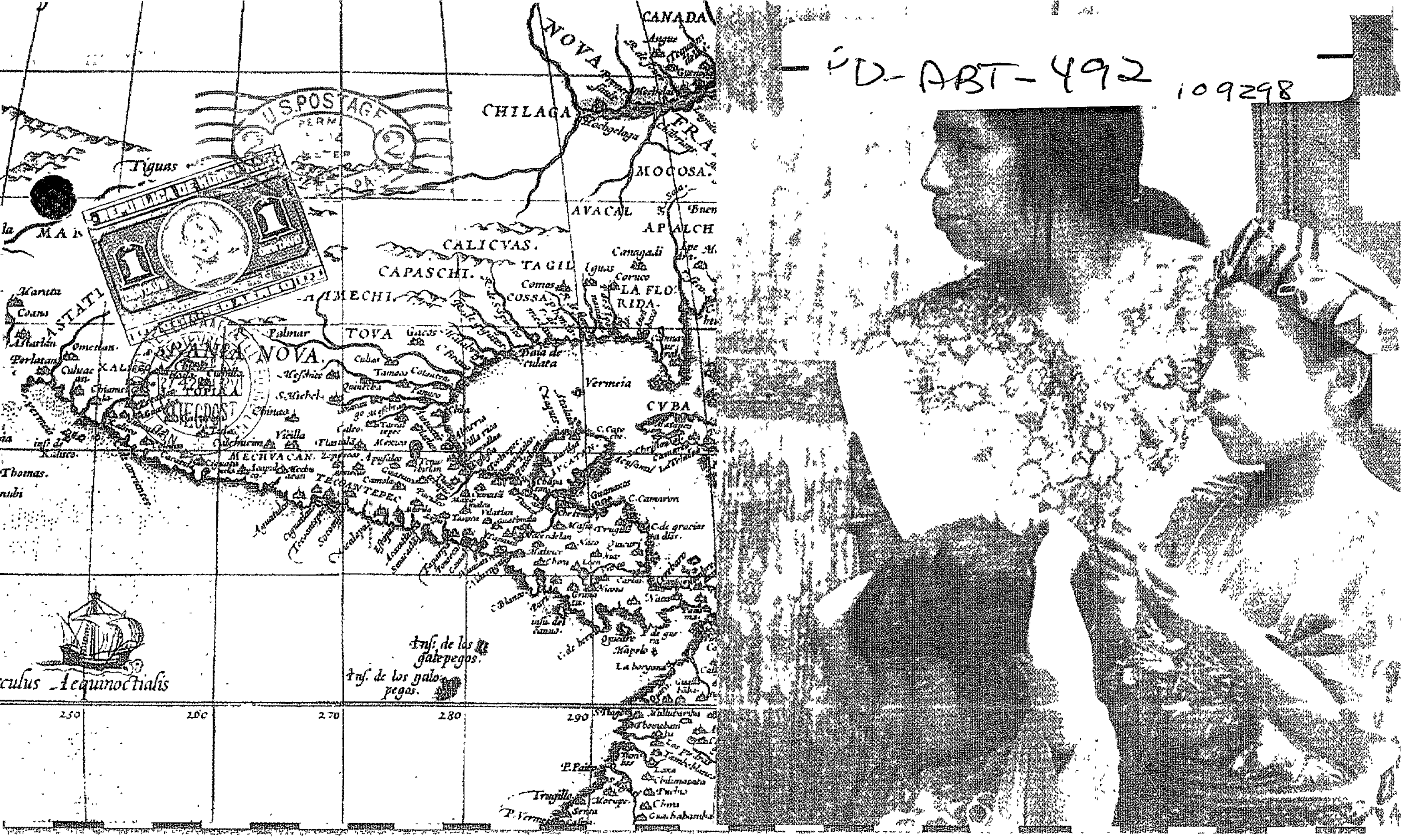

PD-ABT-492 109298

KATALYSIS PARTNERSHIP Bootstrap Banking™:

Putting Poverty Out of Business

USAID IMPLEMENTATION GRANT PROGRAM
Microenterprise Innovation Project
Account Number: 729/01096-LCA99925522KG13

Semi-Annual Report
October 1, 2000 – March 31, 2001

Katalysis Partnership, Inc.
In conjunction with
Familia y Medio Ambiente (FAMA)

USAID IMPLMENTATION GRANT PROGRAM
Microenterprise Innovation Project
Account Number: 729/01096 – LCA99925522KG13
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FAMA-MIP PROJECT

Semi-annual Report October 1, 2000 - March 31, 2001

A. GRANT SUMMARY AND BACKGROUND

In October of 1999, Katalysis Partnership, Inc. received its second grant from the USAID Implementation Grant Program (IGP) for the amount of $861,004 to fund FAMA's expansion and sustainability strategy and Katalysis Regional Field Office, for its direct technical assistance to FAMA. Over the life of the grant, Katalysis is to receive $322,118 to provide technical assistance and training to FAMA. The remaining $538,886 is to capitalize FAMA's credit fund ($397,613) and finance some of FAMA's operating costs ($141,273). In order to insure FAMA's professional management and technical competence, IGP and Katalysis agreed that the budget allocation would be modified to provide for more strategic institutional strengthening as opposed to increased credit funding. Together, FAMA and Katalysis will contribute matching funds totaling $215,351.

With the support of the USAID/IGP Katalysis and FAMA plan to achieve a greater outreach to low income Central American families to improve their economic and social conditions while reaching the full financial sustainability of FAMA.

Background on Katalysis and FAMA

Since its founding in 1984, Katalysis has been committed to advancing entrepreneurial solutions to the problems that underlie poverty and providing low-income populations in developing countries with tools to improve their economic and social conditions. Katalysis is best known for pioneering a dynamic model of microcredit Partnership with local NGOs in four Central American countries. This model advances the common development goals, strengthens the sustainability of each Partner institution, and creates a southern-based lateral learning environment. Katalysis started its microcredit program with its Honduran Partner ODEF in 1989 and, since then, has expanded it to eleven Partner organizations in three additional countries: Guatemala, El Salvador, and Nicaragua.[1]

In 1996, Katalysis received its first IGP grant of $853,467 to fund ODEF's expansion and sustainability strategy and the Katalysis Regional Field Office (RFO) in Honduras for its direct technical assistance to ODEF. The grant has significantly enhanced ODEF's institutional capacity for increased scale and scope of its poverty lending program and has contributed to a deeper understanding of the challenges and opportunities of focused microcredit programs within the Partner network.

