



FINCA International Inc. Congo D.R.
Small Loans-Big Changes

Ave. Citronniers No.13, Commune de Gombe, Kinshasa, Republique Democratique du Congo. Tel: 243 081 509 7198
(cell) Fax: E-mail:

PROJECT NUMBER:

Cooperative Agreement Number PCE-A-00-00-00049-00

FINAL

PERFORMANCE PROGRESS REPORT

TO USAID, WASHINGTON, DC

September 30, 2004

To:

**Mr. Barry Lennon,
Technical Officer,
G/EGAD/MD RRB 2,11-030
1300 Pennsylvania Avenue,
Washington, DC 20523-7100.**

Prepared By:

**Abraham B. Ndofor
Country Director
FINCA Congo D. R.**

Foundation for International Community Assistance

FINCA RDC FINAL NARRATIVE REPORT FOR THE

IMPLEMENTATION GRANT PROGRAM/FINANCIAL SERVICES (IGP/FS)

I. EXECUTIVE SUMMARY

FINCA International arrived in the Democratic Republic of Congo (DRC) in November 2002, a few months after the peace agreement between the warring parties and the civil society had been signed. Nevertheless, there still remained a high level of instability throughout the region. FINCA entered the micro finance sub-sector shortly after several other micro finance institutions (MFIs) had failed and the population had lost confidence in microfinance providers, even those from the banking system. Consequently, introducing another micro credit scheme was more difficult than it would have been otherwise. With a strong methodology and best practices institutional systems, FINCA built the public's confidence in its program and was able to start lending within six months of arriving to the country.

During the last six months of this grant, the DRC has also been under considerable stress caused by political upheavals. Recently, there has been a resumption of the War in the East in March; an attempted Coup d'état; and a student demonstration in Kinshasa in June—all of which have paralyzed economic activities for almost a week. In addition, civil servants reclaiming their regular pay, which had been in arrears, went on strike for over two months, thus slowing down the economy. In turn, this slowdown led to a considerable reduction of citizen purchasing power. Under these circumstances, lending to and collecting from people who are disadvantaged became more difficult. FINCA DRC has had to battle these extreme conditions to continue to serve its clients. The absence of a reliable and cooperative banking network has made the task of serving the poor even more difficult.

Despite these significant challenges, FINCA DRC registered considerable growth both in number of clients and in portfolio. FINCA DRC exceeded all of its performance targets, thus succeeding in growing at a much faster pace than anticipated. FINCA more than doubled its client target, having reached 13,340 clients by grant end, rather than the anticipated 5,445. FINCA DRC also exceeded its outstanding loan balance projections, which at end of September was \$1,183,445, rather than the expected \$215,324. FINCA DRC also successfully lent out in cumulative terms almost seven times the projected amount, and encouraged clients to save more than ten times the dollar amount anticipated. Finally, FINCA DRC has reached operational and financial self-sustainability years before this was anticipated.

In addition, while we have seen recent increases in our portfolio at risk (30+ days), our recovery rate¹, reaching well over 99.5 percent, remained far above that of other players in the same market. This high level of achievement is attributed to the sound methodology of FINCA Village Banking, strong management, and regular monitoring of clients. The close collaboration between the clients and the institution has created a partnership committed to ensuring success for all involved. FINCA DRC's limited loan capital, however, did not permit us to serve all those that needed our services in the last six months. In the last three months of the period, FINCA increased efforts to secure additional loan capital through commercial borrowing to allow FINCA DRC to serve significantly more poor people throughout the Republic. We are currently negotiating external loans to finance the increasing demand for credit. We have also taken steps to register as a local entity (a *Société Civile* with share ownership and control by FINCA), instead of remaining a foreign NGO and FINCA branch, in order to qualify for regulation by the Central Bank of Congo.

¹ Recovery rate is estimated by using the potential write-off amount. This amount is estimated to be approximately \$6000 by end of September 04

As a testament to its success, FINCA DRC currently generates enough income to cover its operating costs and, excepting expansion, has already achieved technical, operational and financial self-sufficiency. The success achieved by FINCA DRC has prodded many other micro finance institutions to start showing interest in expanding their operations to Congo. These include: HOPE International, IPC, and UMU/Uganda.

II. ACCOMPLISHMENTS DURING THE PERIOD

▪ Outreach

FINCA DRC had a total of 13,340 active clients in 361 Village Bank groups at the end of September, 2004. Three main factors contributed to this high achievement: (1) the large population concentration in Kinshasa; (2) the low level of formal employment; and (3) the ability of FINCA International to deliver effective and efficient microfinance services. FINCA DRC's clients are all women, except one. FINCA DRC only started promoting men's groups in mid September, 2004 and for the time being will keep these to a minimum. In addition, FINCA DRC has successfully expanded its geographic operations within the Kinshasa area, and it currently serves 23 communes of the 24 communes in the city. Given additional resources, FINCA is ready to expand within Kinshasa and new areas of the country.

