




FINCA
International

Annual Report 2001



poverty to
prosperity,
one client
at a time



FINCA
Small Loans-Big Changes



FINCA
Small Loans-Big Changes

Mission Statement

FINCA provides financial services to the world's poorest families so they can create their own jobs, raise household incomes, and improve their standard of living. We deliver these services through a global network of locally managed, self-supporting institutions.



A FINCA Honduras client is hard at work selling tennis shoes in her store.



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Founder's Message

Dear Friends:
The birth of the new millennium heightened expectations in all of us for creating a more loving, peaceful, healthy, and equitable world. But only two years later our security has been shattered, a world war against terrorism is underway, and the human family seems more polarized than ever before.

In such uncertain and emotional times, some might suggest FINCA's vision of a world without poverty has been dealt a crippling setback. But from my vantage point I believe the opposite is true. Here's why.

Accelerating microcredit. At the first Microcredit Summit in February 1997, the number of formally registered practitioner programs reached 500 worldwide (seven of them FINCA's), with an additional 500 unregistered programs. Nearly five years later, the number of registered programs has grown to 2,700 (21 of them FINCA's), with an estimated 4,000 unregistered programs. To date, more than 300 non-FINCA programs have replicated or adapted our Village Banking methodology.

Accelerating awareness of the roots of terrorism: Terrorism thrives in societies where the hope for a better future has been suffocated, where people are unable to create economic opportunity for themselves. Seen in this light, microcredit becomes both a necessary and cost-effective investment in a more stable future. That's why, in the coming years, FINCA expects to have start-up Village Banking programs underway in Uzbekistan, Pakistan, and Afghanistan.

Accelerating innovation. All FINCA affiliates are currently experimenting with variations on the original Village Banking model—including new loan and savings products, variable loan terms and interest rates, simplification of paperwork, health insurance, health training, and Palm Pilots. Nearly all our affiliates have installed computerized management information systems that have enabled them to steadily reduce administrative costs. Several affiliates have begun to develop new instruments for targeting clients, carrying out market research,

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and evaluating impacts. A similar pattern of innovation is occurring throughout the microcredit movement.

From my founder's perspective, FINCA's continuing growth, innovation, and transformation is immensely gratifying. So, too, is the impact of FINCA's leadership on the rest of the microcredit movement. And more important still is the impact of Village Banking on the well-being of hundreds of thousands of low-income families around the world.

But at the same time I know this success story was only made possible by the incredibly hard work and dedication of hundreds of FINCA staff in the field and at headquarters; by a wise board of directors; and by the loyalty and generosity of over 35,000 FINCA donors.

With deepest gratitude,



John Hatch, *Founder*

Message from the Chairman and Executive Director

fINCA achieved impressive growth during the first year of our second strategic plan. Active clients grew by 15% to 189,587, while our total loans disbursed increased 49% to \$98 million. The quality of the loan portfolio remained sound, with our arrears remaining below 3%. The financial results of the network were equally strong. On a consolidated basis, total revenues grew to \$35.7 million, against total expenses of \$27.6 million, producing an increase in net assets of \$8.1 million. This brings the total net asset balance of the network to \$26.5 million. The FINCA network of 20 countries in Latin America, Africa and the Newly Independent States of the former Soviet Union is truly becoming a global fund at the service of the very poor.

On a more sober note, we no longer have the luxury of viewing FINCA's mission solely in a humanitarian light. In the wake of the terrorist acts of September 11, the need for making large investments in our national security has become all too apparent. Less apparent is another investment we need to make, one that America has been, at times, equally loath to undertake: an investment in the world. If we shirk that investment, we not only face a grim future, we may have no future at all.

We must remember that the "American dream" is not uniquely American. As a Somali friend of mine once said, "We all want to live well." But in too many countries, justice and opportunity are as unevenly distributed as assets and wealth.

The good news is that these problems are not necessarily intractable. In Central America, during the turmoil of the 1980s, a number of countries undertook land reform programs that gave the landless poor an instant stake in their future—and gave them, at the same time, a powerful motivation to steer clear of destructive ele-

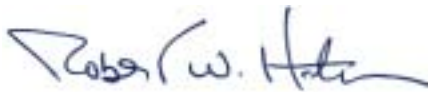
ments. As a result, countries like El Salvador are much less volatile today than they once were.

The same end can be accomplished at the grassroots level—through the medium of microcredit.

That is why, despite the perils that lie ahead, we at FINCA remain more convinced than ever of the urgency of our work. We have already seen—in countries like El Salvador, Peru, Kosovo, and Kyrgyzstan—how our programs help people enter the economic mainstream of their country. By sowing the seeds of growth, we help to stabilize these countries from the ground up, and we make the world a more just and, ultimately, more peaceful place.

Of course, there will always be extremists to whom the only acceptable outcome is "all or nothing." But the great majority of people are neither insane, megalomaniacal, nor inherently disposed toward violence. Given a legitimate means to earn a living, they will choose that path.

At FINCA, we operate under a common assumption: that people everywhere deserve the chance to make a better life for themselves and their children. Providing them with that chance is our mission in life, and to the extent we succeed, we swell the ranks of the peacemakers. And to the extent you assist us in that mission, you, too, become part of fashioning a more secure world—a world that welcomes all its inhabitants.