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[1] Honduras: ODEF (Organization for Women's Enterprise Development); FAMA (Family and the Environment), World Relief (Probationary)

Guatemala: MUDE (Women in Development); CDRO (Cooperative Association for Western Rural Development), Genesis Empresarial (probationary.)

El Salvador: PROCOMES (Corporation of Community Projects in El Salvador); ASEI (Salvadoran Association of Business Extensionists)

Nicaragua: FUNDACION LEON 2000; FUNDENUSE (Foundation for the Development of Nueva Segovia), ACODEP (Association of Small Business Consultants (Probationary)

Sparked in part by ODEF's high performance and the obvious growing client demand for microcredit services, the Katalysis Partnership made a strategic decision to focus exclusively on microcredit in 1996. At the RFO, a full complement of competent and experienced technical staff is in place, who provide technical assistance to Partner organizations on an ongoing basis and in a timely manner. It is this technical capacity based in the region that positions Katalysis for strategic intervention at the Partner level; staff are from the region, are familiar with the local context and are fully aware of the strengths and weaknesses of each Partner organization. A Program Development Director at headquarters provides the critical link between the microfinance community in the US and the Partner network, ensuring the timely transfer of relevant information and innovative technologies.

Based on Partner needs and microcredit industry standards and best practices, Katalysis has developed a "package" of products and services designed to advance its Partner organizations along the standard continuum of sustainability for maximum output and efficiency. With technical assistance from the RFO microcredit team all Partners are now striving to comply with industry best practices, applying MicroCAMEL indicators to improve management, have strategic plans with corresponding financial projections in place, and, by the end of FY 2001, all Partners will have integrated MIS installed and operating.

FAMA (Familia y Medio Ambiente), Katalysis' second Honduran Partner, joined the Partnership in November 1996. At that time, FAMA was reaching 2,068 clients with a loan portfolio of $125,000 and its financial self-sufficiency rate was at 21.3%. After joining the Katalysis network, FAMA enthusiastically participated in the full range of technical assistance and training services available to members of the network. In addition, FAMA benefited from participation in the partnership-wide IDB/MIF, AID Matching Grant, and World Bank/CGAP programs. By March 31, 2001, FAMA had a client base of 4,082, a loan portfolio of $498,700.00, and had reached 88.7% operational sustainability and 77.8% financial sustainability.

Program Description

1. Program Goal

The goals of this project is to assist *Familia y Medio Ambiente* (FAMA), located in Juticalpa, Olancho, Honduras, to successfully follow its business plan for reaching full financial sustainability while significantly expanding its outreach and pursuing its quest for organizational excellence.

2. Program Purpose

The purpose of the project is to strengthen FAMA's management, administration, and credit delivery systems, while increasing covering operating costs (both administrative and financial) from earned income. Specific areas of emphasis has been focused on the improvement in information quality and deepened staff expertise, including hiring an MIS specialist and a microfinance specialist. Throughout this period of institutional capacity building, FAMA has methodically increased its outreach; during the project period, FAMA's client base will increase from the end of FY 99 level of 4,448 to 8,403 by the end of the grant period.

3. Program Objectives

a) Financial

- Annual plans with the following tools: cash flow statements, income statements, balance sheets, and budgets designed to facilitate the adequate administration and use of resources so that institutional goals can be met.
- Establishment of specific annual goals for operational and financial self-sufficiency to be applied to all levels of the organization. By the end of the year 2002, FAMA will have achieved 100% self-sufficiency.
- Adequate resources for the loan portfolio and planning for accessing commercial sources.
- Interest rates and fees that will cover operating costs, maintain the portfolio value, and lead to full profitability within the projected time frame.
- Strict control of the loan portfolio by optimal utilization of an adequate MIS system. FAMA will set a goal of portfolio-at-risk at less than 5% within the first 12 months of the project and will maintain a loan loss reserve based on the real risk of default.
- More optimal use of resources not assigned to the loan portfolio through improved investments that will yield higher rates of return without increasing the risk to the institution.

b) Non-Financial

- A properly constituted, well-trained, committed and active Board of Directors.
- A group lending methodology that meets the evolving needs of clients and assures institutional solidity.
- Improved MIS capacity and staff adequately trained in its utilization.
- Human resources policies that include in-house training, an incentive system, compensation adjustments, and greater participation and integration of staff teams in each region.
- Hiring of an MIS expert and a credit expert and contracting of short-term or long-term consultants leading to improved human resource utilization and lower turnover.
- Contracting of two short-term consultants to improve the training materials.

c) Technical Assistance provided by Katalysis

The Katalysis technical team based at the Regional Field Office (RFO) in Tegucigalpa, Honduras, will provide training and technical assistance to FAMA staff members in order to improve the organization's administrative and technical capacity so that performance and financial goals of the project can be met. Specifically, Katalysis will:

- Provide staff development training to FAMA staff in the areas of strategic planning, financial management, credit administration, and other topics required to strengthen the institution and services.
- Support and guide FAMA in improving its human resources management capacity and reducing staff turnover via:

- Conduct a brief study of competitive compensation packages for new and existing staff,
- Develop and implement performance incentive programs and fraud prevention tactics,
- Provide guidance in recruiting, training, and retaining qualified microfinance professionals, including but not limited to, MIS experts, microcredit specialists, credit coordinators, and promoters,
- Conduct joint training sessions on "total quality management" and human resources development, and
- Provide annual consultations to the Executive Director and to the Board of Directors of FAMA on personnel performance, trends, and industry standards.
- Support FAMA on the expansion of group lending activities through training in solidarity group methodology; facilitating the training and the hiring of a solidarity-group, credit coordinator; assisting with market research for new product development; guiding the preparation of audio-visual and training materials; and encouraging exchange visits and joint training opportunities at other institutions such as Genesis Guatemala (not specifically funded by this cooperative agreement), and
- Advise FAMA on strengthening the business training modules and on improving training materials.

