

FODEMI Ecuador: *Balancing financial and social performance*¹



INTRODUCTION

This case study documents the strategic alliance between World Vision, VisionFund International and FODEMI, which aims to help FODEMI balance its financial and social performance.

FODEMI Microenterprise Development Fund began in 1995 as non-profit organisation, working with the beneficiaries of the Area Development Projects (ADPs)² run by World Vision Ecuador, in the northern and the central regions of the country. The aim of these projects was to improve the socio-economic conditions of the most underprivileged classes, and to improve the productivity of ADP members. This socio-economic development project served as a foundation for the creation of the MICROENTERPRISE DEVELOPMENT FUND (FODEMI),³ whose name reflects perfectly the aims of

this institution, i.e. providing services that stimulate the development of microentrepreneurs.

FODEMI's mission is to promote microenterprise development and improve the quality of life of its clients and their families by providing financial and non-financial services, based on our Christian values, with the support of World Vision, its strategic partner. See **Table 1** for FODEMI's social goals and objectives. Currently FODEMI covers 10 provinces through 8 branches and 8 additional points of sale.

FODEMI has been awarded for its strong organizational performance: including being ranked 10th in the top 100 MFIs in Latin America, 7th in the list of top 20 in terms of efficiency, 14th of the top 20 in terms of asset quality, and 3rd of 20 in terms of most efficient MFIs with loans under \$500 (according to Inter-American Development Bank and MIX Market analysis).

Table 1: FODEMI's social goals and objectives

Goals	Objectives
Reaching target clients: Our clients and their families	72% female clients 49% clients are ADP beneficiaries Access to FODEMI financing for the 84% of WVE's ADP beneficiaries. An average of 1.4 child benefitted by disbursed loans 27% of new clients live below the national poverty line
Meeting client needs: Client satisfaction with financial and non-financial services	\$500 average loan size for first cycle clients 2% client satisfaction increase (per annum)
Creating benefits: Improving clients' quality of life	10% reduction in poverty levels for clients living below the national poverty line

Box 1: The Social Performance Fund⁴

The Social Performance (SP) Fund for Networks is designed to mainstream the new Universal Standards for Social Performance Management.⁵ The SP Fund works with 10 networks that run 18-month projects to document learning and experience around innovative solutions to implementing the essential practices of the Universal Standards. They also support their members to reach full or partial compliance with one or more dimensions of the Universal Standards. Supported by the Ford Foundation, the Fund is managed by the Microfinance Centre (MFC), a microfinance resource center and network serving the Europe and Central Asia region and beyond.

¹ Written by Red Financiera Rural (RFR). RFR would like to express gratitude to FODEMI's Management and staff for allowing us into their institution and for their engagement in this case study, which allowed us to learn from their experience, as well as to RFR staff for data collection. The English version has been edited for length from the original Spanish.

² Acronym for the Spanish "Programas de Desarrollo de Área" (PDA)

³ In Spanish, FODEMI is the abbreviation for "Fondo de Desarrollo Microempresarial"

⁴ For more information visit www.mfc.org.pl/en/content/social-performance-fund

⁵ The Universal Standards are a set of management standards that apply to all MFIs pursuing a double bottom line. Learn more at www.sptf.info/spmstandards/universal-standards

OPERATIONAL DETAILS

FODEMI offers short-term loans for microentrepreneurs who lack economic resources and need money for investments and development of their businesses. The organisation focuses on developing solidarity among its clients and educating them on economic resources management. It uses three methodologies for granting credits, including community banks, solidarity groups, and individual loans.

In addition to its financial services, FODEMI provides training programmes in microenterprise management and financial education. It also provides consultancy services on enterprise management, accounting, costs, customer service, global quality, taxes, leadership, motivation and self-esteem. In 2013, FODEMI trained 12,513 clients who applied for repeat loans. All clients receive training and support in business administration and management from the second loan cycle, focused on resources optimisation and maximisation of profits.