Robert W. Hatch, *Chairman*



Rupert W. Scofield, *Executive Director*



With FINCA Malawi's help, Jane Mtalima was able to buy more vegetables to sell in the marketplace.

FINCA in the Newly Independent States



FINCA occupies a distinct market niche in the NIS. Poverty has come to the NIS fairly recently after the collapse of the Soviet economy that provided jobs for most people. FINCA's clients, mostly educated women who have been abruptly thrown into poverty after losing salaried jobs, seek self-employment as either a temporary or long-term strategy for survival. FINCA NIS currently serves clients in Russia, Kyrgyzstan, Azerbaijan, Georgia, Armenia and Kosovo.



FINCA's work in this region has helped to consolidate this transformation while providing new economic opportunities for some of the region's poorest communities.

the collapse of the former Soviet Union in the early 1990s turned the region's infrastructure on its head, as state industries disappeared and private enterprise rose to take their place. While this rapid transformation created problems—among them high unemployment—it also provided remarkable opportunities for the rise of entrepreneurship.

FINCA's work in this region has helped to consolidate this transformation while providing new economic opportunities for some of the region's poorest communities. That transformation continued in 2001, as FINCA's NIS programs nearly doubled their portfolio of outstanding loans. Thanks to key adjustments in our methodology, programs in Samara, Armenia, and Kosovo made particularly encouraging progress against strong obstacles.

Russia was the site of a groundbreaking microfinance conference, hosted by FINCA International in December 2000, that allowed senior members of the Duma (Russia's parliament) and U.S. government officials to work with microfinance practitioners to develop strategies for expanding microfinance throughout Russia. Many Duma deputies affirmed the important role that microfinance plays in introducing capitalism down to the grassroots.



Isuf Morina

Isuf Morina, 37, was with his four children in his house in Ostrozub, a small village in central Kosovo, when the Serbian paramilitary threw a hand grenade into the third floor. The family survived, but the house was completely destroyed. For three months, Isuf and his children hid from Serbian soldiers in the mountains. Even when the fighting was over, life remained difficult for them. Isuf's business,

a small grocery store in Ostrozub, had been destroyed by fire, and Isuf and his family were forced to live in a single room in the house next to their old home.

Things began to change, though, when Isuf joined the "Shpresa" (Hope) Village Banking Group in the nearby city of Malisheve. Isuf's group was the first to receive a loan from FINCA Kosovo—personally awarded by Queen Rania of Jordan. This and succeeding loans enabled Isuf to restore his shop in Ostrozub and rebuild his grocery business. Now, with the banking group in its fifth loan cycle, Isuf has just opened a second grocery shop in Malisheve, and his profits have allowed him to rebuild the home he lost in the war.

Country Programs:	7
Village Banking Groups:	4,611
Clients:	36,198
Percentage of women clients:	78%
Average loan amount:	\$321
Amount lent in 2001:	\$27,080,607
Average operational self-sufficiency:	95%

Ketevan Dotiashvili

Ketevan Dotiashvili was a kindergarten teacher in Tbilisi, Georgia when the Soviet Union collapsed. Shortly afterward, the Georgian government stopped paying teacher salaries. Although Ketevan struggled to continue teaching, the demands of supporting her two aging parents forced her finally to start her own business—a small clothing store in downtown Tbilisi—to make ends meet.

“It was simply impossible to get ahead,” she recalls. “I felt like I was treading water. I worked and worked but just couldn’t get anywhere. What I needed was capital, but no bank would take a chance on me.”

In 1999, she heard about FINCA and joined the “Puntusha” Village Banking Group. With an initial loan of \$120 she was able to expand her inventory. She continued to make steady progress, but after seven loan cycles, she decided she was ready for the next step. ➤



That was a promising start to a year that saw FINCA divide its Russian outreach efforts between the regions of Tomsk and Samara. Each region presents both unique opportunities and challenges. The Samara oblast, for instance, offers a high demand for microfinance, a dearth of commercial lending, and an abundance of small savers, as well as legislative, legal and political obstacles of a kind encountered by FINCA in other NIS regions. Nevertheless, in only its second year, FINCA Samara continued to press into the region’s poorest rural areas. The program has developed a new small enterprise loan product and a package of benefits for long-term clients: seasonal loans, holiday loans, parallel loans for Village Banking clients, and parallel loans for individual clients. These initiatives helped the program increase its client base by over 64 percent and triple its outstanding loan portfolio during 2001. The Samara program now stands ready to further double those loan numbers and increase its active client base by another 50 percent in 2002, even

as it works to expand operations into the neighboring oblast of Ulianovsk.

In the Tomsk oblast, negligible competition, moderate infrastructure, an educated workforce, active trading markets, local governmental and business support for small business activity, and the presence of a local entrepreneurs’ union combine to offer a very favorable operating environment for FINCA. Funded by a four-year grant from the U.S. Agency for International Development, the new FINCA Tomsk program disbursed its first loans in May 2001, and by the end of the year, the program had an outstanding portfolio of 251 loans, totaling \$78,825. As the program works to build staff and capacity during 2002, it will also be testing small (individual) enterprise loans and devising new marketing initiatives to reach more local residents.