B. REPORT NARRATIVE

Grant Performance October 2000 - March 2001

The last six months have been a time of challenges for FAMA. In the last quarter, the installation of the Soft Corporation's Management Information System, serious weaknesses in the organization's loan portfolio were brought to light. As a result of the new data generated by the MIS, FAMA was forced to write off loans valued at 1,049,188 Lempiras (US$69,879), thereby reducing the organization's equity by 40%. Although the new MIS allowed FAMA to more accurately track its loan portfolio, the extent of loan delinquency revealed by the new system clearly indicated that the organization faced problems that ran much deeper than the inadequacy of the previous information system.

The MIS also illuminated the weakness in the administration of FAMA and the Executive Director was asked to step down in September by the Board of Directors. The President of the Board, Eloisa Acosta, stepped in and began a rigorous overhaul of FAMA.

The Key Program Indicators listed in the table below are considered to be particularly important measures of program progress. Despite the set back during the last reporting period, the new leadership and the intensive Technical Assistance provided to FAMA by Katalysis have placed it in a position to meet its original projected goals and in some cases supercede the projected goal.

INDICATORS	GOALS Year 2	Results 04-09/00	Results 10/00 – 03/01	Level of Completion
Number of Active Clients	**6,504**	3,218	**4,082**	**62.8%**
Value of Loans Outstanding (000 Lps.)	**11,050**	6,957	**7,600**	**68.5%**
Portfolio at Risk (> 30 days)	**5%**	7.6%	**4.9%**	**102.0%**
Loan Loss Rate	**3%**	17.9%	**1.1%**	**163.3%**
Return on Operations	**87%**	52.5%	**74.6%**	**85.7%**
# of Credit Promoters	**17**	12	**15**	**88.2%**
Clients/Promoter Average	**383**	268	**272**	**71.0%**
Credit Promoters as % of Total Staff	**55%**	41.4%	**53.6%**	**97.5%**
Operating Expense Ratio	**30%**	37.1%	**36.7%**	**-22.3%**
Clients Retention or (Desertion) Rate	**83%**	20.8%	**69.0%**	**83.1%**

Lps. 15.2823=1US$

During this period after the large portfolio write-off in the last reporting period, FAMA has significantly increased the number of active clients from 3,218 to 4,082, fulfilling the programmed goal by 62.8%, demonstrating that it is clearly back on the road of recovery and growth. The increase in clients has increased the portfolio. All of this is a result of the promotion program developed by the Executive /director. She hired promoters who were responsible for entering new territories and getting new village banks started. They were given a quota, and they all met the quota, some even went over and above their quota. This was accomplished by the remarkable leadership style of the Executive Director who monitored each promoter intensely and had regularly meetings to ensure that set goals were met.

FAMA has successfully reduced the portfolio at risk rate from 7.6% to 4.9%, surpassing the programmed goal by 2%. This result is due to the stronger portfolio management actions implemented by FAMA with the close support provided by Katalysis specially regarding portfolio supervision, the credit staff incentive plan implementation, and delinquency rate control and monitoring. As part of the monitoring plan, the Executive Director went to the clients' place of work and educated the clients directly that if they did not pay back their loans, the whole of the community would be affected because the loans would not be available. This brought many delinquent clients to the office to pay off their loans.

FAMA's loan loss rate was reduced from 17.9% to 1.1%, surpassing the programmed goal by 63.3%. This is result of effective loan analysis including better clients prospecting and payment capacity analysis. FAMA has 15 credit promoters to serve its total clientele, fulfilling the programmed goal by 88.2%. Each promoter manages an average of 272 clients, amount that is lower than the expected goal of 383, fulfilling the goal only by 71%. FAMA's operating costs were slightly reduced from 37.1% to 36.7%, still impacting negatively the programmed goal by -22.3%. This result is due in part to the fact that FAMA has not effectively reached the self-sufficiency levels of its branch offices and training center, which do not produce sufficient operating yields. In this sense, Katalysis will support FAMA in designing policies to fully cover such branch expenses.

The work of FAMA's credit supervisors has been concentrated in orienting and verifying that the credit field staff implements effectively their functions based on the methodological policies and the microcredit best practices. This close field supervision has helped to maintain low levels of delinquent portfolio rate, and a growing clientele trend, which has also allowed reaching a clientele retention rate of 69%, fulfilling the programmed goal by 83.1%. FAMA will continue improving its client prospecting practices through training and strong supervision.

During the next few months, Katalysis will be monitoring the progress of the management systems that have demonstrated their success in turning around FAMA in this current quarter in comparison to where it was last quarter. (See Annex 1 for the Financial Activity Report – Table 1 which covers this quarter.)

C. PROGRAM ACTIVITIES DURING THE REPORTING PERIOD

Because of FAMA's poor performance during the last reporting period, Katalysis has made extraordinary efforts to help FAMA reorganize itself and strengthen its credit programs. The various forms of technical assistance offered by Katalysis are summarized below. (See Annex 2 for the Activity and Financial Report – Table 1.)

1. *Strategic Planning*

- **Strategic Plan**

During this period, Katalysis has provided follow-up to FAMA's FY01 strategic plan to allow an effective implementation of the working activities.

- **Annual Operative Plan (AOP)**

Katalysis provided follow-up to the implementation of FAMA's FY01 Annual Operative Plan including the Budget, Cash Flow and Financial goals. In this sense, FAMA has elaborated Quarterly, monthly and weekly plans corresponding to the first and second quarter of FY01, which have been monitored and evaluated by FAMA´s executive staff in order to measure progress and take corrective steps in a timely manner, to reach the programmed institutional goals.

2. *Financial and Accounting Management*

- **Financial-Accounting information**

During this period, FAMA hired an Accounting Specialist to reconciliate the portfolio and accounting data for the years 1999 and 2000. As of March 31, 2001, FAMA has re-conciliated the portfolio and the accounting modules dated as of July 2000. Early during the next period, FAMA expects to have these modules and the inter-fund accounts reconciliated to have more accurate financial statements.

