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Matching Grant Annual Progress Report to 30 September 1999

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MEDA's Matching Grant Program
Progress Report to 30 September 1999

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MEDA Matching Grant Program

USAID Award No FAO-00-98-00080-00

Annual Progress Report to 30 September 1999

1 0 INTRODUCTION

The following progress report on the MEDA Matching Grant (MG) Program, financed by USAID's PVC division covers the period from 1 October 1998 through 30 September 1999 The matching grant project provides support to MEDA's Small Business Development Programs (micro-enterprise credit programs) in Mozambique and Haiti, and to MEDA's headquarters to assist in enhancing capacity at the headquarters level as well as providing technical assistance and management oversight to field partners

The report is structured to correspond USAID's guidelines for the matching grant' s first year annual report The report will provide an overview of MEDA's activities (as an organization) in year 1 as set out in the Business Plan (March 99) and examine accomplishments against objectives, constraints and lessons learned in Mozambique and Haiti using the Detailed Implementation Plans (DIPS) as a basis

2 0 OVERVIEW OF YEAR 1 - MEDA

2 1 Background and Organizational Structure

MEDA was first organized in 1953 by a small group of Mennonite business persons with an interest in encouraging the development of business enterprises in less developed areas of the world Today MEDA is an organization of 3,000 Christian business people, mostly from North America, who believe their faith, skills and resources can be used to help overcome poverty In the 1970s, MEDA obtained PVO status in both the United States and Canada MEDA remains a bi-national PVO with offices in Lancaster, PA, Waterloo, Ontario and Winnipeg, Manitoba MEDA is also registered and maintains offices in Bolivia, Haiti, Mozambique, Nicaragua, and Tanzania

MEDA currently supports small business development activities in 12 countries, including the US MEDA is organized into three divisions Member Services/Marketing and Fundraising, North American Services (NAS) and International Economic Development (IED)

2 1 1 International Economic Development (IED)

The International Economic Development Division is comprised of four departments, and is the division which manages and also derives benefit from the MG Program

International Operations works primarily in contract execution, governed by movement from pilot projects to programs that establish viable businesses MEDA provides technical support, training and funding to eight micro-credit programs and four business development programs With technical and financial strengthening from MEDA, many of these are independent, self-sustaining institutions that continue to provide services to the poorest of the economically active

The ***MEDA Consulting Group (MCG)*** carries out internal technical support (through the Technical Resource Unit - TRU) and external consultancies that enhance performance of other organizations carrying out work in which MEDA has experience and expertise

MEDA Trade Company Inc (MTC) is a for-profit arm working in such areas as currency exchange, debt swaps, insurance products and commodity monetization

The ***Global Investment Fund (GIF)*** manages business involvements that have graduated from operations, and pursues opportunities that involve debt and equity investment Through the GIF, MEDA can provide working capital investments which may be required to match technical assistance financing provided by donors

The synergy between the four departments of the IED enhances the MG program While International Operations manages the program, the other three departments are also involved MCG and the TRU brings its experience and skills to the training components, as well as disseminating the "best practices" learned from the program MTC will explore possibilities of trade for the individual clients and businesses created in Haiti and Mozambique to move them to increased profitability, as well as providing income to MEDA The GIF will provide the necessary loan funds to the partners for the project, as well as maintaining oversight in the future at the board level This will allow the Operations Department to move on to new program interventions This interaction between programs, consultants, trade, and investment is a positive step towards financial sustainability of MEDA as an organization, as well as contributing to the long-term social goals of the IED

2 2 Matching Grant Purpose

The goal of MEDA's MG program is to build and strengthen sustainable, local capacity to promote economic growth with and among the economically active poor, through enterprise development in selected countries in Africa and the Caribbean More specifically, the MG program will enable MEDA to refine and document its community banking experience The MG program will also enable MEDA to strengthen its capacity in the area of capital formation by providing support to the *Global Investment Fund (GIF)* Advances in this area will enable MEDA to generate the needed capital to finance the Haiti and Mozambique capital requirements and fuel the growth of other micro-finance and marketing institutions Other technical capacity areas that will benefit from systems development under the MG are accounting/MIS, monitoring, evaluation, tools for business development services, and gender equity

2 3 Overview and Progress of Year 1

2 3 1 MEDA Targets and Results

Organizationally, MEDA's *three year* MG sustainability targets and accomplishments to date are located in the table on the following page

Table 1 Three year sustainability targets

Three year targets	Year 1 accomplishments
✔ 200% increase in member contributions, ✔ Government funding decreased from 74% to 66% of total ✔ Revenue from consulting, trade and investment increased to 21% of total, ✔ Financial surplus achieved each year	✔ 23% increase in member contributions ✔ Government funding decreased to 48 7% for MEDA and 58% for IED, ✔ Revenue increased to 19 2% of total for MEDA and 21 5% of total for IED ✔ Financial surplus achieved in Year 1

A summary of major outputs for MEDA during fiscal year 1999 (ending June 30 1999) is located in Table 2 below

Table 2 Summary of Major Outputs - FY99

+2	Raise $900,000 in support of MEDA's core operations, and in cooperation with other divisions, generate an additional $4,600,000 of revenues
+2	Consolidate offices and reduce overhead and support costs by $100,00
+1	Revise long-range plan and overall marketing strategies
+1	Introduce test and refine an overall financial strategy based on a product (goods and services) orientation
+1	Ensure MEDA's financial integrity
+1	Provide equitable policies and practices for staff including gender awareness training

+2 = Progress is ahead of target
+1 = Progress on target

2 3 2 Marketing and Public Awareness

Over the past few years MEDA has consciously been promoting itself to a wider audience This year marked the introduction of a "product marketing" approach, whereby MEDA's international development programs were "sold" to donors/members Increased collaboration with the Marketing and Fundraising team has helped to increase overall contributions as well as to sell specific "products"

MEDA's Development Education and Public Awareness activities for the past year included

- ✔ 95 articles about MEDA activity published in Mennonite and other church publications
- ✔ Created and presented a Powerpoint presentation called "MEDA and You" for the major bi-annual gathering of North American Mennonites held in St Louis, Missouri
- ✔ The appearance of MEDA's Marketing and Media Relations Coordinator in a U S Public Broadcasting Corporation-sponsored documentary about Mennonites in Manitoba In the documentary, he described MEDA's mission and goals for its work

- ✔ Publication of eight issues of MEDA's magazine The Marketplace (circulation, 4,000), which regularly features MEDA's overseas activity, and six issues of MEDA News, MEDA's in-house publication for it's 2,600 members (**Annex1**)
- ✔ The annual convention (November 1998), attended by 350 people in Dallas, which featured reporting about and workshops on MEDA s overseas activity
- ✔ Creation of a special interest group within MEDA for those who want more information about our international activities than is available through all other channels This group will receive bi-annual updates on MEDA programs overseas
- ✔ Created and printed for distribution a MEDA *"Connecting Faith and Work in a Needy World"* brochure for general information requests and fundraising
- ✔ Created and printed a MEDA Consulting Group brochure (**Annex 2**)
- ✔ Began creation of a table-top display for use by MEDA's Global Investment Fund and MCG
- ✔ Launched an advertising campaign called "MEDA Works" which features stories of clients