More than a year after FINCA began disbursing loans in war-torn Kosovo, lingering hostilities among Albanians, Serbs, and neighboring Macedonians continued to hobble reconstruction efforts. Nevertheless, FINCA Kosovo was able to surpass its annual portfolio goal of \$600,000 by nearly \$1 million.

The program also significantly expanded its geographic and ethnic outreach by moving its programs into Serbian areas. In addition, FINCA Kosovo joined with four other institutions to create the Kosovo Credit Information Service, which has taken a lead role in developing best practices among credit providers and building a strong microfinance infrastructure. These advances have left the program hopeful of becoming fully operationally self-sufficient by the end of 2002.

FINCA Armenia underwent amazing growth in 2001. At the end of August 2000, the program had 1,261 clients with an outstanding loan portfolio worth \$115,866. Thanks to an advertising campaign, some procedural changes and a new group of loan officers, the program now has 3,358 clients with an outstanding loan portfolio of \$840,919. Among the innovations spearheaded by the program in 2001 were “micro-loans”—

initial loans of \$500 per person in a group of five or more people—geared to traders and women with higher loan and inventory needs. The program has also raised its operational self-sufficiency. In the coming year, FINCA Armenia hopes to sustain that momentum by hiring more credit officers to meet increased demand and offer more diverse products.

A favorable political climate has reaped dividends for FINCA Kyrgyzstan, FINCA's oldest program in the NIS. In May 2001, Kyrgyzstan's president hosted a national microfinance forum at which he personally gave awards to several FINCA staff members and clients. President Akaev has also required the government and central bank to develop new microfinance legislation with the help of FINCA and other organizations. By building on these advantages and by offering lower interest rates, the program was able to disburse just under \$15 million in loans during 2001.

To make its products even more customer-friendly, the program continues to make refinements in grace periods, seasonal loans, repayment schedules, and loan terms. By the end of 2002, FINCA Kyrgyzstan hopes to amass more than \$4 million in outstanding loans. Also in FY 2002, FINCA Kyrgyzstan will be planning its transition to a legally registered, commercial enterprise.

The lack of electricity in the spring and winter forced many of FINCA Georgia's clients to cut back on production. Additionally, an uprising on an army base in June and mounting violence against foreigners and locals alike have driven FINCA Georgia to take precautionary steps to ensure the security of its operations and clients.

Despite these obstacles, the program continues to help clients make the transition into larger and more profitable businesses. The program has developed a range of loan products of increasing size and sophistication: the "platform" Village Banking product, which starts at \$100; a "springboard loan," tailored to higher-turnover businesses; and the small enterprise loan, a collateralized product that serves small businesses with fewer than 10 employees. In addition to reducing portfolio at risk, this

diversification is enabling FINCA Georgia to grow alongside its clients and is paving the way toward full operational and financial self-sufficiency by the end of 2002.

In 2001, FINCA Azerbaijan was able to open a new office in Imishli, three hours south of its Baku office. The expansion has enabled the program to target refugees displaced by unresolved regional conflicts. In recognition of these clients' special needs, FINCA Azerbaijan has offered such options as biweekly and monthly repayment plans, sliding interest rates (interest-rate reductions over successive cycles that reward clients for consistently good performance), lower group sizes, and policies that link meeting attendance to loan size.

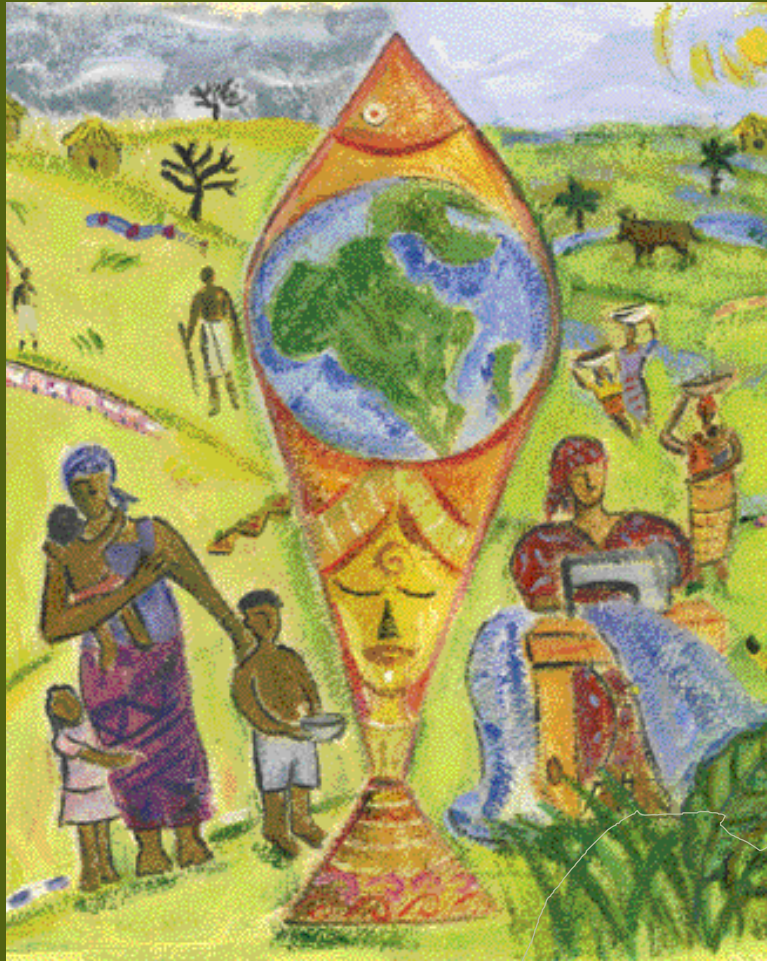
These innovations have helped the program combat great obstacles, including a campaign to clean Baku's streets of unlicensed vendors, the implementation of an increasingly complex tax regime and a national transition from Cyrillic to Latin script (which has a direct impact on the legal documentation required by small businesses). Continuing efforts to extend the program's outreach and to introduce best-practice methodologies bode well for 2002, when FINCA Azerbaijan plans to roll out new products including small enterprise and rural loans.