Once the modules are reconciliated, FAMA will conduct an external audit for the year ended December 1999 and 2000.

♦ **Access to Funding**

During this period, Katalysis submitted a proposal to the AID/MG Program (MG4), which included FAMA. FAMA also has accessed a credit line from Fundación Covelo for a total of Lps. 1,000,000 ($65,400) to satisfy the credit demand especially before the Easter season.

3. Credit Management

♦ **Loan Portfolio Control and Monitoring**

During this period as stated, Katalysis continued providing technical assistance, managerial advisory, close follow up and monitoring of FAMA's credit programs′ management and control, through site visits made by the Microcredit and Microfinance Specialists in order to guarantee that FAMA continues applying the appropriate loan disbursement and collection procedures and to continue improving the financial indicators, overall.

Katalysis supported FAMA in reviewing and adjusting the Community Banking methodology. In this sense, FAMA and Katalysis elaborated the Trainers Methodological Guide including its objective, promotion, organization, monitoring and follow-up, with the corresponding control formats, to train the credit promoters in implementing their work in a more systematic and professional manner for the effective implementation and control of this lending program.

Katalysis has also supported FAMA in reviewing the pedagogic visual aid materials elaborated by the Pedagogic Specialists to improve the formation of solidarity groups. In addition, Katalysis provided training to FAMA's new Executive Director regarding the use of the MicroCamel indicators, which will allow her to calculate and analyze the financial situation of the Organization and help her in the managerial decision-making process. On-field Site visits were also made to the Community Bank Program to monitor the implementation of the program and provide technical assistance and advisory to this Credit Program Supervisor.

FAMA also developed with Katalysis technical assistance a Credit Policy Document for each one of the credit methodologies (Solidarity Group and Community Bank). Each of them contains the general conditions under which the loans are disbursed and collected such as loan amount and terms, and overdue portfolio collection policies. These tools will help the credit promoter to manage the policies and methodologies more efficiently.

FAMA uses the portfolio reports generated by the SIEM system on a weekly basis to control and monitor the portfolio and to monitor the credit staff productivity levels in managing their portfolio. The Executive Director and intermediate staff monitor and evaluate the portfolio results, the aging portfolio at risk report analysis and the credit incentive plan, at the promoter, branch and program levels to precisely know the progress and productivity of the programs.

♦ **Credit Promotion**

Katalysis continued supporting FAMA in planning the growth of the Organization's Solidarity Group Lending Program. In this sense, market research visits were made to the Municipal Offices of Juticalpa and Catacamas to collect potential market information regarding the microenterprise population to determine and project potential growth. Also, the Solidarity Group Lending Program was promoted through the elaboration and distribution of promotional materials. As a result of these actions, from March 2001, FAMA started implementing the solidarity group lending methodology in Catacamas.

4. *Management Information System*

♦ **MIS Implementation and Monitoring**

As of March 2001, FAMA's MIS SIEM system continues operating adequately in a timely manner, while the reconciliation process of years 1999 and 2000 continues. In this sense, Katalysis has provided close technical assistance and managerial advise to help reconciliate such differences as of July 2000. FAMA hopes to finish the FY00 conciliation early during the next quarter with the support provided by the new hired Accounting Specialist.

The outstanding portfolio balance reports are generated on a weekly basis, and serve as basis to analyze the aging of the portfolio, prevent and collect the delinquent portfolio by the credit staff in a timely manner. The financial statements data serves to elaborate the MicroCamel indicators evaluation to be used by the Executive Director for the timely decision-making process. Once the integrated portfolio and accounting modules are reconcialiated and balanced, FAMA will emigrate to the new version of the SIEM System in windows to upgrade the system.

5. *Human Resources*

♦ **Credit Staff and Consultant Recruitment**

During this period, Katalysis has supported FAMA in implementing the pre and post hiring process to fill out the Executive Director position, including the elaboration of the terms of reference, and the implementation of the induction program including the presentation of FAMA's past and current financials, microcredit and MIS system situation, and the provision of direct microcredit and microfinance managerial assistance and advisory to improve FAMA's administrative and financial performance.

Katalysis has supported FAMA in selecting and hiring the new Solidarity Group Lending Supervisor for the Olancho Office, and has provided him with the corresponding induction program also. In addition, Katalysis provided induction to the 2 new credit promoters regarding FAMA's philosophy and Solidarity Group Lending methodology.

During this period, FAMA and Katalysis continued making great efforts to fill the Microcredit and MIS Specialists positions but none of the candidates met the position requirements. In this sense, both Organizations will look forward to contract other candidates with potential to grow to these positions during the next period.

♦ **Curbing Staff Desertion**

As part of the institutional restructuring, FAMA has replaced the former Olancho Office Solidarity Group Lending Supervisor for a more qualified and experienced professional.

As of March 31 2001, FAMA has a total of 28 employees from which 12 are credit promoters. FAMA had made staff salaries adjustments and continues implementing the

Credit Staff Incentive Plan to reduce its staff rotation rate, and to encourage a more efficient promoter's performance and job satisfaction.

♦ **Staff Team Work**
FAMA's teamwork continued improving with the hiring of the new Executive Director who is encouraging the integration of working in teams and based on the credit methodologies and between intermediate and upper management level.

♦ **Staff Training**
During this period, Katalysis has sponsored, developed and/or coordinated the following training and partner exchanges to strengthen and develop FAMA's Human Resource:

* FAMA's former Executive Director, intermediate and operative staff and Board of Directors participated in a Workshop entitled "High Quality Services and Professionalism" held in Olancho on November 2000.
* FAMA's new Executive Director participated for the first time in the Katalysis' Partner Directors and Board of Directors meetings held in San Pedro Sula on January, 2001.
* FAMA's new Executive Director participated in a two-day Workshop regarding "Transformational Leadership and Coaching Techniques", on January 2001.

6. *Board Development*

Katalysis provided training to FAMA's Board of Directors on the MicroCamel Indicators Instructive Guide use. Katalysis has also coordinated and sponsored the Workshop entitled "High Quality Services and Professionalism" addressed specifically to the Board members.

