

# Financial Services: Advanced Management & Monitoring for Projects & Partners

ACDI/VOCA's financial services programs employ transparency, standard operating procedures, internal controls, financial analysis, financial management and new product development to reduce the cost and increase the efficiency of micro, small and medium-sized enterprises.

By Elena Nelson

To better design, manage and measure successes of its financial services projects and partner organizations, ACDI/VOCA has developed two innovative tools: the Financial Database and the Institutional Viability Assessment. Proprietary to ACDI/VOCA, both provide objective instruments for monitoring financial performance, assessing risks and identifying appropriate technical assistance needs for local financial institutions.

## Monitoring Performance

ACDI/VOCA developed its Financial Database with its accompanying analysis tool to provide support to its financial services projects worldwide and to provide its partner financial institutions with a reliable financial management system and a timely and clear analysis of key financial and portfolio ratios. The system makes use of an institution's income statements, balance sheets and loan portfolio information and utilizes financial ratios to identify trends, which are then presented as graphs and interpreted for the benefit of the financial institution's managers. These metrics were selected by ACDI/VOCA technical staff and were drawn from the World Bank Consultative Group to Assist the Poorest (CGAP) and SEEP, and utilize some ratios used by the international rating agencies, like Planet Finance and Micro Rate, in compliance with international accounting standards.

The system tracks past data on outreach, loan quality and operational and financial sustainability over time for each institution. Using an internet interface, partner institutions enter key pieces of information based on their financial statements and loan tracking system. The data is then automatically validated by the system in terms of basic balance sheet, income statement and portfolio indicator correlations. In cases where entered data

is internally inconsistent, an error message is given so that the institutions can correct erroneous fields. The data is compared to an external audit, and inconsistencies are addressed.

Each quarter, a financial services expert at ACDI/VOCA headquarters interprets the data and performance ratios, identifying strengths, weaknesses and potential issues in such areas as loan quality, operating efficiency, outreach, profitability and financial structure. The main purpose of the analysis is to ascertain progress

toward financial sustainability and independence from the donor. In addition to providing the partner institution with valuable feedback, the reports are also used by ACDI/VOCA's project staff as a program management tool, one that consistently monitors and assesses the status of partner institutions and helps to track the success of interventions. ACDI/VOCA Associate Director Nadia Namken stresses the importance of these frequent reports. "It give project managers an opportunity to track trends, to determine the health of a financial institution," she says. Via the internet interface, the results of these analyses are made available to all ACDI/VOCA projects.

Finally, because of the consistent reporting format, the database allows ACDI/VOCA to aggregate information across institutions and over time, providing cumulative information and lessons that can be applied in the design and implementation of future projects.

## Assessing Viability

ACDI/VOCA's Institution Viability Assessment mechanism is essentially a "pre-rating" tool for financial programs and institutions. It can be used in the project design phase to qualify and select potential partner organizations. It can also be used to uncover problems in an existing program or institution.



ACDI/VOCA's Financial Database and Institutional Viability Assessment tools strengthen financial systems projects and partner institutions, increasing the sustainability of microfinance institutions that ensure reliable sources of credit.

Like most traditional international rating instruments, the ACDI/VOCA Institutional Viability Assessment tool examines quantitative financial indicators as well as more qualitative measures of performance. It assesses six aspects of a financial institution: institutional structure, financial management, governance (including the board of directors and policies and procedures), loan portfolio quality, deposit/savings portfolio quality, and market growth and strategy (financial services offered, clients and targeted markets). Used on a consistent basis, the viability assessment could help in developing a technical support strategy that optimizes training (lower unit costs of transferring knowledge) and one-on-one technical assistance (more tailored but higher unit cost).

The result of this assessment is an action plan, which the institution uses to correct any problems so that it would then be able to apply for a formal international rating. By uncovering any issues beforehand, the assessment tool and subsequent action plan increase the institution's chances of achieving a high rating on the first attempt. For instance, Bai Tushum, a microfinance institution and longtime ACDI/VOCA partner, wished to begin the process of becoming internationally rated, a prerequisite for accessing commercial funding, and so employed the Institutional Viability Assessment tool before contacting a rating company.

The process identified issues that could then be resolved in advance. Consequently, in 2003 when Bai Tushum applied to Microfinanza, an Italian rating company, they received a rating of "A," which was upgraded to "A+" in 2005. Though they are now independent, they still use these tools in their financial assessments and planning. The goal in any financial service project is to leave a viable independent financial institution, and the assessment tool is an important part of that effort.

The Financial Database and the Institutional Viability Assessment tools are key components of quality assurance in ACDI/VOCA's financial systems practice area. Reviewed on a consistent basis, both tools are updated regularly to incorporate state-of-the-art standards and practices of the microfinance industry. When applied by technical professionals, both at headquarters and in field offices, they strengthen financial systems projects and partner institutions, increasing the sustainability of microfinance institutions that ensure reliable sources of credit for often underserved populations. Gulnara Shamshieva, the general manager of Bai Tushum noted that "the database and analysis tools are...essential to daily activity. They are necessary for everyday analysis, making timely decisions, for strategic planning and being more attractive to investors."



#### **Staff Spotlight: Elena Nelson in Washington, D.C.**

With 30 years of experience in financial institution development, rural and microfinance institution operation, technical assistance program coordination and project development and training, Elena Nelson serves as director of rural finance for ACDI/VOCA. In that capacity, she has developed and managed the tools described in this article, which she has used to rate and advise rural and microfinance institutions in Malawi, Egypt, South Africa, Central Asia, Azerbaijan, Georgia and Indonesia, conducted numerous training programs for credit officers and board members of microfinance and agricultural credit institutions and advised on regulatory issues for non-bank financial institutions in Kyrgyzstan and Romania. She is also a faculty member of the Consumer Bankers Association's Graduate School of Retail Bank Management. She holds a bachelor's degree from the Academy for Economic Studies in Romania.