In October 2001, the country director and operations manager of FINCA Azerbaijan helped organize the First Annual Azerbaijan Microfinance Conference. A direct result of these efforts was the creation of a Microfinance Association, which will serve as a clearinghouse of best practices information and will encourage licensing and registration of MFI's. FINCA Azerbaijan is a founding member of this association.



"I knew I could handle more credit, and I saw opportunities I felt I had to push. So I applied for a small enterprise loan and used my business equipment as collateral. I got a loan for \$1,000, and now my business is really growing. I never could have got a loan from a commercial bank. They wouldn't have accepted my equipment as collateral, and what bank wants to give out a \$1,000 loan?"

In the NIS, women like Tatayana can expand their kiosks with help from FINCA.



FINCA in Africa

Ravaged by both poverty and disease, Africa suffers from high unemployment throughout every country and has very few formal, salaried jobs for women. Since 1992, FINCA has worked to create a network of financial services and support for African communities in need of market development. FINCA Africa's five affiliates in Uganda, Malawi, Tanzania, South Africa, and Zambia provide a vital infusion of working capital into some of the world's most impoverished communities and have begun offering other products and services, such as health insurance and business-interruption coverage, to respond to the specific needs of its uniquely vulnerable African clients.



...the program used such variations as interest-rate rebates to attract more than 30,000 clients and to secure operational and financial self-sufficiency rates greater than 100 percent.

the challenges of working in the world's poorest continent have not kept FINCA from establishing a vital microcredit presence in the southern and southeastern quadrant of Africa. Through its programs, FINCA seeks not only to provide financial services to underserved African families but to foster employment opportunities and economic growth in some of the world's most disadvantaged communities. Those efforts continued apace in 2001, as FINCA's African programs expanded their cumulative outstanding-loan portfolio by more than 40 percent.

The newest addition to FINCA's Africa network is FINCA Zambia, launched in the Lusaka province. Zambia is a landlocked country whose 10 million citizens suffer from some of the most severe poverty and unemployment in southern Africa. Despite these obstacles, FINCA Zambia had reached 723 clients and disbursed \$68,000 in loans by August 2001 and aims to reach 6,050 microentrepreneurs by the end of 2002.



Beatrice Siwale

When Beatrice Siwale began selling charcoal and tobacco in a Lusaka, Zambia market in 1985, she didn't have the capital to keep her business going from day to day. Then, in 1993, her fortunes took a further downturn when her husband left home, taking with him all the little capital she had.

For the next eight years, she struggled to clothe, feed, and educate her children. Then, in 2001, she heard about a micro-finance institution that was offering loans

and other financial services to the productive poor, particularly women. She joined FINCA's Twafwane Village Bank in May and used her initial loan of \$84 to diversify her business by selling potatoes, onions and salt. With a second loan of \$200, she began trading, and the profits from that business enabled her to sell baby suits and children's clothing.

"I am now able to feed my children and send them to school," Beatrice reports. "FINCA has changed my life for the better, and I am grateful."

Country Programs:	5
Village Banking Groups:	2,706
Clients:	65,164
Percentage of women clients:	98%
Average loan amount:	\$127
Amount lent in 2001:	\$18,484,810
Average operational self-sufficiency:	108%



One of the FINCA network's largest programs, FINCA Uganda, has been operationally and financially self-sufficient almost continuously since November 1999—the result of strict expense controls coupled with a growing loan portfolio and improved yields. Efficiencies were mainly gained by maximizing client numbers and portfolio by credit officers; obtaining the full impact of pricing changes; increases in the average loan size; and improving efficiencies in the disbursement process.

In 2001, FINCA Uganda provided \$9.6 million to over 29,000 clients despite negative campaigns against microfinance institutions during presidential and



Clockwise from above: This FINCA Tanzania client has helped her family weather tough times by selling fruits and vegetables; FINCA Haiti loans have helped this client start a small eatery in her home.; In Zambia, clients like Farida Semi are able to sell items like grain and maize in the downtown marketplace.



parliamentary elections, which forced a higher rate of arrears as candidates encouraged clients not to repay loans. Plans for 2002 are to begin transforming FINCA Uganda into a formal financial institution, licensed by the central bank. By allowing the program to mobilize and intermediate savings, this change would increase growth, improve financial self-sufficiency, and complement its range of products and services.