7. *Client Training*

During this period, FAMA continued implementing its pre-credit training program, including the following topics: basic accounting, business administration, and human development. FAMA also implemented a bakery workshop addressed to 25 clients from 10 community banks.

D. <u>FINANCIAL ANALYSIS</u>

1. *Income Statement Notes* (See Annex 3 for the Income Statement)

♦ **Income from Operations**
As of March 31, 2001, FAMA generated Lps. 2,473.700 from its credit operations, which represents 94.7% of FAMA's net operating income.

The following chart shows FAMA's comparative generated income results during this half year versus the programmed income for FY01 (October 1 2000 to September 30, 2001).

Income	Programmed (Lps.)	Results (Lps.)	Difference
Interest income from loans	5,560,000	2,045,115	(3,514,885)
Fee income from loans	321,000	428,602	107,602
Income from investments	0	138,612	138,612
Total Financial Income	**5,881,000**	**2,612,329**	**(3,268,671)**
Other income	0	0	0
Net Income before Donations	**5,881,000**	**2,612,329**	**(3,268,671)**

Lps. 15.2823=1US$

As shown in the chart above, FAMA shows an income of Lps.3,268,671 that represents an accomplishment of 44.4% of the Project programmed income. If we annualize this result there is the possibility that the programmed goal be achieved by 89%

- **Expenses**

As of March 2001, the Organization paid a total of Lps.1,903,600 in salaries and administrative expenses, which represents 77% of its portfolio obtained income, covering then 80.3% of all FAMA´s expenses.

Expenses	Programmed (Lps.)	Results (Lps.)	Difference
Salaries and Administration	3,362,000	1,903,596	1,458,404
Loan Loss Reserve	298,000	115,000	183,000
Depreciation	304,000	169,442	134,558
Financial Expenses	0	182,482	(182,482)
Other Expenses	0	0	0
Total Expenses	**3,964,000**	**2,370,520**	**1,593,480**

Lps. 15.2823=1US$

FAMA presents expenses for total of Lps.1,593,480, fulfilling the programmed goal by 59.8%. If we annualized this result there is a high probability that the Organization will negatively surpass this goal approximately by Lps.777,000. Katalysis is working with FAMA to increase the productivity of its current capacity to offset this high operating expense.

These operating costs measured as a percentage of the average assets, is the number one problem that FAMA has not been able to control yet under the current self-sufficiency levels. This is mainly due to the fact that FAMA is recovering from bad debts as stated before and the lack of understanding the effect of low levels of self-sufficiency in its branch offices and its training center, which do not contribute operating yields. In this sense, the Organizations kept its operating expenses above the optimum 15% indicator for the year's average assets by 21.7%.

Operating Cost Ratio	Sept. 2000	March 2001
Operating Expenses / Average Assets	37.1%	36.7%

♦ **Financial Expenses**

As of March 2001, FAMA reports financial expenses for a total of Lps.182,500. These expenses plus the operating costs from the credit program were covered by its operating income in 125%.

2. *Balance Sheet Notes* (See Annex 4 for Balance Sheet)

♦ **Current Assets:**

* **Liquidity**

Since FAMA's portfolio at risk rates has been relative high, the Organization decided to manage the credit disbursements in a strict and prudent way, restricting the disbursement of new loans, as recommended by Katalysis. As of March 2001, FAMA shows a liquidity of 18.2% in cash and deposits related to the total assets, 66% of these funds are invested, showing an increasing trend compared to September 2000 as shown in the chart below.

Liquidity	**Sept. 2000**	**March 2001**
Cash and Deposits / total assets	12.9%	18.2%

* **Loan Portfolio**

FAMA's credit services ratio shows a proportion lower than 80% of disbursement. It decreased from 78.7% to 74.5% due to the surplus of funds not yet being allocated to the credit services, and the restriction of new loan disbursements.

Credit Services	**Sept. 2000**	**March 2001**
Loan Portfolio/ Assets	78.7%	74.5%

* **Financial Products**

Under the Community Banking, Solidarity Group and Individual Microcredit Lending Methodologies, FAMA has been able to serve 4,082 active clients from which 91% belong to 222 Community banks, 8% to 75 solidarity groups and 1% to individual loans. 98.2% of the total active clients are women.

The terms and interest rates of the three programs are presented in the following chart:

Community Banks

	Sept. 2000	**Mar. 2001**
# of Total Community Banks	155	222
Active Clients	2,912	3,715
% of Women	100.0%	100.0%
Total Credit Disbursed	$ 1,183,587	$ 1,514,960 (*)
Total # of Loan provided	7,712	8,928 (*)
Average Loan size	$ 133	$ 115
Balance of Active Portfolio	$ 387,922	$ 425,686
Minimun-Maximun Loan Amount	$ 67 - $ 1,000	$ 65 - $ 1,000
Interests and Fees	36% y 2%	36% y 2%

* Corresponds to annualized values. During the period October 2000 to March 2001, FAMA disbursed in real

terms: 4,464 subsequent loans for a total of US$757,480.00.

Solidarity Groups

	Sept. 2000	Mar. 2001
# of Total Solidarity Groups	50	75
Active Clients	248	314
% of Women	93.1%	85.7%
Total Credit Disbursed	$ 231,151	$ 304,634
Total # of Loan provided	606	754 (*)
Average Loan size	$ 202	$ 245
Balance of Active Portfolio	$ 50,077	$ 76,996
Minimun-Maximun Loan Amount	$ 133 - $ 1,332	$ 131 - $ 1,309
Interests and Fees	36% y 2%	36% y 2%

* Corresponds to annualized values. During the period October 2000 to March 2001, FAMA disbursed in real terms: 4377 subsequent loans for a total of US$152,317.16.

Individual Loans ([2])

	Sept. 2000	Mar. 2001
# of Total Clients	58	53
% of Women	48.3%	43.4%
Total Credit Disbursed	$ 35,648	$ 27,967 (*)
Total # of Loan provided	58	52 (*)
Average Loan size	$ 437	$ 302
Balance of Active Portfolio	$ 25,366	$ 16,005
Minimun-Maximun Loan Amount	$ 333 - $ 3,330	$ 327 - $ 3,272
Interests and Fees	36% y 2%	36% y 2%

* Corresponds to annualized values. During the period October 2000 to March 2001, FAMA disbursed in real terms: 26 subsequent loans for a total of US$13,983.68.