Within the marketplace, FODEMI has the largest gross portfolio in comparison with other NGOs, and the largest number of active credit clients (approximately 21,000 more than other comparable NGOs). High operational efficiency, combined with excellent portfolio quality, benefit FODEMI's profitability, while the support from VisionFund International (VFI) and World Vision International (WVI) guarantee institution's longevity and social-financial balance.

This case study has been written for a specific target group: microfinance service providers that wish to improve their practice in line with the Universal Standards for Social Performance Management. It offers a practical description of the development and implementation of the Strategic Alliance between WVI, VFI and FODEMI. The case provides a series of

Table 2: Key performance indicators

Area/year	2011	2012	2013
Clients	35,787	38,109	50,205
Loan portfolio (K USD)	20,511	23,410	32,668
PAR (<30 days)	0.44%	0.89%	0.57%
Client exit (%)	18.62	19.30	18.16
Outreach to women (%)	70.6	70.49	69.97
Rural outreach (%)	95	95	95
Staff	119	145	190
Staff turnover (%)	46.86	47.24	57.46

recommendations that may help other organisations balance their social and financial performance in line with the Universal Standards, as well as several general lessons on microfinance practice. This case study relates to the specific standard of:

DIMENSION 6. Balance financial and social performance.

STANDARD 6c. Pursuit of profits does not undermine the long-term sustainability of the institution or client well-being.

BACKGROUND

To better understand how FODEMI balances its financial and social performance, it is helpful to explore the background of the alliance between World Vision International, VisionFund International⁶ and FODEMI:

World Vision Ecuador (WVE) seeks to facilitate the Sustainable Transformation Development processes combined with community participation – oriented on transformation of unjust living conditions which affect children, women, families and marginalised ethnic groups – by specific programmes tailored through participative community planning processes and based on organisation's rules.

Table 2: Level of effort required

Position	Short description of the role	Time/month
Microfinance Project Manager	Approves proposed staff increases, approves selection process programme, participates in evaluation committee, ⁵ submits staff applications to hiring committee	15%
Human Resources Coordinator	Prepares selection processes, participates in evaluation committee, reviews knowledge tests, submits applications to management, contract preparation, ⁵ selection process report	30%
Head of Agency	Issues job advert, filters CVs according to job profile, participates in evaluation committee, contract delivery ⁵	25%
Psychologist	Prepares job advert, coordinates logistics, administers and evaluates psychological tests, prepares occupational-psychological report	30%

VisionFund International is a non-profit corporation established under the laws of California, USA. It is a microfinance subsidiary of World Vision International, whose objective is to provide governance, management risk control and specialised training/consulting for any microfinance institution that is fully owned by WVI, and to manage their financing, including donations.

FODEMI is an independent, non-profit foundation whose goal is to promote economic development and improve the quality of life of its clients, their children and their families through financial and non-financial services. FODEMI adheres to VFI's policies and standards, as well as its financial and administrative systems, as it accepts VFI's assistance in developing specific programmes that are the part of the annual plan.

Its first outreach efforts were aimed directly at the beneficiaries of the World Vision Ecuador's Area Development Projects (ADPs), set in the northern and central regions of the country. FODEMI, as with other MFIs in the VisionFund network, launched its microfinance operations with funding from Vision Fund International – guaranteeing its sustainability and, more importantly, its alignment with WVI's and VFI's social mission-driven approach. To reach this goal FODEMI, needs to have at least 50% of its clients participating in the ADPs.

World Vision International (WVI) aims to improve the quality of life of children through concentrating its activities around such issues as: health (nutrition and immunisation), education and child protection. In the light of the need to reach a sustainable transformation development of the quality of life of the families who took part in the ADPs, projects to increase productivity play a key role. Since they require financing, WVI provided revolving funds managed by communities themselves. The interest rates were moderate, so as to allow the fund to grow and reach more people. Unfortunately, the credit beneficiaries did not comply with regulations, meaning that funds were not always recovered in their entirety, incurring losses for WVI. Prior to this, in 1992-1993, microfinance institutions associated with WVI appeared in the sector, as the "financial branch" of WVI. This was the origins of FODEMI – an organisation that received WVI funding to implement a microcredit programme, while effectively managing the credit groups to ensure good repayment performance. In this way, FODEMI financed initiatives and activities of long-term members of the ADPs.

