices; (b) a savings mobilization strategy will have been devised; and (c) a monitoring and evaluation methodology will have been prepared.

VI. ESTIMATED PROGRAMME COSTS AND FINANCING

20. The following table shows the programme costs and financing, including the estimated allocation of IFAD grant funds. The total cost of the programme would be USD 900 000 over a period of three years. FINCA would contribute USD 300 000 (USD 100 000 per year) from its own sources, equivalent to approximately 33% of the total. IFAD would cover the balance of USD 600 000 (USD 200 000 each year over the three-year period), or approximately 67% of the total. IFAD funds would be used for institutional strengthening (USD 325 000), training (USD 200 000), and pilot and other activities (USD 75 000).



ACTIVITY	IFAD (USD)	FINCA (USD)	TOTAL (USD)
I. CAPACITY-BUILDING			
1. Regional training			
Workshops/seminars	75 000	-	75 000
Courses	50 000	-	50 000
Travelling workshops	45 000	-	45 000
Studies	60 000	-	60 000
2. Communication			
Publication/dissemination	20 000	-	20 000
Pilot projects	50 000	-	50 000
Subtotal	250 000	-	250 000
II. INSTITUTIONAL STRENGTHENING			
Institutional development	200 000	100 000	300 000
Financial products/systems development/updating	65 000	200 000	265 000
Equipment and supplies	10 000	-	10 000
Technical assistance missions	50 000	-	50 000
Subtotal	325 000	300 000	625 000
III. CONTINGENCIES			
	25 000	-	25 000
TOTAL COST	600 000	300 000	900 000

VII. RECOMMENDATION

21. I recommend that the Executive Board approve the proposed technical assistance grant in terms of the following resolution:

RESOLVED: that the Fund, in order to finance, in part, the Regional-Capacity Building Programme on Microcredit Systems, for three years, shall make a grant not exceeding six hundred thousand United States Dollars (USD 600 000) to the Foundation for International Community Assistance International (FINCA International) upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



EXPECTED OUTPUTS AND BENEFITS

1. By the end of the TAG programme, the following products will be generated:
 - (a) More extensive and sustainable coverage of financial services for programme beneficiaries;
 - (b) IFAD's staff in the field, FINCA affiliates, and other intermediate organizations that work with IFAD's target group will have been trained in microfinance best practices;
 - (c) a savings mobilization strategy;
 - (d) a monitoring and evaluation methodology.
2. More specifically, the expected outputs are:

At the operational level:

- (a) **A management information system.** Technical assistance will be provided for an initial evaluation of internal controls, adaptation and setting up of the system, supervision of basic data entry, staff training, setting up of quality and security controls, support for interpreting data, and product support. Each participating organization will be given a set of the system's operations manuals.
- (b) **Accounting rules and regulations and policy manuals,** including an accounts catalogue, accounting policy, accounts and transaction instructions, internal control, and accounting and financial management. Policy manuals will be modified in order to better reflect IFAD's microcredit operations.
- (c) **Administrative procedures and policy manual,** including procurement procedures and policy, purchase of fixed assets, current account and petty cash management, vehicle and per diem controls, etc. Technical assistance will be provided for the distribution of an updated version of the manual that reflects IFAD's operations.
- (d) **Internal control manual.** An initial evaluation will be performed of the organization's internal controls, and a customized manual will be distributed for their implementation.
- (e) **Internal audit manual.** This activity will entail the distribution of the manual, a training workshop that addresses planning, working papers, field audits, credit audits, report formulation, monitoring, and implementation of the manual.

At the tactical level:

- (a) **Institutional and financial evaluation manual.** This manual will be distributed along with evaluator guidelines; staff will be trained in its interpretation and use; and an initial evaluation will be performed to provide a diagnosis and training of staff.
- (b) **Village-banks manual,** to be used for the supervision and training of village banks. The manual will contain guidelines, procedures, and recommendations for field promoters and supervisors. Technical assistance will be provided for the distribution of the updated



APPENDIX I

manual and the workshop to train field staff; monitoring and training visits will also be conducted.

