

PD - ABU-602
112399

**FINCA NICARAGUA
FINAL REPORT**

**HURRICANE MITCH RECOVERY FUNDS
COOPERATIVE AGREEMENT # 524-A-00-99-00044-00**

DATE: NOVEMBER 19, 2001

SUBMITTED TO:

DINO SIERVO
PRIVATE SECTOR COORDINATOR
USAID NICARAGUA

PREPARED BY:

FINCA NICARAGUA

PRESENTED BY:

FINCA INTERNATIONAL, INC.
1100 14TH STREET, NW
WASHINGTON, DC 20005
(202) 682-1510
FAX (202) 682-1535

CONTENTS

I.	<u>INTRODUCTION</u>	3
II.	<u>PROJECT GOALS AND ACCOMPLISHMENTS</u>	3
	2.1 <u>BUDGET REPORT</u>	4
	2.2 <u>HUMAN RESOURCES</u>	5
III.	<u>SERVICE TO VILLAGE BANKS</u>	6
	3.1. <u>METHODOLOGY</u>	6
	3.2. <u>ROTATION OF SHAREHOLDERS</u>	6

<u>3.3. CREDIT SERVICE</u>	7
<u>3.4. SAVINGS</u>	8
<u>3.5. PREVENTION AND POLICY FOR DELINQUENT LOANS</u>	8
<u>3.6. COMPLEMENTARY SERVICES</u>	9
<u>IV. ORGANIZATIONAL DEVELOPMENT</u>	9
<u>4.1. POLICIES AND PROCEDURES</u>	9
<u>4.3. CAPITALIZATION AND SELF SUFFICIENCY</u>	10
<u>4.4. SYSTEM DEVELOPMENT</u>	11

<u>4.5. SYSTEMS OF EVALUATION OF IMPACT</u>	11
<u>4.6. INTERNAL CONTROL, AUDIT AND EVALUATION</u>	12
<u>4.7. EXPANSION AND MARKET</u>	12
<u>V. CONCLUSION</u>	13

FINAL REPORT

AUGUST 16, 1999 TO AUGUST 16, 2001

I. INTRODUCTION

In July 16, 1999, United States Agency for International Development (USAID), and the Foundation for International Assistance (FINCA) signed a cooperative agreement number 524-A-00-99-00044-00, for US\$100,000 to provide rapid reconstruction and sustainable recovery support to Mitch-affected areas of Nicaragua. During the implementation period the grant was increased by a total \$110,000 to a total of \$410,000.

The objective of the project was to improve the employment opportunities and income of 1,176 micro entrepreneurs through the provision of credit support to their small business activities. The purpose of the grant was the re-capitalization of FINCA's clients and expansion it to micro-entrepreneurs in areas affected by Hurricane Mitch in September 1999.

Under this agreement the goals of the project were:

- To provide credit and basic training to 1,176 women micro-entepeneurs affected by the Hurricane Mitch.
- To generate self-employment and increased income to participating 1,176 women in order to improve the quality of life.

By the end of the project on August 16, 2001, there were 156 village banks with 3,555 clients. The Total Loan Outstanding was \$2224,300 or C\$3,044,300 córdobas.

At the completion of the project on August 16, 2001, the project was audited by external auditors.

Reports were regularly submitted to FINCA International for the duration of the project. The Hurricane Mitch Recovery Funds final evaluation was conducted in August and September 2001.

II. PROJECT GOALS AND ACCOMPLISHMENTS

The project exceeded all of the projected targets, serving 100% of the women village

bank members. As of August 31, 2001, the number of village bank members reached 3,555, exceeding the targeted goal by 60%. This was based on the exceptional performance in organizing 156 village banks during the project period. The project also met the target by providing \$377,700 in loans. The following table demonstrates the goals vs. actuals of a variety of important statistics:

DESCRIPTION	GOAL	ACTUAL	% OF GOAL
Village Banks	135	156	116%
Village Bank Members	2,210	3,555	160%
% Female	100%	100%	100%
Number of Loans	2,210	3,555	160%
Amount US\$	\$376,400	\$377,700	100%
Portfolio At Risk		1.77%	100%

2.1 Budget Report

The following table shows the usage of project funds. The project implemented the budgeted funds in accordance to the agreed upon projected targets. The project exceeded its budget by \$2,930 to meet additional costs that were needed to cover evaluation and other costs.