At the beginning, FODEMI would focus its attention solely on ADP beneficiaries. In 1997, in an effort to grow and improve, the institution was restructured: creating a Board of Directors and WVE staff, with microfinance knowledge were hired. Since then, FODEMI has been opening new branches while increasing the quality of service for ADP clients.

STRATEGIC ALLIANCE: DETAILS

The FODEMI, WVI and VFI Strategic Alliance is designed to support financial profitability and social impact by achieving the objectives specified in the Convention regarding the Facilitation of Sustainable Transformation Development that has been signed by all the parties, which stipulates the following:

- Promotion of the Sustainable Transformation Development among the communities where World Vision Ecuador is present through development of FODEMI credit, training and consulting programmes that allow persons to increase their economic incomes, and thus enable them to improve the quality of their lives.
- Promotion of integration of World Vision Ecuador, FODEMI and VFI in such way that will allow carrying out common actions aimed at achieving economic development in the regions with VFI presence.

To reach these goals, WVE continually supports FODEMI's operations as an associated, yet separate, organisation.

Apart from the support mentioned, VMI applies for donations from Support Offices to finance the operations of FODEMI in the ADPs. For this, a Memorandum of Understanding (MOU) was developed to codify the targeting and the use of the funds.

The Boards of WVE and FODEMI and the Regional Director of VFI meet at least once a year to deepen their understanding of organisations' strategies and for closer integration of the entities.

One of VFI's responsibilities is to collaborate with FODEMI on the continuous strategic planning process, to secure the operative and strategic alignment between the two organisations. The two organizations share one vision: "...for each boy and girl, life at its fullest, our prayer for every heart, the will to make it happen". Their mission, the social and financial goals are also aligned – which is clearly reflected in the Social and Financial

Management Report, where financial indicators are highlighted next to the most important social indicators – the same ones that VFI monitors monthly, and which all the MFIs in the Fellowship are also obliged to report on monthly basis.

This is why, based on forecasts, FODEMI together with the Strategic Committee carries out planning of monthly indicators’ growth tendencies. These plans are later submitted to VFI who, in turn, revises the accuracy of the forecasts and the resources requested by the institution for delivering loans, and introduces changes if necessary. Final approval is issued by the FODEMI Board of Directors, and VFI supervises the implementation of the Business Plan on monthly basis. In case of noncompliance, it requests renewed efforts to meet stated objectives or initiates a reformulation of the plan.

To evaluate the financial management and social approach of the MFI, VFI applies monthly-monitored compliance standards. This also illustrates the attention paid to social and financial performance (See **Table 3**).

FODEMI is obliged to report on a monthly, quarterly and semi-annual basis. These reports are later used for FODEMI's internal needs and enable monitoring, performance management and evaluation of its compliance with the Annual Plan. VFI carries out financial and administrative auditing with FODEMI’s active participation. This allows them to analyze compliance with policies, procedures, and the results obtained during the period of analysis. It also facilitates the use feedback to guarantee continued improvement of FODEMI’s management. VFI monitors FODEMI using ranked indicators, with specific grades attributed, that enable judging whether they have been accomplished fully, partially or not accomplished at all.

FODEMI, as a part of VFI, does not aim for excessive growth – on the contrary, it seeks financial inclusion for persons from rural areas and for that reason, it focuses on reaching social goals, such as: low average loan amounts, impact on children, numbers of women served and jobs created. In its corporate structure, FODEMI is bound to guarantee that the representatives of WVE and VFI constitute a majority in the General Assembly and the Board of Directors and that all the members comply with the requirements stipulated in the Governance Policy of VisionFund International. FODEMI is managed in accordance to the approved Plan; the policies, the administrative and accounting procedures