That spirit of innovation will continue in 2002, as the program works to provide larger Village Banking groups, smaller progressive loans, and individual loan products.

Malawi was the site of a May 2001 FINCA board meeting, hosted by FINCA Malawi, which has been recovering from a dramatic 2000 devaluation in the national currency that forced the program to implement new measures for protecting capital. In other developments, FINCA Malawi completed its strategic and operating plans and began the process of expanding into the country's northern region. By the end of August 2001, the program was serving more than 20,000 clients.

FINCA Tanzania, despite a depreciated national currency, enjoyed a bumper year, its client roster rising from 7,500 to 13,500, and its loan portfolio more than doubling from \$338,000 to \$741,000. The program also expanded its outreach by moving its office to Dar es Salaam, Tanzania's commercial center and largest microfinance market.

The program has enjoyed great success pioneering the use of "speed groups," subgroups of five to seven members within each Village Banking group. By providing additional levels of loan guarantees and by facilitating the loan payment process, these groups have improved efficiency and reduced conflicts over developing follow-up plans. To eliminate waiting time between loans, FINCA Tanzania also recapitalizes Village Banking groups on the day they make their last payment.

That spirit of innovation will continue in 2002, as the program works to provide larger Village Banking groups, smaller progressive loans, and individual loan products. Its goal next year is to reach over 18,500 clients, with an outstanding loan balance exceeding \$1 million.

High unemployment and diminishing opportunities



in the formal economic sector have made subsistence enterprise more important than ever for the low-income households of South Africa. In only its second year, FINCA South Africa has responded to that demand by tailoring a new variation on the Village Banking model: the self-employment partnership—a group of eight women who come together to gain access to FINCA's financial services. The partnership allows each client to borrow when she needs the money and to decide the terms of her loan. During 2002, the program looks to increase its client roster to 5,000 and to expand its reach from the city of Durban to more rural areas in the Kwazulu-Natal province.

Rozaria Zakaria

Rozaria Zakaria is a 50-year old married woman with 6 children. She joined FINCA Tanzania last year and was elected as chairperson of Wazazi Village Banking group. At the time of joining FINCA Rozaria had a small restaurant which she had been running since 1990. From her small profits, she was able to support her family with the bare necessities but could not afford to spare any money to expand her business.

Rozaria's first loan of \$56 was spent on buying some bigger cooking pots so that she could cook more food for her clients. With her second loan of \$220, she bought a television set for her restaurant, which attracted more clients to her business. With her third loan she bought a deep freezer so she could provide cold drinks, which made her place even more popular, and she could now buy some perishables in bulk at reduced prices.

Rozaria likes the weekly repayments as they keep her working hard throughout the week so she is able to pay back her money on time. Rozaria now has a loan of \$1000 with savings of \$350. She says FINCA has helped her grow her business in just one year more than she was able to grow it in over 10 years of running her restaurant.



FINCA in the Americas

FINCA has created a distinct market niche in Latin America serving primarily women who live on less than \$2 a day. Latin America was FINCA's birthplace in 1984, and today delivers life-changing microloans to clients in the U.S., Mexico, Guatemala, Nicaragua, Peru, Honduras, Haiti, El Salvador and Ecuador. FINCA's ongoing success in this region, despite its political and financial instability, is a testament to the great demand for Village Banking and the strength of the FINCA business model.



...the program used such variations as interest-rate rebates to attract more than 30,000 clients and to secure operational and financial self-sufficiency rates greater than 100 percent.

home to some 78 million of the world's poorest people, Latin America also boasts a large informal sector and relative freedom from market constraints that make it a healthy environment for microfinance. Although the informal sector accounts for roughly 20 percent of the region's employment, most self-employed people can only get credit from moneylenders, who may require interest as high as 10 percent a day. Under these conditions, the demand for microfinance has far outstripped the supply.

Since the 1980s, FINCA has worked to satisfy that demand, and over the past year, that long-entrenched model was able to weather the havoc of earthquakes and financial crises. At the close of 2001, the Latin American region made up 47 percent of FINCA's clients and 52 percent of total loans outstanding.

Founded in 1989, FINCA Mexico operates Village Banking groups in the states of Morelos and Puebla. With most of the program's clients running tiny agricultural businesses or petty commercial operations, the demand for FINCA products is high, and FINCA Mexico continues to increase its loan portfolio. As of August 2001, the program was serving nearly 9,000 clients



Martha Hernandez

In 1992, Martha Hernandez, a married woman with five children, was selling fruits and vegetables in San Martín and San Pedro Perulapán, Honduras, but was unable to amass much in the way of profits or savings. All that changed when she became a founding member of FINCA's Village Bank Dinámicas of San Pedro and received an initial loan of \$25.

Over the next nine years, Martha secured 27 loans—the last three for \$313. And as her business grew, so did her savings. More than once, she was able to draw from those savings to pay for home improvements.