STATUS OF FUNDS AS OF 11/31/01 PROJECT 1304 NICARAGUA

Cost Element	Budgeted Funds	Total Accrued Expenditures	Remaining Balance
USAID			
Loan Funds	300,237	300,237	-
Administrative Costs	94,763	94,763	-
Audits	10,000	10,000	-
Total USAID	405,000	405,000	-
FINCA			
Evaluations	5,000	6,465	-1,465
Other		1,465	-1,465
Total FINCA	5,000	7,930	-2,930
Total Project	410,000	412,930	-2,930

2.2 Human Resources

The organizational development goal was to create a human resources group capable of managing the program. The project has achieved 96% of its goals. The following table provides the targets and the actual results in each category:

POSITION	GOALS	ACTUAL	% OF GOAL
Executive Director	1	1	100%
Financial Manager	1	1	100%
Program Manager	1	0	0%
Administrative Manager	1	1	100%
Human Resources Assistant	1	1	100%
Regional Coordinator	6	4	67%
Supervisor	13	13	100%
Banking former	6	5	83%
Advisor	85	85	100%
Responsible for Portfolio	1	1	100%
General Accountant	1	1	100%
Branch Accountant	9	8	78%
Accountant Assistant	1	1	100%
Responsible for Information	1	1	100%
Internal Auditor	1	1	100%
Auditory Assistant	4	4	100%
Driver	6	5	83%
Secretary	7	7	100%
Janitor	6	6	100%
Security Guard	3	3	100%
Receptionist	1	1	100%
TOTAL STAFF	156	150	96%

The project's coverage included the capital and eastern regions of Nicaragua. However, it is important to point out that the funds were mainly used on the eastern region because potential clients in that region were being served by other financing sources.

The geographic distribution of the banks are as follows:

VILLAGE BANK	NUMBER OF BANKS
León	77
Chinandega	61
Chichigalpa	7
Puerto Sandino	3
Malpaisillo	5
Quezalguaque	2
Las Paz Centro	1
Total Village Banks	156

The strategic distribution of resources successfully reached all the areas affected by the natural disasters as originally designed.

III. SERVICE TO VILLAGE BANKS

3.1. Methodology

FINCA's Village Banking methodology provides loans to shareholders for a period of four months. The shareholders are organized into groups of 22 shareholders.

Forming a village bank follows a standard methodology, which includes four training sessions prior to the disbursement of the loans.

3.2. Rotation of shareholders

The approximate shareholder rotation is 30%. Through interviews and field visits, we have identified several reasons why the shareholders drop out:

- Interpersonal issues between shareholders. While this situation has existed since

the foundation of village banking, it is very common to occur when groups are in the early stages of formation, prior to their complete integration.

- Dissatisfaction with some requirements; especially the weekly meetings, and fines.
- Economic reasons such as clients obtaining employment, and/or improvement of their standard of living.
- Term and method of payment. Other similar programs offer better terms and form of payment.

It is also important to note that there are a good number of re-entries but this statistic is still less than the number of dropouts. Former shareholders occasionally re-enter between cycles, and therefore the group appears to to have less shareholders than they actually do.

3.3. Credit service

FINCA Nicaragua, prior to April 2001, distributed loans, payable in monthly installments for four months, with a flat interest rate of 3%, (including 1% of membership fee on the borrowed funds.) The shareholders agree to pay their loans within 16 weeks.

It is important to note that loans distributed between May through August 2001, were given in accordance with credit policies (law no.374 law of reform to law no.176 called regulating law between loan individuals.)

The loan interest rates were authorized by the National Assembly and published in the Gaceta official newspaper (no.176 in April 16, 2001), based on the actual rate of interest. These interest rates were as follows:

- May 16.66 %
- June 17.77 %
- July 15.46 %
- August 17.69 %

The interest rates mentioned above were calculated annually on the balance. The minimum loan issued was \$100, while the maximum was \$1,000. All loans were disbursed in national currency in accordance with the current exchange rate.

The only guarantee for the loan was the group's solidarity itself. Obviously, this is not a conventional guarantee since the guarantors are in the same situation as the debtors.

In the first cycle the average loan is \$100. At the end of the closing cycle, the loan officer verifies each payment and closes the previous cycle. The loan officer then makes

assessment of each shareholder's future requirement based on their previous payments.

The amount borrowed by a shareholder is based on of the following criteria:

- Repayment history
- Savings with the Village Bank
- Prior history of attendance of meetings by the shareholder
- Required documentations

The Board of Directors of the village bank collect the payments once per week. They are required to deposit the money the same day they receive it, or at the very latest, the next day. The money is deposited into the Village Banks' savings account at a local commercial bank. The advisors, supervisors and coordinators are acutely aware of any delays in collecting and depositing loan payments within a 24-hour period. The village banks pay FINCA monthly, and this money is kept in the village bank saving account earning interest.

3.4. Savings

Village Bank Savings are used as additional means in recovering delinquent loans from the shareholders.

As of August 31, 2001, the program had \$49,055.78 equivalent to C\$665,873 in savings.

3.5. Prevention and policy for delinquent loans

The percentage of delinquent loans increased from 0.02% to 1.77% at the end of the last period.

The major reason for such accomplishment is based on good relationships between the shareholders of the village banks and FINCA. We could identify that the traditional high index of payments is determined by a combination of the following:

- A kind of credit service that accounts for missing cash in the community, without a real guarantee, or a bigger transaction. There is currently not a competitive offer such as this.
- The clients who use FINCA's products, are poor people who don't have any other alternative as source of credit. For them, it is very important to develop and maintain good relationship with FINCA, in order to be trusted.