Table 3: FODEMI’s detailed social and financial objectives

<p>FINANCIAL OBJECTIVES</p> <p>Portfolio quality Rate of default > 1 day Portfolio at risk > 1 day Portfolio at risk > 30 days</p> <p>ASSETS / LIABILITIES ADMINISTRATION</p> <p>Assets Portfolio Debt to equity ratio Capital adequacy ratio Return on gross portfolio (annualised)</p> <p>SUSTAINABILITY AND PROFITABILITY</p> <p>Return on Assets (ROA) (annualised) Return on Equity (annualised) Operational sustainability Financial sustainability</p>
<p>MAIN SOCIAL GOALS</p> <p>INTEGRATION</p> <p>% of active borrowers in the ADP/WV project areas Number of ADP/WV project areas with access to financial services</p> <p>FEMALE AND RURAL AREAS CLIENTS</p> <p>% of active female borrowers % of active clients in rural areas Average size of the loans Average loan size for first-time borrower</p> <p>CHILDREN</p> <p># of children per family Client retention rate</p>

are established by WVI and VFI.

The participation of FODEMI and VFI officials is active and always in favour of compliance with the common goals, as it is necessary for them to dedicate all of their time to such designing of social and financial goals that allows its monitoring and evaluation.

FODEMI does not limit itself either to social or and financial management – its actions are aimed at achieving a social and financial balance. For instance, its interest rates need to be reasonable but also profitable so that the operations may continue, while allowing the organisation to grow. To allow this to happen, and to facilitate transparency, since 2011 the organisation has shared information on its interest rates with MFTransparency.⁷

The list below presents social and financial indicators that serve for both internal management and VFI-

Table 4: Level of effort required to balance financial and social performance

Position	Brief description of responsibilities	Days/week
General Manager (FODEMI)	Monthly and quarterly indicators and tasks monitoring	3
Financial Administrative Manager (FODEMI)	Financial information: daily, monthly, semi-annual and annual monitoring	2
Social Performance Officer (FODEMI)	Information related to social performance management: daily, monthly, semi-annual and annual monitoring	2
Credit Consultants (FODEMI)	Promoting, granting and recovering credits dedicated to vulnerable groups, Surveys to measure the poverty level and children welfare	5
Director of Social Performance and Christian commitment (VFI)	Information related to SPM daily, monthly, quarterly, semi-annual and annual monitoring	3
Director of Client Education and Christian commitment (VFI)	Daily, monthly, semi-annual and annual monitoring	2
PPI Manager (VFI)	Daily, monthly, semi-annual and annual monitoring	2
Social Performance Information Analyst (VFI)	Daily, monthly, semi-annual and annual monitoring	2
Financial Director for Latin America and the Caribbean (VFI)	Information related to financial reports: daily, monthly, quarterly, semi-annual and annual monitoring	1
Financial Information Manager (VFI)	Information related to financial reports: daily, monthly, quarterly, semi-annual and annual monitoring	1

network-level management. (See **Table 4** and **Annex 1**).

In terms of internal structure and coordination, FODEMI’s Financial Department issues monthly consolidated and branch-specific reports which are later shared with General Management, the Board of Directors, and VFI’s Regional Directors for analysis and decision-making that guarantees compliance with organisation’s vision and mission.

Maintaining a social focus is the responsibility of the social performance team that supervises the implementation of objectives and provides reports on pre-defined social indicators. This enables continuous tracking of the organisation’s activities. At the same time, this department coordinates the implementation of social performance tools (PPI,⁸ client protection evaluation and client satisfaction tools) and monitors the compliance with social goals.

This management of FODEMI has sparked continued growth, seen in an increase in both number of clients and portfolio size throughout 2013. The indicators tracked are: covering new, ADP-influenced areas and urban zones; directing credit at female heads of households; financial inclusion of areas that previously had no access to credit services. These achievements were possible thanks to cooperation of VFI and VME.

In terms of institutional policy, VFI requires its partner microfinance institutions (in this case FODEMI) to make providing financial services to communities connected to the ADPs a priority. This is why 58% of FODEMI offices are located in the areas where WVI’s Area Development Programmes are active. Moreover, 49% of FODEMI clients are persons that are assisted by the ADPs, which increases the focus on tackling poverty.

RECOMMENDATIONS

Recommendation 1

It is not easy to introduce balance between social and financial performance. However, it is highly recommended to establish “SMART” objectives in each, adopt an annual operational plan and later, to put it into motion. This may be achieved through constant and permanent monitoring of compliance with the plan and through dissemination of its goals among the staff who, in turn, should display high commitment to reaching the goals.