▪ Portfolio

At the end of September 2004, FINCA DRC surpassed its portfolio targets. It grew its outstanding loan portfolio to \$1,183,400 while increasing its total loans disbursed to an impressive \$5,864,840 since the start of the program. Loan recovery has been very good reaching almost 100%. In the last three months, however, we have witnessed an increase in the portfolio at risk, which is the balance of loan instalments that have not been paid for over 30 days. By the end of September this figure was 7.98%, with the following explanations from our clients: (a) the decline of the economy that has slowed their own micro activities; (b) non-payment of civil servants of some government ministries; and (c) the displacement of some clients from their places of business as the government has evicted many businesses illegally occupying roadsides and open spaces in the city. We are maintaining contact with these clients and working with them to ensure proper loan repayment.

▪ Savings

The FINCA DRC program has proven that the poor can maintain savings if they are given the chance to do so in an environment that they trust. One of the striking achievements of this program is the high volume of guarantee deposits that it has mobilized. At the end of September 2004, these deposits stood at \$782,900 far exceeding what project planners had anticipated. These savings would have been higher had the program had the authority to intermediate these savings and pay interest on the balances. Many clients inquired as to whether or not they could increase their savings and, if so, at what interest rate. To address this overt need to offer savings products, FINCA DRC shall in the future apply to the Central Bank for an authorization to intermediate savings. Within the next few months, FINCA DRC expects the Central Bank to review its application to receive authorization to operate as *Enterprise De Micro Finance*, in Congo.

▪ Training

FINCA DRC has trained all of its staff, some received training abroad and most were trained within DRC. The first group of credit officers was trained by a trainer from FINCA Haiti who was fluent in French. Thereafter, two staff members were sent for training to other FINCA affiliates in Africa. The Operations Manager visited FINCA Tanzania and the Internal Auditor visited FINCA Uganda for training in their respective areas. The FINCA International Africa

Hub sent a MIS specialist who provided in-house training to the entire accounting staff on the SIEM software that is currently in use.

- Staffing

During the project period, FINCA DRC has been gradually building its staff strength from zero at the start of program to a current total of 46. The majority of these staff members is composed of credit officers, who are the “face of FINCA” and thus represent the main link between FINCA and its clients. Both the credit officers and accounting officers have been thoroughly trained in their respective areas of activity, which will ensure the ongoing success of the program.

- Planning

FINCA DRC has completed and approved a strategic plan for the program for 2005 to 2009. This plan calls for expansion of activities to increase outreach and portfolio. To achieve the new targets FINCA DRC will explore opportunities for borrowing funds for loan capital while exploring new sources of grant funding to finance start up costs in new provinces of the country. By the end of September 2004, negotiations for the first outside loan of \$125,000 from an organization called responsAbility were nearing completion.

- Application for Authorization from the *Banque Central du Congo*

FINCA DRC has been recently incorporated as a “*Société Civil*” under the laws of the DRC. In addition, it has submitted an application to the *Banque Central du Congo* for authorization to carry out the activities of micro finance as an “*Entreprise de Micro finance*” as established in the Instructions no.1 issued by the Bank last year. Once this authorization is received FINCA DRC shall fall under the direct supervision of the Central Bank.

- Funding

FINCA DRC received two small grants from private donors in the total amount of \$9,750 to support the loan portfolio and also pay for expenses. It also received two soft loans from the FINCA VBCF of \$25,000 and \$300,000 respectively to enhance the loan capital. The \$25,000 and its interest have since been repaid. In addition, negotiations are on going for additional loans from other willing lenders such as KFW, BIO, and responsAbility.

III. FINANCIAL PERFORMANCE DURING THE PERIOD

Village Banks:/ outreach:

End of month	End of September 2004
Number of Village Banks with loans	361
Number of Village bank clients with loans	13,339 females 1 male;
No. of clients served since start of Activities	39,734
Total amount of loans given out since start	\$5,864,840
Balance of loans outstanding end of September	\$ 1,183,445
Amount of loans granted in September	\$275,880
Total savings mobilized since start of project	\$ 782,900
Arrears more than 30 days	\$94,411,000 or 7.98%

IV. PROGRAMMATIC AND FINANCIAL PERFORMANCE IN RELATION TO GRANT GOALS

In its second year of activities, FINCA DRC has far exceeded its program targets for the period. In fact, as per the table below, the targets were exceeded by more than three times in some cases. The main constraint FINCA DRC sees in its future is securing sufficient loan capital to sustain this healthy growth.