"I feel very grateful to FINCA," Martha says now, "because with the loans I received I have increased my business. I have been able, through the revenue, to keep my family working on the land, and I have been able to raise my children and improve my dwelling."

Country Programs:	8
Village Banking Groups:	4,844
Clients:	88,225
Percentage of women clients:	97%
Average loan amount:	\$264
Amount lent in 2001:	\$52,612,998
Average operational self-sufficiency:	129%



Sofia Valle Calderon

A few years ago, Sofia Valle Calderon, a Mexican mother of five, had only enough capital to sell three pairs of shoes at a time. When a friend encouraged her to apply for a loan with FINCA, Sofia asked: "Who can recommend me?"

"Me!" replied the friend.

With an initial loan of \$85, Sofia was able to buy 10 pairs of shoes. Four months later, she had a net profit of \$365. A second loan allowed her to boost her inventory to 20 pairs of shoes, and from there she kept growing. Today, she owns a small stall with 500 pairs, and not even a traumatic robbery has been able to

and had distributed nearly \$7.3 million in loans.

Although it offers loans to some of the region's poorest families, FINCA Mexico has been able to maintain high rates of repayment and financial self-sufficiency.

In 2001, the program opened a new branch in the city of Jojutla and expanded to Puebla. Another branch is set to open in Cuernavaca in 2002. Upcoming objectives are to reach 14,400 clients and to expand the program's loan portfolio to \$1.9 million.

The country of Honduras was hit by such crises as drought and electoral uncertainty. These external factors plus management turnover at the director level resulted in a substantial contraction in the client base during 2001 to 16,000. Significant arrears problems were also experienced. In response, a stabilization plan has been implemented.

Although El Salvador experienced earthquakes, it was the financial aftershocks stemming from dollarization that posed equally large challenges for FINCA's Centro de Apoyo a la Microempresa (CAM). Fortunately,

FINCA Nicaragua remains on track to achieving its 2002 goals, including 1,700 Village Banking groups, 32,000 clients, & a \$3.8 million loan portfolio.

the CAM—still the second largest of FINCA's Latin American affiliates and the first FINCA program to establish nationwide reach—was able to continue its decade-long track record of providing life-changing loans for Salvadoran families. During 2001, the program was also successful in launching a new program for individual lending. These and other modifications of the Village Banking methodology have given the CAM an outstanding-loan portfolio of \$3.5 million—the largest in the FINCA network.

FINCA Nicaragua had to contend with a new national law that puts caps on the interest rates FINCA can charge to its clients. This law treats microfinance institutions as formal commercial banks without considering the special circumstances in which those institutions operate. FINCA Nicaragua was able to install a temporary fix by charging a commission that ensures equivalent yield, and the program will continue to push for laws that support, rather than hinder, microfinance. In the meantime, FINCA Nicaragua remains on track to achieving its 2002 goals, including 1,700 Village Banking groups, 32,000 clients, and a \$3.8 million loan portfolio.

FINCA Guatemala was able to institute some key innovations during 2001. By registering loan disbursements and recuperations on a client level, the program has reduced the amount of paperwork processed by credit officers and Village Banking group members. FINCA Guatemala was also prominently featured in a June 2001 "Innovations in Microcredit" conference in Guatemala City, sponsored by the Multilateral Investment Fund and the International Fund for Agricultural Development.

FINCA Peru remained on a growth track in 2001, reaching 6,247 clients through 263 Village Banking groups. In Ecuador, despite changes in financial regulations, severe devaluation of the national currency, and the subsequent dollarization of the national economy, FINCA Ecuador managed to do more than withstand the extreme instability that caused many of the country's financial institutions to crash. The program actually saw a net growth in its loan portfolio.

In 2000, the program had to temporarily suspend lending operations and develop strategies for coping with the new economy—among them, tripling average loan size, restructuring loan terms for clients on a case-by-case basis, rescheduling repayment requirements for delinquent loans, tightening criteria for the selection of new borrowers, and introducing a more stringent pre-loan training program that gives borrowers more information about loan obligations and owning and running a business. These measures, along with an aggressive client outreach program, have boosted loan repayment rates, and FINCA Ecuador now stands poised to reach more than 14,000 clients in 2002. The program will also embrace the challenge of financing future portfolio growth with commercial loans.

Working in the Western Hemisphere's poorest country, FINCA Haiti was able to secure critical near-term financing through grants from the U.S. Agency for International Development and Citigroup in Haiti. Drawing on such innovations as an enterprise bank group format—a self-selected group of five to ten experienced Village Banking clients, receiving loans in the range of 10,000 to 30,000 gourdes at 26 to 1 US dollars—the program expanded its client base by a remarkable 57 percent and increased its outstanding loan portfolio by 58 percent. The program also maintained a perfect repayment record throughout the year.

These trends bode well for the coming year, as FINCA Haiti works to reach more than 3,800 clients and improve its operational self-sufficiency. At the same

time, the program will be looking to acquire donations large enough to sustain uninterrupted growth for the next three years.