During this period, FAMA´s solidarity group lending methodology shows a major increasing trend of 53.8% and 26.6% corresponding to total portfolio and total clientele, respectively. This is result of the improvements made by FAMA as recommended by Katalysis regarding the hiring of the new Solidarity Group Lending Supervisor, the training provided by the Pedagogic Specialists and the Supervisors close field work.

The community banking portfolio increased by 9.7%; however, its clientele growth represents 27.6%. This is due to the increment in the number of community banks that initially demands small loan amounts. The individual loan portfolio and clientele was decreased by 36.9% and 8.6%, respectively. This result is due to FAMA's decision of keeping this program short as a result of the high portfolio at risk rate generated in this methodology. Katalysis will support FAMA in reviewing this methodology during the next reporting period.

FAMA has found out that the solidarity group methodology is a more secure, profitable and controllable mechanism to provide loans because the group is smaller than the community banks (4 members vs. 17), which facilitates its control and supervision. It also offers a solidarity warranty assuring the internal self-control of delinquency. Its delinquent portfolio

[2] It includes agricultural loans.

rate is about 5% against 20% in the individual lending methodology. Its average loan amount increased from US$202 to US$245 as result of the growing needs from clients.

♦ **Fixed Assets:**

FAMA has a fixed assets composition of 9.2% related to the volume of total assets, which is a strong relation of unproductive assets for a financial NGO. FAMA uses a depreciation method based on the useful life of its fixed assets (vehicles and office furniture).

♦ **Liabilities**

FAMA keeps a total of Lps.6,714,800 in financial liabilities (external financial resources and other liabilities) as of March 2001, representing 65.7% of the Organization's total assets.

* **External Financial Resources**

FAMA has increased it external financial resources composition related to its total assets, moving from 33.9% as of September 30, 2000 to 39.4% as of March 31, 2001.

The weighted financial cost of these funds are kept steady at 18%, which is relatively high compared to the minimum active interbank interest rate of 15.5% currently registered. This result is due to the increase of the subsidized interest rate charged by the International Organizations, which is getting closer to the average market rate of approximately 22% The external loans rate conditions are presented in the chart below:

Sources of External Financing

Sources	**Balances as March 2001**	**Interest Rate**
Formype Funds	428.6	25%
Covelo Incentive Funds	1,300.0	16%
Guayape's Deposit	481.8	25%
IDB Loan	1,444.1	15%
Other	369.3	22%
Total	**4,023.8**	**18%**
Percentage of Total Assets	39.4%	

* **Other Liabilities**

As of March 31 2001, FAMA reports other liabilities for a total of Lps.2,691.000, which represent 34.3% of total asset. The larger amount belongs to portfolio credit donations not yet applied, which represents 23.9% related to total assets. The AID/MIP first credit funds disbursement was totally distributed among its clientele as of March 31, 2001.

♦ **Equity**

As of March 2001, FAMA presents an institutional equity of Lps.3,508,480, which represents 34.3% of total assets, showing a decreasing trend since September 2000 when it was 45.7%. A part from the larger portfolio write-off decrease in growth and operating losses, this result is also due to an accounting adjustment related to the donations for credit capital, which seems to be over evaluated; however, this situation will be adjusted after the reconciliation process is concluded.

FAMA's equity is mostly composed from donations for a total of Lps.3,233,500, which represents 92.2% of total equity. FAMA's retained earnings are Lps.275,000, which represents only 7.8% of total equity. FAMA started accumulating earnings from FY00 due to the increment on the self-sufficiency level and the support from equity grants.

E. FINANCIAL ANALSYIS INDICATORS

FAMA's financial analysis Indicators as of March 31 2001 has located FAMA within the "B" Category represented as a "Good" Organization.

As shown in the chart below, only 7 out of 17 indicators fulfilled the optimum parameters: the ratio equity /total assets surpassed the optimum >20%, the loan loss ratio for Groups and Individual loans attained >100%; the delinquency rate decreased to < 5%; the current ratio > 2; and the clientele increased by 25%.

Also, the following indicators are in process of gradual improvement and closer to the optimum parameters: the performing asset efficiency, credit services, credit staff productivity, and community bank management and growth rate.

In addition, FAMA needs to improve the following indicators: the operational efficiency, portfolio growth, operating cost reduction to allow adequate self-sufficiency levels, and operating surplus to satisfy the operating return invested in the loans financing.

No.	FINANCIAL ANALSYIS INDICATOR	OPTIMUM PARAMETER	RESULTS	INSUFFICIENCY
1	Sufficient Equity	> 20%	34.3%	
2	Sufficient Reserve (Group Lending)	> 100%	> 100%	
3	Sufficient Reserve (Individual Lending)	> 100%	> 100%	
4	Portfolio at Risk	< 5%	4.9%	
5	Performing Asset Efficiency	> 90%	86.5%	(3.5%)
6	Loan Loss Ratio	< 3%	1.1%	
7	Credit Services	> 80%	74.5%	(5.5%)
8	Credit Staff Productivity	> 150	146	(4)
9	Operational Efficiency	< 15%	36.7%	(21.7%)
10	Credit Outreach Efficiency	> 15	14	(1)
11	Financial Self-sufficiency	> 120%	92.1%	(27.9%)
12	Operational Self-sufficiency	> 100%	86.4%	(13.6%)
13	Return on Equity	> 5%	-9.8%	(14.8%)
14	Current Ratio	> 2	5.1	
15	Client Growth Rate	> 25%	24.9%	(0.1%)
16	Loan Portfolio Growth Rate	> 25%	13.3%	(11.7%)
17	Community Bank Growth Rate	> 25%	19.3%	(5.7%)

In order to help FAMA improve its rating, it would be advantageous for FAMA to hire a Microcredit Specialist who will provide technical support to the Executive Director regarding financial, administrative, promotional and growth aspects. Meanwhile, Katalysis will continue providing the necessary support to help FAMA reach better results.