Member involvement is always encouraged During this past year a number of members invested in the GIF, three MEDA members were contracted at reduced rates to assist with developing an environmental review policy and procedures for MEDA, the Country Managers were hosted by the St Catharines and Waterloo chapters, IED staff made presentations at the Lancaster, Denver and Goshen/Michiana chapters, and several members accompanied staff on a visit to Ethiopia

2 3 3 IED Department

Within the IED Department, a number of accomplishments were made during the fiscal year Highlights of the year include

- Contracts totalling **$7 5** million were signed with major donors and clients,
- Designated funding of **$150,000** and undesignated funds of **$300,000** received from private donors
- Investments totaling **$425,000** received by the Global Investment Fund,
- GIF investments of **$600,000** made with business partners,
- Gross return of **7 3%** realized on GIF portfolio,
- Plans developed for creating the GIF as a series of companies owned by MEDA, registered as a security in the USA and Canada,
- Agreements concluded with a bank in Nicaragua and several other investment partners to re-create the CHISPA program as a regulated micro-finance bank with a total capitalization of $6 million,
- Consulting days reached **1,300**, up **34%** from FY98, resulting in MCG revenues of **$465,000**
- New MCG office opened in Peru, registered as a 99% MEDA owned company,
- MEDA Trade had transaction revenues totaling **$182,500** (**14%** above budget) -- **$73,000** in foreign currency trade, **$53,000** in product trade, **$24,000** in tax services, **$24,000** in advisory services, and **$10,000** in bank interest,
- New environment and gender equity policies received board approval and implementation was initiated throughout the division,
- Achieved a surplus on IED operations of **$175,491** against a budget of $11,890, and attained net equity growth of **$16,482** against a budget of $30,000

2 4 Relationship with Partners

Generally MEDA provides training, technical assistance (TA), and financial resources to local partners, transferring and adapting proven and successful methodologies and techniques to

incipient programs The Director of International Operations, TRU staff as well as other experts/consultants are utilized to develop and carry out the training plan by providing direct, country-level training and regional workshops dealing with common themes Country Managers participate in MEDA's annual "Country Managers' Meetings" to review past performance, present annual plans, and exchange information/experience MEDA also provides TA in the development of program monitoring and evaluation systems, performance and financial ratio analysis, and annual planning The TRU monitors the financial performance of all MEDA programs on a monthly basis Monthly monitoring statements, based on the SEEP financial ratios, are provided to staff in Headquarters (HQ) and quarterly statements, with analysis, are provided to HQ and to the Country Management staff Please see **Annex 3** for a copy of the monitoring sheet for Mozambique

The specific action plan and results for MEDA in Year 1 is summarized in Table 3 on the following page

Table 3 Year 1 Plan and Results

	Year 1 Plan	Year 1 Results
Headquarters	- Hire on new staff person for TRU	- Technical Advisor/Junior consultant hired with gender and microfinance experience
	- Enhance monitoring and evaluation system and tools	- Monitoring and evaluation system and tools have been enhanced will be field tested in Year 2
	- Finalize MEDA s CAS	- MEDA s CAS system has been enhanced and will remain a tool for MEDA programs in Tanzania and Mozambique However a new system will likely be used in Haiti
	- Support to GIF with marketing and legal counsel	- Support provided to GIF resulting in enhanced marketing capability and the successful registration of the "Sarona Fund (GIF) in the U S
Mozambique	- Hire 2 Promoters - Hire Operations Manager	- Operations Manager (Mozambican) hired in Year 1 one credit officer terminated and replaced by new credit officer during the year
	- Provide lending capital	- Loan fund capital ($49 600) provided to program
	- Conduct institutional assessments and prepare capacity development plans	TRU trip in Year 1 to prepare capacity development plans for preparing DIP some administrative T/A conducted during trip
	- Provide training in areas of loan officer and administration	- Loan officer training material enhanced - will be delivered in Year 2
	- Attend MEDA Country Manager meeting participate in sessions on gender development monitoring and evaluation and shared learnings	- Country Manager (CM) attended CM meetings in Waterloo Session on gender the environment and monitoring/evaluation conducted **Other** Client Account System (CAS) installed in Year 1 (planned for Year 2)
Haiti	- Hire Program Coordinator and 1 promoter	- Program Coordinator in place and 3 promoters hired/trained
	- Provide lending capital	- Provision of loan fund capital deferred until Year 2 when lending will begin
	- conduct institutional assessments and prepare capacity development plans	- Institutional assessment carried out in Haiti using MEDA quality standards DIP prepared with Haiti staff
	- Provide training in areas of loan officer and administration	- Loan officer training will take place in Year 2
	- Attend MEDA Country Manager meeting participate in sessions on gender development monitoring and evaluation and shared learning	- Country Manager (CM) attended CM meetings in Waterloo Session on gender the environment and monitoring/evaluation conducted
	- implement CAS	- CAS installation deferred to Year 2 will consider the CALYX system for installation in Haiti

2 4 1 *Personnel*

Overall responsibility for the program remains with Allan Sauder, Executive Vice President of MEDA The Director of International Operations, Ed Epp serves as the liaison between MEDA and USAID, and has overall responsibility for the performance of MEDA's country offices Neil Janzen serves as the regional manager for MEDA's Africa programs Country Managers for Haiti (Jean-Claude Cerin) and Mozambique (Fion de Vletter) oversee the country programs Technical backstopping is the responsibility of the TRU, housed within the MCG, managed by Julie Redfern TRU staff Julie Redfern, Joyce Lehman (20% TRU) and Pamela Fehr (50% TRU) provide technical support to Haiti and Mozambique The Director for GIF, Gerhard Pries, plays a critical role in raising external capital, managing fund assets, and developing a financially viable investment structure which will enable existing and future programs to access necessary capital

2 4 2 *Monitoring and Support*

In addition to regular narrative and financial reporting from the field offices, several trips were made to Haiti and Mozambique to monitor and support activities These are detailed in the following table

Table 4 Monitoring/TA trips

Haiti	Mozambique
• February 1999 Julie Redfern and Joyce Lehman made TRU trip to assist with DIP preparation and provide technical assistance in the area of reporting systems and community banking methodology • March 1999 Ed Epp and Kim Pityn (Director Human Resources) made management trip to Haiti • June/July 1999 Jennifer Helmuth (human resources) made an administrative trip to Haiti to assist with HR policies/procedures and hiring of new staff • September 1999 Joyce Lehman made TRU trip to assist with accounting system in preparation for MIS installation	• December 1998 Julie Redfern made TRU trip to assist with DIP preparations • May 1999 Ed Epp Allan Sauder and Neil Janzen made management trip to Mozambique • August 1999 Nick Ramsing (MEDA Consulting Group) installed MEDA s Client Account System in Mozambique and trained CIDA intern Brad Martens on the new system • September/October 1999 Neil Janzen made management trip to Mozambique

In January 1999, MEDA held a North American staff and Country Managers Retreat which proved to be a good opportunity to further reflect on what it means to do responsible faith-based development, a theme echoed throughout the strategic plans presented by each of the managers The Country Managers' Meetings, also held in Waterloo, were particularly inspiring since it was clear that MEDA management staff overseas are at the forefront of creating developmentally sound businesses Technical sessions held during the meetings included gender awareness, environmental assessments in microfinance and monitoring/evaluation issues and plans