- (c) **Village-bank credit and collections manual**, containing credit guidelines and regulations, specifically on forecasting, promotion, transactions, assessment, and approval methodologies. The manual will also cover supervision, collection, management of default cases, legal collection, and portfolio reorganization, and it will provide a methodology for assessing village banks based on credit risk. The manual will be updated to better reflect IFAD's operations.
- (d) **Microcredit and collections manual**, covering the analysis, approval, and administration of loans for amounts of more than USD 500. The manual will include credit guidelines, supervision, and loan collection mechanisms. Technical assistance will be provided for the distribution and implementation of the manual to microcredit officials, as well as the organization of a training workshop and a monitoring workshop.
- (e) **Village-bank administration manual**. This manual is intended as a tool for the boards of directors of village banks. Technical assistance will be provided for the manual, workshops, and other training activities.
- (f) **Organizational and operations manual**, containing the organizational structure and description of positions within the organization.
- (g) **Staff incentives manual**, explaining the methodology for planning and implementing staff incentives. The manual and plan will be presented and explained at a seminar/workshop.

At the strategic level:

- (a) **Strategic planning manual**. Technical assistance will be provided for distributing the manual and strategic plan, preparing long-term forecasts (using the model), and lending advice on the preparation of the organization's strategic long-term goals and objectives.
- (b) **Operations and budgetary planning manual**. Activities in this area will include distribution of the manual, generation and use of annual budgetary estimates (using the model), preparation of a plan of work, and advice on the preparation of operational documents, including annual goals and operational policies that are in line with IFAD's microcredit operations.
- (c) **Financial management manual**, containing a financial-monitoring model written in Microsoft Excel and linked to the operations planning model. The model will allow for monthly monitoring of financial and operational issues that are of importance to the institution, as well as monthly variations in the plan of work and budget.
- (d) **Re-engineering**. Thirteen different operational processes will be evaluated. Technical assistance will be provided to explain the scope of the work and lend support in the selection, direction, and supervision of re-engineering work, group debates, and preparation of final reports and the design of the implementation plan.



Programme Monitoring and Supervision

3. The programme would be monitored regularly through: (a) **joint periodic supervision** by IFAD/PL and FINCA; (b) **annual work plans and budget**, to be reviewed and approved by IFAD; (c) **mid-year and annual progress reports** prepared by FINCA; and (d) an **evaluation mission** six months before programme completion, intended to evaluate the results obtained and make recommendations for the future. FINCA International will submit to IFAD annual reports prepared by independent auditors acceptable to the Fund.

4. **Performance indicators** would include: (a) achieved targets *vis-à-vis* planned targets in terms of depth and breadth of outreach; (b) number of participating staff and institutions; (c) cost per unit of training and beneficiary; and (d) FINCA's overall financial performance.

Programme Benefits and Beneficiaries

5. The programme will enable FINCA's affiliates and the microcredit institutions that are supported by IFAD projects to increase their outreach by providing them with technical support through the **Central American Technical Assistance and Knowledge Centre**. The grant will allow FINCA to focus on innovative instruments and their sustainability as well as management practices and policies that have proven effective in promoting participation of the rural poor in rural finance programmes, thus increasing outreach and sustainability and raising the rural poor's standard of living. The programme will develop replicable best practices as part of its emphasis on learning and through skills development in the area of financial services for the rural poor, and it will help to incorporate the lessons learned in the design of future IFAD projects, i.e., what works and what does not work in microfinance.

6. The proposed TAG will strengthen IFAD's role as a knowledge organization by intensifying efforts to share the lessons learned from its own experience and to capture and use the insights and knowledge gained by others. The programme would be part of IFAD's efforts to use its resources as a catalyst, working with other donors to build upon proven innovations in the field and create linkages between innovative projects that serve poor clients and resources from the formal sector. Publications, expert and practitioner workshops, training sessions, and information technology would be used as dissemination tools. This knowledge-generation and dissemination function would provide a means for IFAD staff and other participating institutions to tap into the wealth of information being generated on microfinance policies and practices. In this regard, the TAG programme would dovetail with the knowledge-building efforts of other donors, such as CGAP and RUTA. The TAG will also facilitate the convening of conferences and workshops on key topics related to advancing awareness of best practices in rural finance, especially microcredit.

7. **Beneficiaries.** The programme will produce a significant and measurable impact on IFAD's rural poor beneficiaries by generating findings and recommendations in the short to medium term that will benefit IFAD's target population, especially women, in the form of enhanced outreach and effectiveness of microfinance institutions. Training activities will target IFAD's staff in the field, FINCA affiliates, and other identified intermediate organizations that work with IFAD's target group.