FINCA USA serves more than 220 clients from the District of Columbia, Northern Virginia, Baltimore, and suburban Maryland. In addition to self-employment loans, FINCA USA has begun providing monthly training classes in entrepreneurship that help clients master such skills as developing business plans and marketing strategies, managing time, and improving credit records. The program received a publicity boost in June 2001



when Queen Rania of Jordan visited a FINCA USA client, Haoua Cheick Traore. Traore, a native of the West African nation of Mali, has founded her own import/export business with the help of FINCA loans.

slow her progress or prevent her from repaying her loans.

"I have my own clientele," she reports, "and I tell them not to look for me on Tuesday afternoons. Tuesdays are for my FINCA meeting."

Lucia from FINCA Nicaragua has expanded her inventory with a loan from FINCA.

FINCA Headquarters

In the first year of FINCA's latest five-year strategic plan, FINCA Headquarters continued to make strides in building a foundation upon which to base future expansion.

Financial oversight. Perhaps the most important accomplishment came with the strengthening of the Finance Department—one of the top-priority projects



A FINCA Uganda client uses her loan to sell grain, rice, fruits and vegetables.

of FINCA's five-year strategic plan. Until recently, the FINCA network's financial system has been decentralized, with most of the field operations creating their own income statements and balance sheets. The recent consolidation of field programs, as well as the need for more comprehensive and timely financial reporting, has

prompted the development of a new integrated Management Information System. Once complete, this system will greatly reduce the amount of time affiliates spend collecting data and preparing reports. It will also allow both affiliates and headquarters staff to monitor performance, analyze trends, and generate reports quickly and efficiently.

Coping with regulatory changes. The proliferation of microfinance in the developing world has triggered a regulatory backlash that often complicates the continued operations of many FINCA programs. To craft proactive responses to these challenges, FINCA has assembled a team that includes a banking-law expert and a former regulator with Bolivia's Central Bank. The group has already aided programs in Ecuador, Nicaragua, Guatemala, Georgia, Kyrgyzstan, and Uganda and will be on hand in coming years to help FINCA programs cope with regulatory "surprises."

Transformation. FINCA has identified one country in each region—Ecuador, Uganda and Kyrgyzstan—where we will pilot the transformation of our programs into formal financial intermediaries. We believe transformation will be a key element in:

Improving operational efficiencies;

- Increasing client satisfaction and impact;
- Diversifying our sources of capital to finance the growth in client outreach;
- Reducing risk by establishing ownership and control of network assets; and
- Intermediating and protecting client savings.

Congressional advocacy. On the legislative front, FINCA Headquarters played a major role in securing congressional approval of the Microenterprise for Self-Reliance Act, which authorizes \$310 million for microfinance over the next two fiscal years. Passed by unanimous consent in both houses of Congress, the bill's success is a testament to the recognition of microfinance as an effective tool in economic development.

The recent consolidation of field programs, as well as the need for more comprehensive & timely financial reporting, has prompted the development of a new integrated Management Information System.

Operating systems. FINCA continued to make progress in installing various components of the FINCA Operating System (FOS), including the FINCA Affiliate Financial System (FAFS), or SIEM. The SIEM has now been successfully installed in all the Latin American and African countries. Two valuable additions to the FOS are: a “Marketing/Communications Toolkit” developed to help country directors market their services to clients and create communications tools specific to their key constituencies and, a “Human Resources Toolkit” created to provide affiliates with human resources systems in a variety of areas. These are now being implemented in several Latin American countries.

Village Bank Capital Fund. The Village Bank Capital Fund remained “fully subscribed” for most of the year, with outstanding loans and credit enhancements totaling \$2.6 million. In 2002, the fund is expected to become the centerpiece of a resource mobilization



campaign and a linchpin for financing the ambitious portfolio targets of the strategic plan.

Future Challenges

Looking to the future, FINCA faces a number of key challenges and opportunities, some internal to the organization, others posed by external forces. In the coming years, we will be working to:

- Reduce arrears in selected country programs;
- Reduce turnover among clientele;
- Raise the funds required to fuel growth with quality and stability; and
- Balance the demands of daily operations with progress on institutional development projects while managing the unexpected crises triggered by the political and economic instability of many developing countries.

The fallout from the tragic events of September 11 also raises the possibility that FINCA will be called upon to play an important role in economic assistance to Central Asia. In the meantime, as our programs grow and become more visible, we expect more intervention from central banks.

Above: FINCA clients in Kyrgyzstan meet frequently during Village Banking meetings

Left: A little girl plays in the marketplace.

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FINCA International, Inc.

Consolidated Statement of Financial Position as of August 31, 2001

ASSETS	2001
Current assets	
Cash and cash equivalents	
Unrestricted cash	\$8,364,592
Restricted cash	<u>1,127,136</u>
Total cash and cash equivalents	9,491,728
Investments	2,512,136
Receivables	
Loans—net of allowance of \$592,000	24,775,604
Grants	793,528
Other	572,474
Pledges	<u>21,025</u>
Total receivables	26,162,631
Other current assets	<u>504,987</u>
Total current assets	38,671,482
Furniture and equipment (net of accumulated depreciation \$1,639,549)	1,647,389
Long-term notes receivable	<u>6,017</u>
Total assets	\$40,324,888
LIABILITIES AND NET ASSETS	2001
Current liabilities	
Accounts payable	\$3,313,845
Other current liabilities	1,631,595
Notes payable—current portion	5,407,974
Deferred grant support	<u>1,385,969</u>
Total current liabilities	11,739,383
Long-term notes payable	<u>2,070,746</u>
Total liabilities	<u>13,810,129</u>
Commitments and contingencies	
Net assets	
Unrestricted	25,386,775
Temporarily restricted	<u>1,127,984</u>
Total net assets	<u>26,514,759</u>
Total liabilities and net assets	\$40,324,888