2 4 3 *Institutional Development*

Global Investment Fund

The GIF exists to secure capital from the private and public sectors in North America for investment in profitable programs and businesses that support the development of low income communities

GIF capital formation has proceeded with establishing the GIF as a legal entity and taking the necessary steps to legal clearance for promotion to private investors This was accomplished in time to 're-launch' the GIF (as the "Sarona" Global Investment Fund) at the MEDA Annual Convention in November 1999 (**Annex 4** includes information on the new Sarona fund) The GIF has provided capital support to the Mozambique program in Year 1 ($46,900) and will provide capital in Year 2 to Haiti

In the past year GIF capital formation has included approaching private sector players to investigate their level of interest in deploying capital to ventures that have a demonstrable benefit to the poor The responses from larger institutions makes it clear that they evaluate investment decisions on the basis of risk and return, while they consider broader social and economic benefit only as a component of their charitable giving Having institutions integrate these activities will require a philosophical shift

Projects which have identifiable beneficial social and economic development outcomes do not necessarily meet the risk and return standards needed by the private sector It is clear that guarantee mechanisms are needed to enhance the security of private sector investment in development related ventures MEDA continues to pursue this issue and establish guarantees to allow private sector investors to participate in such investments

Technical Resource Unit
The TRU helps MEDA to remain technically sound in the area microenterprise development Responsibilities include policy and procedure documentation, monitoring and evaluation, maintenance of a resource centre and general communications The TRU also provides direct technical assistance to field offices, or out-sources support as needed

During the first year of the matching grant, significant progress was made in several areas outlined in the business plan, including enhanced training and monitoring/evaluation tools enhancement of training tools and resources, and gender awareness and training In addition, important progress has been made in other technical areas including management information systems, program assessment tools (using MEDA's quality standards), and business plan development in the field of micro-finance MEDA's work has also advanced in the area of business development services

Highlights of TRU and TRU-related accomplishments during the last year include the following

- The TRU assisted two MEDA programs (Mozambique and Haiti) in developing 3 year implementation/business plans for their respective micro-credit programs

- The TRU and MEDA Consulting Group have prepared and delivered a one-week training program (in English, French and Spanish) on Best Practices in Micro-credit planning, design and management This training, plus program assessments and business plan preparations, was delivered in Senegal (September 1998), Uganda (November 1998) and Guatemala (February 1999) for Christian Children's Fund

- In addition to the training modules described above, MEDA also developed a "Quality Standards" process that was used in performing the institutional assessments in Mozambique and Haiti **(Annex 5)** Quality standards serve the purpose of identifying gaps in institutional performance and provide the basis for developing institutional development plans and business plans

- The TRU contracted expertise to revise its Environment Policy and to develop an Environmental Management Program A draft program was completed in December 1999 The program provides a systematic method of assessing environmental factors in design and planning of programs/projects and monitoring environmental impacts of existing programs

- The TRU also contracted a gender equity consultant to revise its Gender Equality policy and to develop a complementary implementation strategy for MEDA

- The MEDA Board approved new policies on Gender Equality and Environmental Concerns in February 1999 **(Annex 6)** Presentations were made to IED staff in December on the Gender Equality Policy and Strategy document and the Environment Policy and Management Process MEDA's gender equality strategy (**Annex 7**) was also finalized in February

- MEDA's country managers and IED staff participated in training sessions on gender, environment and evaluation during the annual country managers' meeting held in Waterloo in January 1999 The MEDA Board of Directors participated in a gender training session during their Board meeting in June 1999

- A second draft of the environmental screening tools was completed in June 1999, based on feedback from the staff at the CM meetings

- The TRU made solid progress in the revision of its annual evaluation process, a draft document (MEDA Evaluation Workplan) was finalized in June 1999 The document provides the methodology, an evaluation matrix, sample reporting guidelines, hypotheses and indicators, sample baseline surveys and loan applications, as well as a number of tips for collecting data As mentioned above, evaluation training was also provided at the Country Managers meeting, and emphasized impact indicators and methods for measurement

- MEDA has developed a cost-benefit manual which was completed during the reporting period The manual serves as a step-by-step guide on how to carry out a cost-benefit analysis of development projects The manual also serves as the basis for a two-day workshop, which includes a case study example

- MEDA field tested its Client Account Software (CAS) in Tanzania in December 1998 and in May installed it in the Mbeya Credit Facility (Tanzania) The software provides MEDA partners with a generalized, low cost MIS program that produces accurate and timely financial information to manage loan portfolios and client security deposits A second installation was made in August in MEDA's program in Mozambique However, after the installation in Mozambique it was concluded that MEDA should investigate alternatives, as the CAS may not be appropriate for further installations

2 5 Constraints, Unexpected Benefits and Lessons Learned

This year marked some significant changes in staffing and structure in the International Economic Development Division (IED)

2 5 1 Personnel Changes

Ron Braun, MEDA's Executive Vice President, resigned after 15 years of service,

Allan Sauder, Director of Africa/Eastern Europe Operations, assumed the position of Executive Vice President with responsibility for the IED,

Dieter Wittkowski, Director of Latin America/Carribean Operations resigned,

Ed Epp appointed to Director of International Operations,

The MEDA Consulting Group under Kim Pityn's management, which includes the Technical Resource Unit managed by Julie Redfern, made a number of important staff appointments this year Neil Janzen rejoined MEDA after a seven year hiatus, while Board member Joyce Lehman and Bolivia Country Manager Alejandro Escobar accepted appointments to MCG s Lancaster, PA office commencing early in the next fiscal year Pamela Fehr also joined the MCG/TRU team They join Henry Fast and Nick Ramsing on the MCG team of consultants

2 5 2 *Program Consolidation*

The two regional International Operations departments (Latin America/Caribbean & Africa/Eastern Europe) were re-consolidated into one, and Ed Epp assumed responsibility for this department in November

The former Capital Formation and Business Ventures departments were consolidated into one department, the Global Investment Fund, under the management of Gerhard Pries, supported by Scott Beech who is taking on the task of developing new links to various sources of capital

MEDA Trade and Consulting Incorporated was renamed as MEDA Trade Company, and under Jerry Quigley's direction is focussing on various types of trade which can be done profitably to serve MEDA's development goals Jennifer Ball joined Jerry, Nola Kianza and Jennifer Helmuth on the MTC team, with specific responsibility to develop an African network of manufacturers and marketers of insecticide treated mosquito netting

2 5 3 Lessons Learned

- Importance of synergy between departments in MEDA There is a link between human resources, operations, technical assistance, investment, and management This year, despite the changes in personnel and departmental consolidations, there existed a synergy between the departments that enabled positive development for MEDA and the projects

- Long term solutions to development need an investment component Development is not over until a project/business can stand on its own, attract investment, and survive within the economic rules of the market place At times there exists a gap between the project and business that needs an investment fund, like Sarona, to fill However, to be viable on its own, Sarona also needs some guarantees for repayment This will be dealt with in the coming year

3 0 MOZAMBIQUE

3 1 Overview of Year One & Changes Subsequent to Detailed Implementation Plan (DIP)