- FINCA lends without formal guarantee. The credit that is given based on the words of the borrowers. The clients compromise their group and individual shareholders if they fail to pay their debt. The shareholder that fails to pay her loan, not only loses future credit when she needs it, but also the credibility from her people.
- Supervision and advice to the groups are part of the credit process. In fact, the advisor visits the village bank weekly. The village banks are also visited by the supervisors, coordinators, and internal and external auditors.
- The shareholders benefit not only by getting loans from the program but also by developing fundamental relationships with other women and the opportunity to develop themselves.

3.6. Complementary Services

The advisors that visit the borrowers are selected by the Human Resources department. They are trained for an entire day about the FINCA's program and their duties, and afterwards, they attend another training about the work in the field. Two village banks are assigned to one advisor during the 1st month, after which, six to nine village banks are assigned per advisor.

The advisors attend weekly work meetings where doubts and problems are discussed with the entire staff, the Program Manager, and the Executive Director.

IV. ORGANIZATIONAL DEVELOPMENT

4.1. Policies and Procedures

FINCA Nicaragua has an organizational chart, function manual, strategic plan and an operative annual plan from which the norms of the institution are explained.

The Manuals are as follows:

- Administrative procedures
- Personnel profiles
- Countable procedures

The personnel use the above profile manuals to inform new personnel of their duties.

4.2 Management and Personnel

The number of personnel has increased based on the needs and expansion of the program.

The following table shows the approach taken to serve the shareholders.

Bank:	1 for each 22 shareholder
Advisor:	1 for each 15 banks
Supervisor:	1 for each 90 banks
Regional coordinator:	1 for each branch

Currently, FINCA León's branch has 13 permanent advisors and 85 institutional advisors.

The quality of work required is very high. The staff is very dynamic which is important in order to maintain the high level of motivation. This spirit of the personnel is proven by the low levels of delinquent loans and revisions of 5-10% according to annual evaluation.

The supervisors monitor the work of the advisors, do inspections on the village banks, and help to avoid delinquent loans by monitoring their activities monthly based on the advisor's weekly reports.

The program and financial managers, regional coordinators, Village Bank supervisors form the credit committee. The committee sessions are virtually held every day, depending on the credit needs.

The committee revises the following important points in every session:

- Shareholder's name
- Required amount
- Shareholder's cycle
- Latest credit
- Saving increase
- Delinquent loans
- Attendance
- Activity
- Proposal
- Resolution

4.3. Capitalization and Self Sufficiency

In August 2001, the financial independency was 154% and the economic was 132%.

Nicaragua is a country with difficult economic conditions, especially in the areas where the program is directed. Nevertheless, the clients have managed to keep this financial form on-going, and have opened saving accounts (sui generis in the financial word.)

4.4. System Development

FINCA's information system includes:

- Portfolio module
- Banks module
- Accountancy module
- Payroll module
- Fixed assets module
- Stationary module

The sub-system and portfolio statistics are generated by daily computer reports of delinquent loans including:

- Disbursement register
- Shareholder list
- Current statement
- Codes

4.5. Systems of Impact Evaluation

Inspections were conducted in 10% of village banks with interviews of 1% of the clients in the region. These inspections were made without prior warning to the clients, and were conducted during meetings and household visits.

Some of the topics discussed were:

- Starting new business
- Growing of the actual business
- Knowledge of procedures
- Economic stability
- Group relationship

The supervisors of the Village Banks keep track of the balance and monthly general financial statements in paperbound book, with each bank listed, and relevant information.

4.6. Internal Control, Audit and Evaluation

Since the end 1996 the auditing department had an internal auditor and two assistants, under the board of directors of FINCA. They verified the portfolios, all the Village Banks, and audited the department's accounting operations.

The audit department audits an average of 86 banks monthly. They elaborate on these respective reports, and verify the card of the shareholders and the balances.

FINCA has also had external audits from the following:

- Peat Marwick in 1998
- Peat Marwick in 1999
- Peat Marwick in 2000

For the final audit we hired DELOITTE AND TOUCHE, and the final evaluation was also completed through an external consultant.

4.7. Expansion and Market

The clients of the Village Banking institution are primarily poor women with a low standards of living who are either self-employed or micro entrepreneurs. The demand for financial products to service these kinds of clients is limitless.

At the present time our Village Banking services are offered in the following regions:

- Managua
- Masaya
- Rivas
- Granada
- León
- La Paz Centro
- Matagalpa
- Sébaco
- Juigalpa

It is believed that FINCA competes with at least 15 organizations that provide similar loan services. FINCA's advantage has been working within the communities, tending primarily to women clients, who are self-employed from the local areas.

V. Conclusion

The project was implemented as specified in the proposal and the Cooperative Agreement. All the goals have been achieved and some targets exceeded. The number of women clients served reached 160% an exceptional performance for such a program.

The loan fund made available was fully utilized during the project period. At the end of August the loan outstanding stands at \$377,700. Meanwhile the portfolio at risk remained as low as 1.77%.

The project remained within budget in the loan fund, administrative and other costs. The cost of the evaluation conducted at the end of the project period exceeded the budgeted amount.

The human resource development and retention was achieved by employing 150 individuals to implement the project and serve the program beyond the end of the project.

In conclusion the project has helped women affected by Hurricane Mitch to overcome their economic difficulties through the Village Banking system.