Consolidated Statement of Activities

Year Ended August 31, 2001

2001

Change in unrestricted net assets:

Revenues:

Interest income	\$16,750,786
U.S. federal government grants	10,988,249
Contributions	3,477,621
Foreign government grants	513,489
Affiliation fees and other income	<u>843,019</u>
Total revenues	32,573,164

Net assets released from restrictions:

Satisfaction of program restrictions	<u>1,356,973</u>
Total unrestricted revenues	<u>33,930,137</u>

Expenses

Microenterprise development programs	21,427,158
Fund raising	673,649
General and administrative	<u>4,130,789</u>
Total expenses	<u>26,231,596</u>

Increase in unrestricted net assets 7,698,541

Change in temporarily restricted net assets

Contributions	1,773,838
Net assets released from restrictions	
Satisfaction of program restrictions	<u>(1,356,973)</u>

Increase in temporarily restricted net assets 416,865

Change in net assets 8,115,406

Net assets, beginning of year 19,148,017

Translation adjustment (748,664)

Net assets, end of year \$26,514,759

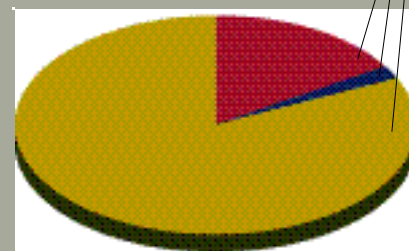
PERCENTAGES

Microenterprise development	21,427,158
Fundraising	673,649
G&A	<u>4,130,789</u>
	\$26,231,596

Microenterprise development – 82%

Fundraising – 2%

General & Administrative – 16%



Major Donors

Due to space constraints, FINCA is not able to acknowledge all of our generous donors individually. To those whose names do not appear, the board and staff of FINCA, and our 200,000 clients all over the world, are very grateful for your support.

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continued

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FINCA would also like to acknowledge those who have invested in the Village Bank Capital Fund (VBCF). Through the Fund's credit enhancement program, FINCA programs are able to qualify for commercial loans on the most favorable terms by providing collateral to commercial lenders. These commercial funds are then used to fund loans to FINCA's low-income clients.

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FINCA especially thanks those supporters who have included FINCA in their estate plans. These individuals are members of FINCA's Legacy Society, and each one has demonstrated his/her commitment to a better world—one that liberates families from the binds of severe poverty. We encourage you to work with your accountant, lawyer, and/or estate planner to create your own legacy with FINCA.

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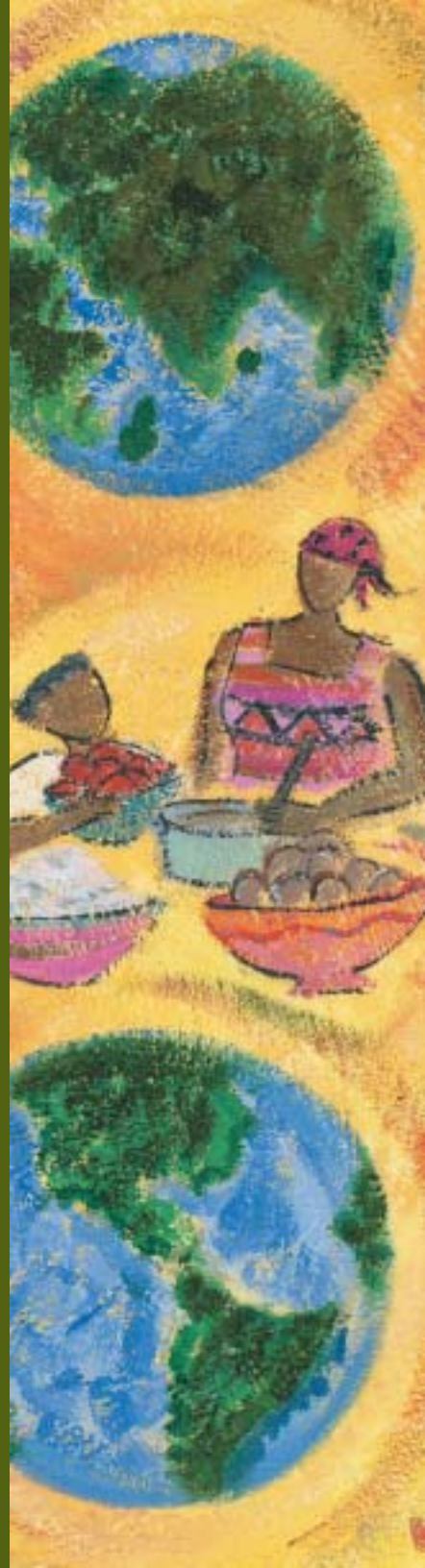
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