The past reporting year ending September 30, 1999 was one that saw many events within the project, both positive and negative A significant positive change in portfolio performance was witnessed during the latter half of the year, indicating that the project has been able to overcome

many of the problems it has experienced since inception in 1996 The positive changes are reflected mainly in terms of staffing changes which resulted in hiring new qualified and highly motivated staff, as well as improved repayment performance on the part of clients who have entered the project after the troubled early phases The problems encountered in the early phase of the project were largely the consequence of poor judgement in hiring key staff The consequences of these early decisions led to a series of mishaps including poor credit performance, inefficient operations and even a case of fraud on the part of the program's accountant As of mid -1999, the crisis was turned around and MEDA is confident that the *Kulane Ka Ntiwane* project is better poised for growth

3 2 Objectives and Results as Outlined in DIP

Table 5 below shows the results of Year 1 in comparison to Year 1 annual targets with respect to critical indicators Table 6, on the following page, provides an overall view of the programs objectives, indicators, major activities as submitted in the DIP as well as a section for Year 1 accomplishments Detailed discussion of the key issues that contributed to the results in the Mozambique program is provided in Section 3 3

Table 5 Critical Indicators

Critical Indicators (End of Period)	ANNUAL TARGET Year 1	RESULTS Year 1
Number of satellite offices established in full operation	1	1
Number of active clients	480 (312 women)	405 (249)
Portfolio at risk rate (>30 days)	<15%	30%
Size of active loan portfolio	$31 200	$26,000
Operational self-sufficiency	19%	15%

Table 6 Objectives and Accomplishments

OBJECTIVES	INDICATORS	MAJOR PLANNED ACTIVITIES	ACCOMPLISHMENTS
Increase the institutional capacity of the SBDP program	Operations manager hired in year 1 • MIS system installed by end of year 1	• Appointment of head of credit department with view to making that person operations manager if abilities proven • Pilot MIS designed by MEDA to be installed by mid-1999	• Operations manager (Mozambican) hired in February 1999 • MIS system installed in August 1999
Improve the quality of services to SBDP clients	• Loans and training provided to over 2,000 micro-entrepreneurs • Diverse financial services available (individual lending, savings services) • Three satellite offices in full operation	• Loans re initiated in early 1999 after 6 month pause for credit officer training administrative rearrangements methodological adjustments • UNV proposal for Magude and Moamba districts could possibly result in satellite operations	• Loans reinstated with methodological improvements resulting in improved repayment patterns with the new clients
Increase the sustainability of the SBDP program	• 100% operationally self sufficient by year three • Portfolio at risk (over 30 days in arrear) less than 5%	• Broadening client base through expanding participating markets • Initiate moves to create independent financial institution	• Emphasis in Year 1 on improving portfolio quality Operating self sufficiency was 15% (Year 1 target 19%) Portfolio at risk 30% Year 1 target 15%)
Introduce effective impact assessment methodology	• Monitoring system covering representative 5% of sample (initially 20%) established • Client intake form used to gather baseline information Key performance data desegregated by gender	• Examine current assessment methodologies such as system introduced by CARE in Chimoio • Discuss with OSISA their plans for establishing regional monitoring system Incorporate MEDA s revised evaluation process for next fiscal year (begins July 1) Revise client intake forms in place by beginning of FY00.	• Enhancement to MEDA monitoring and evaluation process has been advanced, new tools will be introduced at the Country Managers meetings in March/00 in Mozambique

3 3 Review of Events and Changes to the DIP

3 3 1 Staffing

Some detail is presented in this section as staffing issues were largely responsible for many of the problems that afflicted the project in its earlier stages The hiring of new, highly motivated and competent staff starting in mid 1998, was instrumental in finally putting the project on track

The project was initially started in 1996 under the stewardship of a Mozambican with occasional guidance from MEDA's program director based in Zimbabwe The Mozambican director was effectively left responsible for hiring all support staff In mid-1997 the current director Mr Fion de Vletter was asked to provide advisory services to the program Within a few months it was proposed that this role be changed to part-time (50%) director and that the previous Mozambican director be made operations manager It was then discovered that serious financial infractions had occurred during the time leading up to this shift, resulting, after a series of regrettable events, to the dismissal of the Mozambican operations manager One other staff member was terminated soon after The accountant, Mr Jonas Chone was weak, and we had no concrete evidence that he was complicit in the financial misdemeanors of the previous director and stringent Mozambican labor laws prohibit dismissal without just cause

The part-time services of a professional Mozambican accountant were contracted in June 1998 in order to better control the accounts and submit better monthly financial reports It was believed at that stage that the full-time accountant would be able to fulfill his duties through training and counseling from the part-time accountant Moreover, with the arrival in September 1999 of the project's first CIDA intern Cheryl-Anne Fernandes it was felt that working closely with Mr Chone would bring him up to required levels As it turned out, after several months of intensive reconciliation work by Ms Fernandes, it was discovered that Mr Chone had defrauded the project by some $12 000 A criminal case was opened but he has not been located for the past 7 months In his place we were fortunate enough to hire Mr Helder Goncalves, an accountant with much experience in both the private sector and NGOs (Catholic Relief Services) His performance has been excellent allowing us to dispense with the part-time accountant

As indicated in the DIP, priority was given to recruiting a Mozambican as the head of the credit department but who at the same time would demonstrate potential for a more senior management position Considerable time was taken to find who we felt would be the right person In February 1999 Mr Dionisio Matos was recruited and in June was made Operations Manager

Ms Fernandes was requested to extend her stay beyond her internship for a period of 8 months as a fully paid MEDA staff member in the capacity as the newly created post Finance and Administration Manager Her responsibilities include working closely with the accountant in the installation of the Pastel system as well as assist with training the credit officers

Lucie Manirambona, a Burundi national, was hired in October 1998 to help with general office administration and some accounting tasks Since August 1999 she has been working closely with Brad Martens and will be responsible for maintaining the MIS through the CAS (Client Account System)

In August 1999 a new CIDA intern Mr Brad Martens arrived for 4 months with the principal objective of implementing the MIS system currently being designed and tested by MEDA in both

Tanzania and Mozambique Mr Martens is a programmer with previous experience with the Toronto Dominion Bank

During the reporting period, problems were encountered with one of the credit officers who had worked with the project since its inception In addition to unsatisfactory work, she was found to have transgressed the basic rules of the solidarity group lending and channeled money to individuals with the connivance of her groups She has subsequently been dismissed and replaced by Joacquim Ventura who was a credit officer in training at the Xikelene Market office Joaquim's position has subsequently been replaced by Ms Olga Bernardinho

As of June 1999, the Director, Mr Fion de Vletter, requested to work on a 20% basis because of other consultancy and business commitments It was felt that his contribution could be safely reduced because of the highly professional way in which other MEDA senior staff were conducting their duties

MEDA Mozambique is fully aware of the importance of having a gender balanced staff ratio, especially amongst its credit officers as the majority of our clients are women Every effort is made to give preference to female candidates without compromising on qualifications

3 3 2 Training and Capacity Building

In June 1999 the Operations Manager (Dionisio Matos) participated in a training workshop on credit officer performance management organized by MEDA in Tanzania In addition to the workshop he spent time touring MEDA's two projects and was able to exchange experiences and learn from Tanzanian staff Mr Matos is currently attending an evening course to obtain a diploma in accounting and management