APPENDIX II

FINCA'S OBJECTIVES FOR FISCAL YEAR 1998

1. FINCA will continue to develop and refine its operating system throughout the 1998 fiscal year. Specifically, it is moving as quickly as possible to identify and install more sophisticated management information systems. The system installed in Mexico will be installed in Ecuador next. At the same time, a different English system (created by NCR) is being tested in Malawi. FINCA's strategy is to test and evaluate a limited number of alternative systems that can be installed and supported locally. Ultimately, these systems will be evaluated and a decision will be made on whether to choose one for a network-wide system. The central goal continues to be that all affiliates should have a cost-effective data processing system that meets local management needs and network reporting and control requirements.
2. As for other systems and manuals, seven more manuals will be completed in the coming fiscal year:
 1. Start-up manual
 2. Internal control manual
 3. Organization and function manual
 4. Regional office management manual
 5. Promoter incentive manual
 6. Village-banking credit manual
 7. Credit manual for slightly larger microcredit loans
3. Existing operating manuals will be updated, and FINCA will develop and implement a policy on changes to the operating system and methodology.

Monitoring and Evaluation

Accomplishments

4. In the 1997 fiscal year, FINCA completed its comprehensive evaluation framework, the FINCA Diagnostic Tool. This tool is used to evaluate programmes periodically and to qualify programmes for credit enhancements from the Village Bank Capital Fund (VBCF). Honduras has already been evaluated and will soon qualify for the first VBCF enhancement under FINCA.
5. Last year, FINCA conducted internal audits in the Dominican Republic, Ecuador, Honduras, Mexico, Nicaragua, Peru, and Uganda. It currently collects, distributes, and analyzes financial statements monthly for all programmes. In addition, it has developed a new delinquency and reserve policy, tracking tools for grants and programme reporting, and a monthly budget variance report for each affiliate. FINCA has also developed and tested a new financial performance reporting format (FINTRACK) that is to be introduced in FY98.



FY 98 Objectives

6. Six programmes will be evaluated using the FINCA Diagnostic Tool; if qualified, two will receive a VBCF credit enhancement. All FINCA affiliates will implement the financial management tool introduced in the financial management manual. This tracking system should allow affiliates to better monitor their financial position and thus enable the entire network to be more proactive in its programme management.
7. As affiliates grow and introduce more sophisticated financial products, FINCA's internal audit function will take on growing importance. While the internal audit department has improved significantly over the last year, more staff will be added in the coming years to keep pace with the growing demand for field audits.

Technical Assistance and Training

Accomplishments

8. The Central American Technical Assistance and Knowledge Centre provided high-quality technical assistance in FY97 that helped to strengthen and consolidate the network. The centre has focused on strategic and operations planning, sophisticated financial projections for managing growth, improved financial management practices, and re-engineering of CAM/El Salvador, FINCA's largest programme.
9. FINCA International improved its coordination with affiliates' boards of directors during FY97. It developed and implemented guidelines for scheduling board meetings and delivering materials in order to provide for adequate review periods by both programme staff and board members.
10. The first two editions of the newsletter for FINCA International affiliates, *FINCA Network News*, were printed and distributed in December and July. The newsletters were published in English and Spanish and featured a programme profile, changes in FINCA staff, and discussion of a specific technical issue. The newsletter has already proven to be a useful tool for exchanging information on best practices across the network.
11. The FY97 Directors Conference will long be remembered as the juncture at which FINCA International visibly and tangibly redefined its relationship with overseas staff and affiliate directors. The conference was well organized and executed, presenters and participants were well prepared, and the agenda was very interesting. Topics included: innovations from the field, credit methodology and marketing to clients, managing internal accounts, financial management, management information systems, impact evaluation, and access to capital for microcredit programmes. The end result of the conference was that it strengthened the meaning of being part of the FINCA network. Participants joined FINCA International in its mandate to develop a leading microfinance network that sets standards for high-quality programmes and helps affiliates meet those standards.
12. FINCA held an internal audit seminar for its Latin American affiliates at which the new internal audit manual was introduced. A regional strategic planning conference was also held to provide training to directors and financial managers in the strategic projections, operating, and financial models. The Central American Technical Assistance and Knowledge Centre produced two technical documents for network-wide distribution: *Safety of Savings and Internal Accounting in Village Banking* and *Regulation of Financial NGOs: Impact and Strategies*.