Program Targets vs. End Performance

FINCA DRC Targets	FY04 Targets	FY04 Actual September 04
Total Loan Portfolio USD	\$215,324	\$1,183,445
Cumulative Disbursements USD	\$887,197	\$5,864,840
Savings USD	\$76,678	\$778,941
Number of Active clients	5,445	13,220
Operational Sustainability	52%	179.39%
Financial Sustainability	42%	132.96%
Portfolio at Risk > 30 days	5%	7.98%

V. PROBLEMS ENCOUNTERED DURING THE PERIOD AND REMEDIAL ACTIONS

- **Banking problems:**
There are few commercial banks in the country and most of them have only one main office open for banking activities in Kinshasa. FINCA, therefore, cannot rely on the banks for disbursement of funds to micro entrepreneurs nor for the acceptance of repayments. In addition to the absence of sufficient services from the banks, the international banks are very expensive, charging fees ranging from 1% to 1.5% for cash withdrawals from our own accounts, and these transactions usually involve long lines. FINCA has set up a collection service at the head office to receive loan repayments from the groups as the banks refused the group representatives making deposits directly at the bank. FINCA DRC is in discussions with a local bank that seems willing to open up branches in other parts of the city, which would ease FINCA’s disbursement problem. In the long run, FINCA may have to consider running its own treasury system.

- **Honesty levels are very low:**
As a micro credit institution, FINCA DRC is constantly faced with demands from various individuals claiming to represent a government service and asking to examine a number of documents. Frequently, these persons are misrepresenting themselves and are solely looking for money. In addition, internally, the leadership in some Village Bank groups has been dishonest. In some cases, such leaders have tried to embezzle funds either from their members or from FINCA repayments. Such poor leadership makes recovery of credit extremely difficult. FINCA DRC is taking steps to remove these poor leaders and bar them from further credit from FINCA.

- **Unrest and threats of war:**
The continual recurrence of war and threats of war in the eastern regions of the country creates a state of uncertainty. Dishonest clients take advantage of such situations not to repay their loans. Some even believe that due to the disturbances FINCA will abandon activities and leave them with the money. FINCA anticipates that its regular weekly monitoring and re-enforcement of the training by credit officers will help to proactively address the mistaken view that FINCA will abandon activities. In addition, plans are underway to recruit another internal auditor to strengthen internal controls.

VI. ACTIVITIES PLANNED FOR NEXT PERIOD

- Recruitment of new staff members
- Expansion of activities in Kinshasa
- Introduction of new product, most likely Individual Lending
- Pursue FINCA DRC application for authorization with the Central Bank
- Seek additional resources

VII. LESSONS LEARNED AND LEARNING AGENDA ISSUES

- ✓ Keep loans small for Village Banking.

In the one and a half years FINCA DRC has been operating, it has become clear that people who take small loans of \$20 to \$300 and who are actively participating in income-generating activities repay with ease and build their capital through additional savings or purchases of capital goods. On the contrary, recipients of bigger loans (\$500 and above) have had difficulty repaying on a weekly basis. FINCA DRC has found that smaller loans are more productive for the poor and are less likely to be mishandled.

- ✓ The need to train and monitor field staff closely to ensure adherence to methodology.

The success of micro credit is dependent on good management at all levels. The credit officers and their supervisors play a key role in the management chain as they are in constant contact with the clients. How well these people master the methodology being used will increase or lower the level of success to be achieved. Consequently, their training should never be rushed nor taken lightly. To ensure quality customer service it is equally important for the rest of the staff to be properly trained in their respective domains as well as on the impact of their actions on the institution.

- ✓ Plan performance targets on a long-term basis.

Quite often micro credit programs are projected to reach very ambitious goals and targets within the first two years of implementation. To inaugurate the institution, train the staff, and begin implementation with clients, however, takes a significant amount of time and effort. In order to ensure sustainability of a project, the foundation ought to be well laid and all the disciplines well indoctrinated into the minds and hearts of the staff and the target group. This too takes time. Consequently, while FINCA DRC has met and exceeded all of its grant targets, it recommends that for future USAID grants, the more ambitious targets be scheduled for the latter years of a grant period rather than in the early years of the program.

VIII. GRANT MANAGEMENT ISSUES

None

IX. OTHER ACTIVITIES OR ISSUES

None

X. ANNEXES

External Audit Report for August 2004