During the reported period, two courses (accounting for microfinance and fraud) were offered by CGAP through a local consultancy The previous accountant attended the accounting course and two credit officers participated in the fraud workshop

Training for all the training officers is currently being offered by the Finance and Administration Manager (Cheryl Fernandes) which covers 4 basic areas i) credit policies and procedures, ii) impact analysis, iii) business skills to be transferred to clients and iv) better understanding of the market mechanisms of the various sectors being serviced by the project e g poultry, hardware, clothing, etc Ms Fernandes has recently received supplemental training material that has been developed by both the TRU and the MEDA Tanzania training specialist

3 3 3 Location and Partnerships

The original objective of the project was to focus on clients operating in the Xikelene Market One of the main reasons for choosing this market is because it is large, allowing us to scale up in one geographic area Another reason was that the market commission was the most organized of any of the markets studied and this we felt was important in terms of getting good collaboration and facilitating general formalities of implementation It later became clear that the market commission was more a hindrance than an asset to the project, especially as some of the most problematic loan clients were members of the very commission that was supposed to assist the project in ensuring good client performance Part of the problem was that the market commission believed that they had a monopoly over the project It was decided later to open activities in other areas outside of but near the Xikelene market We also decided to change partnership strategy Rather than depending on market commissions for exerting pressure on clients, it was felt that much more

appropriate collaborative arrangements could be offered through associations and Church groups This move has shown excellent results Clients from the Church group *Espirito de Caridade* have had impeccable repayment records Groups are vetted by senior church members before being allowed to register Another arrangement with the association AMODESE is also showing positive results One of the more interesting arrangements, however, has been the recent agreement signed with ADEMIMO, an association representing disabled demobilized soldiers Normally demobilized soldiers are seen as bad credit risks but this arrangement has guaranteed pension payments against bad loans For logistical reasons, all loans with the exception of the ADEMIMO loans are made within about a 5km radius of the Xikelene market

The experience of the Xikelene market commission has taught us that entry into new markets and collaboration with market commissions will be on the condition that market commission members will only be eligible for loans only after one year and only if the clients in that market are showing good repayment rates As a postscript, it is worth noting that the former President of the Xikelene Market Commission has recently been appointed the President of the (Maputo) Informal Vendors Association and has played an important role in ensuring good cooperation between market commissions and the project

One of the biggest advantages that our project has over other programs of a similar nature, is that an office was built in Xikelene market, allowing clients to deliver their deposit slips (proof of payment) on a weekly basis to our loan clerk as well as for prospective clients to register near their place of work The training hall will be built within the next few months soon, adjoining the market office

3 3 4 Methodology

No fundamental changes have occurred in the lending methodology over the past year except that training has been streamlined to 2 sessions of 2 hours instead of 4 sessions of 1 hour while more rigorous scrutiny of group formation and member dynamics is now being applied Two issues will, however, need to be confronted soon One is that some solidarity groups are now reaching loan levels of about $500 (per member) and the question of introducing individual lending needs to be examined The second is the question of repayment terms Currently loans are repaid over 16 weekly installments Many clients are complaining that this is too frequent and that they prefer payments on a monthly basis We were initially skeptical, but experience with other programs in Maputo with similar loan methodologies, suggest that no problems are being encountered with monthly repayments This arrangement would, in fact, be preferable to us, as it would cut down substantially on record keeping

Contracts were changed in January 1999 to include a clause that allows confiscation of goods or stall after 90 days default Each contract is now accompanied by a rigorous checklist of conditions before submission for signing by the director A new version of the loan contract will be ready in the next few months

3 3 5 MIS

As projected in the DIP, the MIS has been introduced but it is still too soon to tell whether MEDA's prototype Client Accounts System (CAS) will perform in the way in which it was designed Mr Brad Martens, a computer programmer with bank experience, worked closely for 2 weeks with the system's designer Nick Ramsing during the latter visit to Mozambique in August 1999 The system has also been installed in Tanzania According to Mr Martens, there are still a large number of

bugs and programming issues that have to be resolved before the CAS can satisfactorily serve the needs of the Mozambican (and in all likelihood, the Tanzanian) program

3 3 6 Portfolio Performance

The table below summarizes the movements of the basic performance indicators of our portfolio for most of the reported period (the value of the metical over most of this period was approximately 12,500 per dollar) The table shows how portfolio performance deteriorated during much of the reporting period, causing MEDA to send a team of senior officers, including the Executive Vice President to assess the situation and to examine implications for the future Though the indicators below are indeed alarming, the presence of a strong supervisor of the credit department (since February) and the dismissal of the credit officer responsible for much of the problem, has dramatically reversed the situation Although arrears and portfolio at risk are still high, they continue to reflect some seriously delinquent clients, who are slowly paying off their debts Virtually all groups receiving loans since June are repaying their loans without any delays Despite the serious problems encountered, by October 1999 we had 103 operational client groups or 7 more than projected for the end of September 1999 in the DIP The projected total portfolio outstanding was $31 200 We achieved about $26,000

Table 7 Portfolio Quality Indicators

Month end 1998/99	*Total Portfoli o O/S*	*Bal of Loans in Arrears*	*Principal Payment in arrears*	*% Port in arrears*	*% Port at risk (>1 day)*	*# of Loan Groups*
October		63 2m				
November	268 1m	97 8m	65 8	24 5	36 5	50
December	247 2m	134 2m	74 9m	30 3	54 3	52
January	293 8m	201 4	100 4m	34 2	68 5	55
February	275 5m	189 4	124 6	45 2	68 7	54
March	292 5	159 8	141 5	48 4	54 6	64
April	225 8	163 9	134 2	59 4	72 6	65
May	173 0	161 9	134 8	77 9	93 6	?
June	343 4	143 5	136 0	39 6	65 5	66
July	373 2	112 3	108 1	28 9	30 1	66
August	373 2	135 0	108 1	29 0	36 2	67
September	325.0	113.9	104.6m	32.2	35.1	81

As indicated elsewhere, the situation deteriorated due to the combination of a variety factors including defaulting market commission members, poor performance and dishonesty on the part of one credit officer in particular who was suspended in April and dismissed in June Due to the Director's part-time obligations to MEDA, the urgency to have a senior person in the credit section was recognized early on but it was not until February that a suitable person was hired Instead of writing off groups with more than 90 day loan arrears, it was decided to pursue them with force, resorting to confiscation of goods and selling their stalls The impact has been that only 3 groups of some 24 seriously delinquent groups have been written off During the period between March and May all new and re-cycled loans were stopped thus accounting for the significant drop in total portfolio outstanding and the dramatic jump in portfolio in arrears and at risk After the visit of the MEDA team in May it was decided to re-commence loans in June, thus accounting in the big jump in total portfolio outstanding and the concomitant fall in portfolio in arrears and at risk

3 3 7 Monitoring and Impact Evaluation

No program in Mozambique has yet undertaken an effective impact assessment of their clients In January 1999, it was decided at the Country Managers meeting in Waterloo that client impact assessments should be considered mandatory components of their programs In Mozambique, we feel particularly strong about this but unfortunately have been held up in our efforts because of other priority issues, primarily staffing and portfolio quality In the past two months we have turned our attention towards our clients and are considering how best to approach the issue MEDA headquarters was intending to conduct a TRU visit to help address these issues and to train our staff, but because of heavy prior commitments by our staff, it was decided to postpone the training for a more suitable later date Some of the issues that need to be addressed are

- What proportion of our clients are evolving economically and into structurally better businesses as opposed to those who continue borrowing to sustain what is essentially a poverty alleviating activity,
- Are our loans being used to develop their commercial activities or are they a source of funds to cater for urgent priority living expenses such as school fees, house construction, etc? Are they used for dealing with both types of expenditures (commercial/household), depending on varying cyclical needs?,
- What is the impact of our program on clients who do not borrow? If demand for market goods is relatively stable, will the fact that our clients generally increase the volume of their sales mean that, other vendors not fortunate enough to get a loan, end up being comparatively disadvantaged and worse off?