Notes on Financial Analysis Indicators

* **Portfolio at Risk**

FAMA, as recommended by Katalysis, uses a portfolio at risk method, which is the sum of all loan balances with overdue installments higher than 30 days, which is a rigorous method of calculating.

As shown in the chart below, FAMA has successfully implemented a stronger management of its portfolio through the close support provided by Katalysis specially regarding portfolio write-offs implementation, credit staff incentive plan implementation, and delinquency rate control and monitoring. Consequently, FAMA's portfolio at risk was reduced from 7.6% to 4.9%, surpassing the programmed goal of 5%. See Annex 5 for the Portfolio Aging Report.

Portfolio at Risk	**Sept. 2000**	**Mar. 2001**
$\frac{\text{Balance of loans in arrears}}{\text{Value of loans outstanding}}$	7.6%	4.9%

* **Long Term Loan Loss Rate**

FAMA has accumulated the loan loss provision necessary to cover the group and individual overdue loans. Even though Katalysis has recommended FAMA in the past to implement portfolio write-offs to overdue loans higher than 90 days to show a more real performing portfolio, the Organization has been conservative in implementing such recommendations through the use of this reserve. Instead, FAMA prefers to collect the overdue loans through legal procedures. It is hoped through Katalysis' training that FAMA's new Executive Director and Board members will analyze and approve the policy for the implementation of a portfolio write-offs during the next period.

As a result of the work done by the three credit supervisors in more thoroughly revising the loan analysis and approval including the clients prospecting and payment capacity, FAMA has been able to keep the loan loss rate to 1.1%. See chart below.

	Sept. 2000	**March 2001**
Long Term Loan Loss Rate	17.9%	1.1%

The scheme used by FAMA, in general terms, to protect the overdue portfolio is such that the reserve must be above 3% of the portfolio as well as be relative to the portfolio at risk. Currently, FAMA maintains a relation of 6%. The accumulation of loan loss reserves through expenses has allowed FAMA to protect the group and individual methodologies independently in more than 100% as shown on the next page.

Aging	Provision Percentage Required	
	Individual Loans	Group Loans
1-30 days	10%	10%
31-60 days	10%	50%
61-90 days	50%	50%
91-120 days	50%	100%
121-180 days	100%	100%
More than 180 days	100%	100%

F. CONCLUSIONS

1. FAMA has shown significant progress in its financial and impact indicators. For instance, the portfolio at risk rate decreased from 7.6% to 4.9% allowing an additional improvement in the Operations return, which increased from 52.5% to 74.6%. This has promoted an increment in the portfolio productivity.
2. The changes mentioned before are due to the following implemented actions:
   - ✯ The incorporation of a dynamic, competent new Executive Director who has good knowledge on microcredit, managerial administration and leadership.
   - ✯ FAMA's openness to apply the recommendations provided by Katalysis through the technical assistance, managerial advise, monitoring and follow-up field visits.
   - ✯ The elaboration and close monitoring of the Strategic and Annual Operative Plans which include the Organization objectives, goals, policies, and procedures allowing an efficient and more effective credit management.
   - ✯ The constant implementation of a Monitoring and Follow-up Plan and the analysis and discussion of the portfolio reports generated by the SIEM MIS system.
3. There are still some indicators that need to be improved such as the operational efficiency, which reached 36.7%. The return on equity shows a negative result of –9.8%. In these sense, MA needs to design a working plan to improve such indicators, and which Katalysis will support.
4. The financial results show that FAMA has initiated its financial recovery; strengthening and implementing appropriate microcredit and microfinancial policies and disciplines. If FAMA continues with this positive trend in the short term, the Organization would become financially strengthened.

G. RECOMMENDATIONS FOR NEXT REPORTING PERIOD

1. Design a Work Plan based on rigorous diagnostic and analysis of the operative expenses and make the necessary adjustments with the assistance of Katalysis.
2. Design a Work Plan that includes strategies oriented to deepen its penetration in its current market and insert the existing products to new markets in order to systematically increase the credit services indicator with the assistance of Katalysis.

3. Design a Plan oriented to developing financial projections that will allow it to reach self-sufficiency rates in those branches that show low income levels.
4. Implement the external audits for the years ended December 1999 and 2000 to have accurate financial analysis.
5. Review the staff per-diem expenses based on productivity, which must be justified. The credit supervisors must continue to improve the supervision of the credit staff's performance to meet their productivity targets to assure adequate income generation and expansion of its credit services.
6. Provide on the job professional development to the Microcredit and MIS specialists with the assistance from Katalysis in developing a staff development plan.

ANNEXES

Annex 1	**Financial Activity Report – Table 1**
Annex 2	**Summary Of Program Activities Implemented During The Current Reporting Period**
Annex 3	**Income Statement**
Annex 4	**Balance Sheet**
Annex 5	**Portfolio Aging Report**