**APPENDIX II**

13. During the last year, seven affiliates developed or updated their strategic plans: Kyrgyzstan, Uganda, Honduras, CAM, Peru, Mexico, and Nicaragua. The Central American Technical Assistance and Knowledge Centre provided extensive training to the five Latin American affiliates in how to create operating plans using FINCA's operations planning and budgeting model. These affiliates also fully implemented the FOS accounting and administration manuals, along with the financial management manual and its corresponding model. In addition, the centre provided assistance to affiliates in bonding local managers. Examples of the specific financial management consulting services provided by the centre for each MGII affiliate are detailed below.

FINCA Nicaragua

14. With assistance from the Central American Technical Assistance and Knowledge Centre, FINCA Nicaragua implemented its administrative procedures manual for operations. The centre also helped the programme to implement changes in response to the external audit and the United States Agency for International Development (USAID) reconciliation report. Further refinements were made to the FAFS to enable the system to calculate accrued interest, electronically correct deficiencies in the calculation of interest earned, and track fixed assets. An evaluation of the first regional office, located in Masaya, was conducted. The integration of the balance sheet account was successfully completed. The programme's internal controls were monitored for effectiveness on a continual basis.

CAM/El Salvador

15. With assistance from the Central American Technical Assistance and Knowledge Centre, CAM/El Salvador created and implemented a new format for portfolio quality reports to more closely monitor CAM's product lines. The programme also developed new instruments for the analysis of loan disbursements, loan requests, and credit administration and recovery. CAM conducted a client satisfaction survey of active and retired clients for its re-engineering process. The centre analyzed the data gathered by the surveys and conducted training seminars for staff working groups in order to facilitate discussion. In addition, the centre assisted with the hiring of a regional director for the San Miguel office, improving the quality of technical documents for the board of directors and general assembly, and developing strategies for the loan recovery process.

FINCA Honduras

16. With assistance from the Central American Technical Assistance and Knowledge Centre, FINCA Honduras improved its projections for growth based on the organization's performance in 1996; it reconciled its bank accounts through August 1997; liquidated interfund accounts; designed standard procedures for the subsequent steps of the reconciliation process; improved financial reporting to the board of directors; upgraded portfolio and accounting system procedures; implemented the field- personnel incentive plan; installed the FAFS in the regional offices; and made enhancements in the reporting system. In addition, consultations were conducted with USAID/Honduras to define the criteria for FINCA Honduras to become a regulated financial intermediary. Finally, FINCA Honduras successfully completed an evaluation using the FINCA Diagnostic Tool and is slated to become the first affiliate to receive a credit enhancement from the VBCF.

FINCA Mexico

17. During the last year, with assistance from the Central American Technical Assistance and Knowledge Centre, FINCA Mexico reconciled its accounting balances through December 1996;



implemented a new chart of accounts; generated long-term financial projections; effectively monitored the external audits and reports required by its grants; purchased the hardware necessary for implementing the new FAFS; and installed the new FAFS, which is currently running in parallel with the old system.

FINCA Ecuador

18. With assistance from the Central American Technical Assistance and Knowledge Centre, FINCA Ecuador analysed its financial status and the viability of its long-term sustainability; it developed a strategic plan, long-term financial projections, an operating plan, and an annual budget; and submitted several successful proposals for additional funds from USAID.

FY 98 Objectives

19. FINCA International will develop and distribute performance standards for FINCA programmes. With all affiliates completing their operating plans, FINCA will now track monthly and quarterly performance against these plans for all affiliates. Affiliates will use the same reports for both the local boards and FINCA International. By the end of FY98, FINCA will have linked all performance plans for country directors and executive directors to their programmes' operating plans. Building on the board coordination implemented in FY97, FINCA will counsel local boards as to meeting content, i.e., what should be presented and when. Finally, in FY98, FINCA International will organize another network-wide conference and two regional conferences.

Financial Services

Accomplishments

20. In FY97, VBCF was established in order to provide FINCA affiliates with a powerful combination of loan guarantees and technical assistance enabling them to obtain commercial lines of credit as a means of financing their portfolios. The structural and legal issues precedent to the first credit enhancement have been substantial. After almost a year, the VBCF governance and management structure is in place, the legal work is largely complete, a comprehensive VBCF manual has been prepared, and the first credit enhancement should be in place before the end of the calendar year.

FY 98 Objectives

21. In FY98, Honduras and two other programmes will receive credit enhancements through the FINCA Village Bank Capital Fund.