3 3 8 Name

The original name of the project the "Mozambique Small Business Development Programme (SPDB)' was felt to be irrelevant to the users so it was therefore decided to rename the project in the local vernacular "*Kulane Ka Ntiwane*" meaning roughly *Growth through Unity* It was thought that this would then be popularly be referred to as just *Kulane,* but in reality the project is referred to as just "*MEDA*"

3 4 Constraints, Unexpected Benefits and Lessons-Learned

3 4 1 Constraints

Constraints were encountered in the following areas

- Staffing difficulty
- Extensive amount of time spent on financial reconciliation
- Disappointing partnership arrangements
- Poor response to deteriorating portfolio performance
- Time and resources spent on the pursuit of delinquent clients
- Establishing the appropriate target market
- Government bureaucracy

Staff Problems

The biggest constraint in achieving our projected goals was related to staffing The combined effects of fraud by the first accountant Mr Chone along with the incompetence and dishonesty of one of the credit officers Ms Mondluvu seriously threatened the future of the programme, which at its lowest point had a dysfunctional accounting system and distressingly poor portfolio performance The injection of highly motivated and honest staff has been instrumental in the dramatic turnaround of the project In addition, MEDA has put into place stronger policies and procedures, with adequate supervision, which will aid better performance

Extensive Time Spent on Financial Reconciliation
As a result of the problems associated with poor accounting records and unsatisfactory loan records, much of the Finance Managers' time following her arrival was spent on reconciling bank statements and client records As a result of these investigations the fraudulent activities of Mr Chone were uncovered We are confident that this is now behind us, and with the new staff, proper controls in place, and adequate management it is unlikely to recur

Partnership Problems
The success of the project in Xikelene Market was felt to be dependent on close collaboration with the market commission The commission was expected to furnish credit officers with the bona fides of certain clients as well as to exert pressures on non-performing clients In retrospect it should not have been too surprising to find market commission members abusing their positions and not repaying their loans Some of this behavior as well as that of a high number of attempted loan defaulters can be explained by the not totally irrational assumption of the borrowers that the MEDA program would just be another short-lived, poorly monitored credit exercise that could be exploited by the beneficiaries Exigent pursuit of defaulting clients including the commission members has made a significant impression on new and potentially new clients amongst whom loan defaults have been reduced to almost zero Collaboration with the market commission is still seen as important but no longer to the extent previously envisaged A recent meeting with the defaulting commission members and their previous president (now president of the Informal Market Association) reiterated the importance that is being attached to repaying off the loans

Poor response to deteriorating portfolio situation
The first few weeks following the provision of the first loans (November 1997) showed perfect repayment records and we all naively felt that it was going to be a smooth ride Unfortunately, poor record keeping on the part of the credit officers and institutional inexperience in capping a deteriorating situation resulted in rising arrears rates As the situation worsened, all loans were halted and focus was directed to retraining credit officers, revising loan procedures and recording methods

Pursuit of Delinquent Clients
Many lending programs would have been inclined (especially for cost purposes) to write off many of our defaulting clients We collectively decided this would have been strategically wrong for the long term even though the costs involved would probably exceed the recovered loans The decision to pursue the defaulting clients was taken because of the strong impact it would have in deterring future defaults In the process, we have had to resort to confiscating goods, locking vendor stalls and, in some cases, selling the stalls These events have remained clearly imbedded in the minds of potential clients and is felt to largely account for the initial reluctance for new clients to register when we re-opened up training sessions for new clients These initial apprehensions have since dissipated and demand for new loans now exceeds our carrying capacity

Establishing the appropriate target market
Microfinance projects in Mozambique have tended to target urban-based, informal sector vendors It is argued that such clients are ideal microfinance clients because i) they are easy to reach, ii) are concentrated and iii) engage in high turnover merchandise, requiring short-term small loans Rural activities and enterprises with small but longer term capital requirements have tended to be left out of the microfinance catchment area In this respect, MEDA Mozambique has basically followed the mainstream tendencies During the first phase of the project, it was soon discovered that clients were more mobile than expected and not as easily monitored as originally believed Xikelene

Market is very large and any clients operate in virtual anonymity Vendors wishing to leave and establish themselves in one of the many other large markets can do with relative ease Some of our delinquent clients did exactly that, though a few have been successfully tracked down Smaller markets usually serving the needs of a particular neighborhood are thus more easily controlled in terms of client movements, but are disadvantageous in terms of scaling-up potential

Government Bureaucracy
One of Mozambique's oldest and most successful microfinance schemes now known as SOCREMO and a registered private lending institute has probably gone further than any other program in achieving sustainability During a recent discussion of Government bureaucracy during one of the monthly meetings of the Informal Microfinance Group, the director of SOCREMO expressed his exasperation about the slowness of accomplishing the most mundane procedures He felt that the normal time frame for achieving sustainability (usually felt to be in the region of 5 years from inception) was far too optimistic for a country like Mozambique Apart from the slow process of administration, Government labor legislation makes it often difficult to run an efficient microfinance institute Being highly protective, it is difficult to dismiss workers just on incompetence alone "Just cause" usually infers something much more serious Recently Government has become extremely difficult in granting foreigners work permits In the case of Ms Fernandes who is essentially here to train Mozambicans, we faced many delays sorting out her papers

3 4 2 Unexpected Benefits
There were three main unexpected benefits encountered during the year One was the fortuitous continuation of Ms Fernandes as a MEDA staff member for a further 9 months in the newly created position of Financial and Administrative Manager The second was the arrival of Mr Martens to help install the CAS His presence was invaluable, benefitting not only the Mozambique office but also MEDA generally in terms of insightful comments on the application of the CAS The third related to the agreement made with the association of disabled demobilized soldiers This agreement not only demonstrated that microfinance could be made available to demobilized soldiers in a meaningful way but also in a way that offered solid guarantees against defaulters It is hoped that this agreement will serve as a useful model for other associations to work with guarantee funds

3 4 3 Lessons Learned
The principal lessons learned were in relation to

- Staff selection
- Regularity of Staff Meetings
- Early Response to Indicators
- Solidarity Group Preparation
- Partnerships