Recommendation 2

Financial and social performance information dissemination by FODEMI is both important and necessary for all market players, to encourage other

⁸ In October 2012 FODEMI started using the PPI tool, which allows it to measure poverty levels in the areas where it works.

microfinance institutions to follow suit. This is why the strategic alliance emphasises the importance of transparency of management of the network's member institutions, and reports this information to the MIX Market and MFTransparency, and the RFR network.

Recommendation 4

The free, non-financial services that FODEMI provides for its clients – training and consulting – are crucial for the growth and success of clients' microbusinesses. Rather than seeing this as a short-term cost, MFIs should approach this as a medium- or long-term "social" investment in successful clients.

LESSONS LEARNED

The benefits of FODEMI, WVI and VFI alliance mainly arise from the growth it maintained since its foundation. With the support from WVI and VFI, FODEMI has had access to services and resources that otherwise would have been beyond its reach, or would be of inferior quality, especially in case of the PPI – a standard tool among the MFIs that belong to the WVI network, which allowed FODEMI to measure its poverty outreach.

We can also point to processes that have been standardised at the level of the entire network, so that all the MFIs of the network share a common image and operate in compliance with obligatory standards. The standardisation of systems is one of the criteria that imposes the most obligations on each MFI, but at the same time has the most influence on the structure of the network. FODEMI operates using standardised policies, regulations, products, operating systems and corporate image, but does not disregard local laws and regulations.

In regards to governance, FODEMI, as well as other MFIs in the network, functions under constant control of local management and a local, adequately composed, board of directors who are integrated into strategies and national programmes of WV's National Office. VFI retains its right to approve and nominate all the members of each MFI's board and its principle managers, so as to guarantee alignment and efficient support of VFI, MFIs and national offices of WV.

In terms of fundraising, VFI and the MFIs may seek financing through debt or equity tools (except for charity donations) from financial institutions, capital markets and financial agents in any country, while taking

reasonable steps to keep the respective VM offices informed.

On the other hand, the relationship between VFI and VM and organisations based on Christian commitments, creates a spirit of greater responsibility in terms of Christian duties among FODEMI staff. Additionally, FODEMI promotes institutional values and solid knowledge of the institution's mission and vision among its employees.

FODEMI also encourages microfinance institutions not to disregard social goals while seeking financial sustainability. On the contrary – they should focus on increasing financial inclusion and creating benefits for their clients and staff. Strategic alliances are beneficial only if they are aligned since the beginning, and pre-establish their expected yield and the positive impact for the clients.

For more information:

FODEMI website: www.fodemi.org

FODEMI on the MIX: www.mixmarket.org/mfi/fodemi

World Vision International: www.wvi.org

World Vision: www.woldvision.org

VisionFund: www.visionfund.org

Microfinance Centre: www.mfc.org.pl

Social Performance Task Force: www.sptf.info

ANNEX 1: DETAILED SOCIAL AND FINANCIAL TRACKING REPORTS

FINANCIAL INFORMATION	DEC-12 REPORT		MAR-13 REPORT		JUN-13 REPORT		SEP-13 REPORT	
	Year							
	Oct - Dec REAL	Oct - Dec GOAL	Oct - Mar REAL	Oct - Mar GOAL	Oct - Jun REAL	Oct - Jun GOAL	Oct - Sep REAL	Oct - Sep GOAL
SAVING AND CREDIT ACTIVITIES								
CREDIT ACTIVITIES								
# of loan application received in total	6 505	8 544	12 520	16 902	20 272	24 956	28 462	33 527
# of loan application approved	6 341	8 427	12 226	16 670	19 769	24 613	27 677	33 068
Value of Loans Disbursed (m. credits)	9 233 599	12 102 310	17 949 278	23 865 775	28 992 173	34 783 280	40 801 981	46 488 000
Value disbursed in individual loans	743 450	971 645	1 418 274	1 911 499	2 594 574	2 814 905	3 889 744	3 795 201
Value disbursed to solidarity groups	5 351 595	8 125 288	10 371 700	15 998 182	17 058 520	23 507 411	23 731 898	31 675 314
Value disbursed to community banks	3 138 554	3 005 377	6 159 304	5 956 094	9 339 079	8 460 964	13 180 339	11 017 285
Total # of Disbursed Loans (m. credits)	6 383	8 427	12 311	16 670	19 945	24 613	27 981	33 068
# of disbursed loans (individual)	410	570	783	1 128	1 466	1 666	2 198	2 237
# de disbursed loans (solidarity groups)	5 561	7 477	10 690	14 783	17 186	21 833	23 933	29 397
# de disbursed loans (community banks)	412	380	838	759	1 293	1 094	1 830	1 434
CLIENTS AND PORTFOLIO PROFILE								
PORTFOLIO PROFILE								
# of Active Borrowers in total (by methodology)	38 109	38 665	38 607	39 633	40 979	39 633	44 940	41 670
# of individual loans active borrowers	1 883	1 927	1 903	2 002	2 142	2 002	2 499	2 165
# of active borrowers in solidarity groups	22 246	22 291	22 407	22 929	23 378	22 929	25 179	24 340
# of active borrowers in community banks	13 980	14 447	14 297	14 702	15 459	14 702	17 262	15 165
# of Active Borrowers in total (by business sector)	38 109	38 665	38 607	39 633	40 979	39 633	44 940	41 670
# of active borrowers in commercial business	12 029	12 706	11 905	13 012	12 349	13 012	13 147	13 670
# of active borrowers in services	3 043	2 884	3 267	2 963	3 480	2 963	4 080	3 131
# of active borrowers in industry	3 542	3 475	3 624	3 566	3 807	3 566	3 842	3 758
# of active borrowers in agriculture	19 495	19 600	19 811	20 092	21 343	20 092	23 871	21 111

SOCIAL INFORMATION	DEC-12 REPORT		MAR-13 REPORT		JUN-13 REPORT		SEP-13 REPORT	
	Year							
	Oct - Dec REAL	Oct - Dec GOAL	Oct - Mar REAL	Oct - Mar GOAL	Oct - Dec REAL	Oct - Dec GOAL	Oct - Mar REAL	Oct - Mar GOAL
CLIENT PROFILE								
Integration								
% of active MFI borrowers in/close to PDAs or VM project areas	40%	43%	40%	44%	45%	44%	49%	40%
Total number of PDAs and VM project areas in the country	24	24	25	24	25	24	25	24
Number of PDAs/VM project areas with access to MFI finance services	24	20	24	20	24	20	26	20
% of PDAs/VM project areas with access to MFI finance services	100%	83%	96%	83%	96%	83%	100%	83%
Female and rural area clients								
# of active female borrowers	26 864	27 453	27 263	28 535	28 863	28 535	31 505	30 419
% of active female borrowers	70%	71%	71%	72%	70%	72%	70%	73%
# of active clients in rural areas	16 727	19 334	17 174	19 817	18 537	19 817	20 780	20 837
% of active clients in rural areas	44%	50%	44%	50%	45%	50%	46%	50%
Average size of the loans								
Average size of the loans disbursed per borrower	935	984	942	978	958	973	958	975
Average size of the loans disbursed per first time borrower	465	525	480	534	506	520	521	518
INFORMATION ON IMPACT								
EMPLOYMENT OF CHILDREN								
Employment								
# of full-time equivalents created	1 048	841	1 631	1 704	2 168	1 704	3 269	3 495
# of full-time employees among the borrowers	14 233	15 466	13 450	15 852	15 338	15 852	16 120	16 668
# of full-time equivalents maintained	54 027	53 758	51 517	51 081	55 868	53 768	61 523	56 607
Children								
# of children of current active borrowers	42 456	43 000	42 732	47 242	42 470	47 242	58 786	49 623
# of children impacted (children of borrowers + employees)	61 357	60 720	58 827	62 919	60 148	66 122	84 754	71 573
# of children per family	1,1	1,1	1,1	1,2	1,0	1,2	1,3	1,2