ANNEX 1

SEMI-ANNUAL REPORT IGP: TABLE 1
ACTIVITY AND FINANCIAL REPORT
In US$

		GOALS FY 2001	*SEMI-ANNUAL OUTPUTS FY2001
	ACTIVITIES		
1	Amount of Loans outstanding, start of year (September 2000)	$ 594,594 59	$ 455,243.30
2	Amount of Loans outstanding, end of year (September 2001)	$ 746,621.62	$ 498,687.40
3	Avg. amount of Loans outstanding (Avg. of lines 1 & 2)	$ 670,608.10	$ 476,965.40
4	Number of loans oustanding, end of year (September 2001)	6,504	4,082
5	Avg.Loan size (line 2 divided by line 4)	$ 114.79	$ 122.17
6	Portflio at Risk> 30 days	5 0%	4.9%
7	Long run loss rate	3.0%	1.6%
	INTEREST RATES		
8	Nominal Interest rate charged, Program	36.0%	36.0%
9	Local Interbank lending Rate (Central Bank)	24.0%	15.5%
10	Inflation Rate (Central Bank), anualized	28.0%	12.4%
	CLIENT REVENUES		
11	Total interest income from clients	$ 375,675.67	$ 133,822.46
12	Fee Income from clients	$ 21,689.19	$ 28,045.65
13	Total client revenue (line 11 + 12)	$ 397,364.86	$ 161,868.10
	NON FINANCIAL EXPENSES		
14	General Operating Expenses (salaries, rents, utilities, etc.)	$ 227,162.16	$ 124,562.14
15	Depreciation of fixed assets	$ 20,540 54	$ 11,087.47
16	Loan loss provisions	$ 20,135.14	$ 7,525.00
17	Total Non financial expenses	$ 267,837.84	$ 143,174.65
	ADJUSTED FINANCIAL EXPENSES		
18	Adjusted Financial Expenses (line 3 X higher of lines 9 or 10)	$ 187,770.27	$ 73,929.64
	TOTALS		
19	Total Expenses (line 17 + line 18)	$ 455,608.11	$ 217,104.29
20	Return on operations (line 13 divided by line 19)	87%	74.6%
	OTHER		
21	Total number of savers (if any) **	-	-
22	Total savings outstanding (if any)	N/A	N/A
23	Percent women borrowers (of active loans line 4)	100.0%	98.2%
24	Number of clients per field officer (of line 4)	383	272
25	Number of loans oustanding with Initial Loans balance <$300***	6,504	4,082
	Exchange Rate US$ 1.00 = Lempiras	14.80	15.2823

* Outputs from October 1, 2000 to March 31, 2001.

** There should be no established goal for FY2001 in this item, since FAMA does not manage client savings.

*** The established goal for FY2001 is 6,504. Loans are initially disbursed at less than $100 in FAMA's groups.

ANNEX 2

AID-MIP PROJECT

SUMMARY OF PROGRAM ACTIVITIES IMPLEMENTED DURING THE CURRENT REPORTING PERIOD

NO	ACTIVITIES	IMPLEMENTED	% OUTPUTS
1	Financial Planning Management.	Annual Operative Plan developed including cash flow, financial statements and budget were updated.	50.0%
2	Improving Self-sufficiency	FAMA's current financial self-sufficiency is 92.1%.	76.8%
3	Raising loan capital	FAMA has obtained the required funds to finance its portfolio to meet demand.	100.0%
4	Applying profitable interest rates and commissions.	FAMA's nominal rate remains steady at 36% annual flat, the commission fee is 2%, but these conditions are not sufficient based on the high costs.	50.0%
5	Implementing an adequate Management of the MIS system that monitors the portfolio at risk <5% with a reserve protection based on the real risk.	The MIS system generates timely information on overdue portfolio. FAMA's Credit Coordinators use such reports. The accounting still needs some reconciliation. FAMA's portfolio at risk is kept under control with less than 5%; the loan loss reserve covers more than 100% the delinquent portfolio.	75.0%
6	Using the liquid assets not assigned to FAMA's portfolio.	FAMA limited the distribution of new loans until new adequate management and policies were in place.	100.0%
7	Building capacity at the Board of Director level	FAMA's Board of Directors members were trained and are engaged.	75.0%
8	Improving the Group Lending Methodologies.	With the support from Katalysis, FAMA has elaborated the Trainers Methodological Guide, the pedagogic visual aid materials, and a Credit Policy Document for each one of the credit methodologies, to improve the credit service delivery.	75.0%
9	Improving the capacity and training of the MIS system management.	Katalysis has provided timely and continuous support to FAMA in order to improve the MIS system. The system now has the required environmental conditions but lacks the MIS Specialist to manage it.	60.0%
10	Strengthening the Institutional human resource.	Katalysis has provided TA to FAMA's staff in topics related to credit administration, MIS management, portfolio delinquency reports, management, and management of the staff incentive plan, to mention some.	100.0%
11	Hiring Specialist in MIS and Microcredit.	FAMA's has published the vacant positions in the media many times, but these are still vacant due to the lack of candidates that meet the positions requirements.	0.0%
12	Hiring Consultant in Education and Designing of Didactic Materials.	FAMA's has hired the Education and Didactic Materials Designing Consultants to elaborate new materials to be applied to the Solidarity Lending Methodology, and to facilitate and transfer the knowledge to FAMA's credit staff.	100.0%

ANNEX 4

SEMI-ANNUAL REPORT IGP
NON ADJUSTED BALANCE SHEET
Period ending March 31, 2001
(Nominal local currency)

		FY 2001*
ASSETS		
Cash and banks		638,866
Short-term investments		1,220,026
Gross loan portfolio		7,621,090
Yield		7,249,681
Late more than 30 days		371,409
Less: Loan loss reserve		(467,865)
Net Portfolio Outstanding		7,153,225
Other current assets*		269,015
Total current assets	**Lps.**	**9,281,132**
Long-term investments		-
Net Fixed assets		942,173
Other Long-term assets		-
TOTAL ASSETS	**Lps.**	**10,223,305**
LIABILITIES		
Demand deposits		-
Time deposits		-
Short-term loans		1,564,979
Other short-term liabilities		243,434
Total current liabilities	**Lps.**	**1,808,413**
Subsidized Long term Loans		2,458,839
Long term Loans: commercial banks		-
Other long term liabilities		2,447,573
TOTAL LIABILITIES	**Lps.**	**6,714,825**
EQUITY		
Paid-in equity from shareholders		-
Retained earnings		275,010
Donated equity		3,233,470
Other capital accounts		-
TOTAL EQUITY	**Lps.**	**3,508,480**
TOTAL LIABILITIES AND EQUITY	**Lps.**	**10,223,305**

* This is actual data from FAMA's financial statemtns for the six-month period ending March 31, 2001

ANNEX 5

ANNUAL REPORT IGP: TABLE 1
PORTFOLIO AGING REPORT
Local Currency values (Lps.)

	No. of Loans	Outstanding Balance	Percentaje of Participation
Active Loans	202	5,443,783	71.43%
Late 1 - 30 days	98	1,805,899	23.70%
Late 31 - 60 days (*)	18	202,801	2.66%
Late 61 - 90 days	6	39,243	0.51%
Late more than 91 days	26	129,364	1.70%
Total	**350**	**Lps. 7,621,090**	**100.00%**

*: Información real de FAMA al 31 de marzo del 2001, emitida por el Sistema de Cartera SIEM