Staff Selection
This project has clearly demonstrated how prudent selection of good staff at the outset activities is critical to success The first director was hired more on the basis of apparent charm and her ability to speak and write English than on relevant experience No references were sought despite misgivings expressed by Trudi Schwartz (now director of MEDA Tanzania) Her appointment led to cronyism being applied to most subsequent appointments to the project The negative impact of these appointments were still felt 3 years later Though there was strong pressure to appoint a head of the credit department as soon as possible to confront the deteriorating portfolio performance the extra time spent in finding the "right" candidate may have led to a worsening of the situation in the short term but is likely to have been the correct strategic choice in the long run

All appointments incurred since the departure of the first director have been done rigorously with close scrutiny of all eligible candidates So far the payoff of this approach has been excellent and has been a critical factor in the changing fortunes of the project

Regular Staff Meetings
Staff at all levels, down to the receptionist, should be involved in the decision making process of the project A regular time should be set for a weekly staff meeting in which everyone should be allowed to express their opinion By keeping written minutes, these meetings are an excellent way in which to monitor progress and staff activities Such meetings have become a formalized part of project activities since the beginning of the calendar year 1999

Early Response to Key Indicators
Two important lessons were learned One is that keeping accurate records on portfolio performance are critical for monitoring loans and credit officer performance and an MIS should be implemented as soon as feasiblely possible The second is that appropriate action should be taken as soon as any negative trend is noted A good understanding of why a trend is occurring is essential Our project failed in taking timely action because the problems were felt to be more circumstantial than attributable to structural problems within the project itself As it turned out, poor performance by credit officers was the main reason for the deteriorating situation

Solidarity Group Preparation
When the project first started, potential loan clients were analyzed according a rather complex and demanding set of economic ratios It was soon realized that these exercises were futile given the lack of information available or known to the clients It was later decided to simplify the process by allowing any group of 5 entrepreneurs who had been operating in the market for at least 6 months This was later found to be insufficient control of group formation and many subsequent repayment problems were found to be associated with problems related to group composition such as having more than 1 family member or members without any relevant peer connections The project has subsequently paid much closer attention to scrutinizing group members and their activities before signing loan contracts

Partnerships
Importance was placed on collaboration with market commissions whose cooperation and administrative assistance was originally felt to be critical for operating in the markets Although such collaboration is still felt to be important, it is now clear that we were expecting too much from these commissions Our experience suggests that commission members make poor credit risks as there is a tendency to abuse their relative positions of power and to take advantage of loans without respecting their contractual commitments It was therefore decided that subsequent entries into markets, involving the collaboration of the respective market commissions, would exclude commission members for a minimum of 1 year More significant partnerships were established with Church groups and associations These partnerships are essential for encouraging good behavior amongst members They also provide good potential for the creation of guarantee funds as was the case with ADEMIMO

3 4 4 Changes in Project Design
The issue that will be addressed in the next year is Project Management Currently the project is directed by a consultant who dedicates 20% of his time to the project Whereas his competence and dedication is beyond question, it will soon become necessary to have a full time manager of this project Analysis is being done to determine whether current staff are capable (Mozambican

and/or expatriate), or an outside person will be brought into the project for a contractual time If the latter is to occur, it will be with the mandate to train a local person to become the eventual manager of the project

3 4 5 Budget and Expenditures

MEDA Mozambique had a relatively good financial year although not all projected targets were met Unanticipated operational problems caused lending to come to a halt for a few months until proper financial controls were implemented This contributed to financial income from solidarity groups of $14,000, about $3,500 less than estimated Despite this, the program still managed to become 15 53% operationally and financially self-sufficient (less than the estimated 19%) Personnel costs were tightly monitored and were almost $15,000 below the budgeted allowance However, administration and operation expenses exceeded budget by $6,000 due to high costs of operating in Mozambique particularly with communication and facility rental

Capital expenditures were limited as the program purchased only one laptop and has postponed the purchase of two new computers until the next fiscal year These computers will be needed to support a new accounting software program as well as a MEDA designed Management Information System As planned, a motorcycle was purchased for the credit officers to use in the market The introduction of new financial policies as well as new credit procedures will ensure that MEDA Mozambique is able to follow the proposed DIP budget and meet targets

4 0 HAITI

4 1 Overview of year One and Changes Subsequent to Detailed Implementation Plan

During Year 1 of the MG (October 1998 to September 1999), the Rural Business Development Program (RBDP) has been very active in the implementation of the expansion plan of the Community Banks Program Major activities include in the following

4 1 1 Site and Partner Selection

The decision was made to start implementation in the North in partnership with 3 of the 7 agricultural cooperatives that have been partners of MEDA Haiti since the mid-1980's when the Cocoa marketing Project was being implemented Those cooperatives are

Coop name	Location	#Members	# Active Members
CAPUP	Port Margot	400	300
SOCOSPOC	Robillard	500	310
COTAM	Bahon	450	325

Those partner organizations, that have in the past expressed interest for a credit program, are associations that regroup farmers to benefit from collective marketing of their products They were contacted and explained the program and its modalities Each organization was asked to write a letter requesting partnership in the program and submitting the name of 2 candidates for the position of Credit Officer for the area

Further meetings were held to orient and train partners Partner training is still being provided and an agreement will be signed with each one, detailing the role of each party (MEDA and the partner)

4 1 2 Personnel Recruiting and Training

The current Community Banks Program Coordinator, Mr Emmanuel Noel (Manno), received orientation to take on new responsibilities with the expansion phase of the program Then, the credit officer candidates identified in the partners' letters (I man and 1 woman per coop), were invited to Port-au-Prince for a 2-weeks training session conducted by Manno and a Micro-Credit Consultant (The training session agenda is annexed to this report_ Following that training session, a test was given to candidates allowed management to select the new credit officers Unfortunately, all the successful candidates wee men We hope women will emerge in the next group of credit officers that will be hired

Training of officers is being provided on a continuing basis Every month, MEDA Haiti holds a one-day staff meeting at its central office for staff based everywhere in the country Following the staff meeting, credit officers are asked to stay 2 more days in Port-au-Prince every month for training

4 1 3 Project Implementation

Right after their first training session, officers were provided materials to start project implementation in their respective areas Each officer starts with the formation of 5 banks (instead of 10 immediately), particularly among existing groups that have a habit of working together (Please see attached the CB formation process)

4 1 4 Management Information Systems and Training Materials

During the past year, a lot of efforts were made to improve to existing MIS system and enhance CB training and management materials The CB manual that was in use in the program was first updated by Manno who was its original author Then a national micro-credit Consultant, Mrs Lunise Cerin, adapted it and developed a new bank management tool kit that will be used by Credit officers to train bank leaders and by the latter to better manage their banks Each bank will have a "tool box" containing all management tools needed The forms will be provided to banks as supplies need to be renewed

The following is an outline of the Credit Manual

CONTENT

1 0 Objectives
2 0 Strategy
3 0 Community Bank Methodology
4 0 Description of MEDA, and conditions required of MEDA partners
5 0 Description of groups who will not be accepted as partners
6 0 Services offered by the program Training and Credit
7 0 Loan conditions - terms, fees, savings, etc
8 0 Method and mode of repayment
9 0 Relationship of the banks to MEDA (complete with a diagram showing levels of self-sustainability of banks)
10 0 Loan approval process
11 0 Contract signature
12 0 Loan disbursement process
13 0 Loan follow-up legal, financial, and technical issues

14 0 Subsequent loans
15 0 Rules for loan fund management Interest calculation, loan reserve, use of profits
16 0 Reporting requirements

FORMS

Loans Application - Individual Activity
Loan Application Collective
List of individual lenders within a Bank and their activities
Balance Sheet
Reimbursement Calendar
Contract Form

The plan called for the installation of the computerized MIS System designed by MEDA during the year However, this did not happen because of technical difficulties New options are being considered and the projected date of installation is now January 2000 In the meantime, the existing manual MIS system has been greatly improved during the year and is going through consistent improvement

4 1 5 Changes from DIP

During the course of project implementation, there have been a few changes from the DIP that need to be signaled here

Loan Size The loan size bracket in the DIP is $100-$350 This bracket has been modified based on the contacts with communities to $100-$600 This will have implications on the loan capital needed

- **Commission Fee** The commission fee has been lowered from 5% to 3% based on the comparative studies of the competition in the North
- **Loan Term** The loan terms in the Dip vary between 6 months for commerce and 9 months for other kinds of loans We are considering making all loans equally for 9 months This will eliminate the problem of misinformation by clients in order to receive loans that benefit from the longer and better terms
- **Bank Formation** Instead of devoting a minimum of 3 months to bank formation, the implementation plan tries to limit time for bank creation to 1-2 months depending on the group This is possible partly because most of the new banks being formed come from pre-existing groups that have worked together in the past either in economic activities or as literacy centers from MEDA's previous FURREC project
- **MIS Installation** As mentioned earlier, the computerized MIS system designed by MEDA, the CAS, could not be installed because of technical problems Other options are being considered and the projected installation is now January 2000

4 2 Objectives and Results as Outlined in DIP

To build and strengthen sustainable local capacity to promote economic growth with and among the economically active poor through enterprise development in selected countries in Africa and Latin America/Caribbean Table 8 below summarizes the program goals vs accomplishments The following Table 9 summarizes the Critical Indicators as they relate to the DIP

TABLE 8 HAITI
PROJECT GOALS AND OBJECTIVES

OBJECTIVES	INDICATOR	MAJOR PLANNED ACTIVITIES	ACCOMPLISHED ACTIVITIES
1 To increase the profitability and sustainability of the Community Banks Program (CB)	▸ 50 new banks established at the end of Year 3 serving 1500 active clients ▸ 61% of operational self-sufficiency by the end of year 3 ▸ Operational and Business Plans in place which examine options for future institutional structure	▸ Established partnerships in 5 locations each having a cluster of 10 Cbs ▸ Examine options for institutional structure at the end of year 2 Monthly financial reports	▸ Partnerships established in 3 locations of northern Haiti with 3 cooperatives and a cluster of 5 CBs formed around each partner (for a total of 15) as a start ▸ 3 Credit officers hired and trained ▸ Members and leaders of 15 banks trained
2 To increase the institutional capacity of the CB program	▸ Computerized MIS system installed by the end of Year 1 ▸ Improved village bank training materials developed (methodology group formation training village bank administration)	▸ Pilot MIS system designed by MEDA to be installed by July 1999 ▸ Consultancy in year 1 to assist with the enhancement of CB training materials	▸ Pilot MIS system not installed in Haiti because of technical problems new options considered current manual MIS improved ▸ CB manual revised CB management tool kit developed training materials have been enhanced
3 Improve the quality of services of CB clients	▸ 5 new partner organizations selected and trained on community bank management ▸ Loans and training provided to over 5 000 clients over a three year period ▸ Diverse loan products available to meet the needs of rural borrowers	▸ Partnership agreements signed with 5 partner organizations ▸ Examine client needs and satisfaction with loan products	▸ Partnership agreements negotiated with 3 partner organizations and partner training in course 15 Banks are being trained in credit and CB management before receiving first loan
4 Improve MEDA's monitoring and evaluation capacity	▸ Client intake form used to gather baseline information ▸ Key performance indicators desegregated by gender ▸ Improved impact indicators incorporated into MEDA s evaluation process	▸ Incorporate MEDA s revised evaluation process for next fiscal year (begins July 1) ▸ Revised intake forms in place by beginning of FY00 ▸ Incorporate MEDA s Environmental Management System into the evaluation process ▸ MEDA s MIS system installed	▸ MEDA s revised evaluation process has been integrated and will be used for current fiscal year evaluation ▸ Intake forms being revised and used for new banks ▸ MEDA s Environmental Management System being completed for incorporation ▸ MEDA s MIS system not installed because of technical problems New options being considered

Table 9 Haiti
DIP Critical Indicators

Critical Indicators (End of Period)	ANNUAL TARGET Year 1 (FY99)	ANNUAL TARGET Year 2 (FY00)	ANNUAL TARGET Year 3 (FY01)	TOTAL
Number of new banks*	00	30	20	50
Members receiving loans*	F M	F M 540 360	F M 360 240	1 500 (60% women)
Portfolio at risk rate (> 30 days)	<5%	<5%	<5%	<5%
Size of active loan portfolio*	0	$54 563	$117 000	$117 000
Program Operational Self-sufficiency	0%	21%	61%	61%

As shown by Table 9, year 1 was planned to be a year of implementation of the program, therefore the critical indicators reflect that situation CB formation is being completed before any loan can be disbursed At this point, 15 banks are being formed and are receiving training from the 3 credit officers that were hired and from the Program Coordinator This process will last until the end of December and loan application, contract signature and loan disbursement will follow First loan disbursements are expected during the second quarter (January-March) for those first 15 banks and a group during the third quarter (April-June)

4 3 Review of Events and Changes to the DIP

MEDA established the CODEP Community Banks Program between 1994 -1998 It is upon this experience that the MG proposal was based Therefore, this report will provide results in this last year for the existing community banks in this CODEP prorgram

4 3 1 Existing CODEP Program Results

Tables 1 and 2 provide results of the past activities for the CODEP Community Banks Program Note that those are banks that were established between 1994 and 1998 and through which the MEDA Community Banks methodology was piloted

TABLE 10
CODEP Village Banks Program
Results (in Gdes)
October 98 to September 99

ITEMS	SEPTEMBER 99		YEAR TO DATE	ANNUAL TARGETS	100% TARGETS
	CURRENT MONTH	QUARTER TO DATE			
Performance Indicators					
# New Banks Established	0	0	2	5	40
Total # Banks (end period)	21	21	21	24	88
# Bank Loans Provided	3	7	41	3	114
Members Rec Loans	47	140	700	500	140
Total amount loaned	177 975	453,475	2 245 525	1 400,000	160
Number of Partners	1	1	1	1	100
Revenue from lending	32,055	58,125	212 118	128 000	166
Member Savings	5,789	40 464	169 679	173,000	98
Percent Self-Sufficiency (%)				30%	
Level of arrears	4 5%	4 5%	4 5%	<5%	
Average loan officer portfolio	1,146,053	1 146,053	1,146,053		
Impact indicators					
Percentage women clients	36%	42%	42%	55%	76
Jobs created/sustained	47	140	700	500	140
Families assisted	47	140	700	500	140
Communities served	18	18	19	23	83

TABLE 11
CODEP VILLAGE BANKS PROGRAM
STATISTICAL SUMMARY (in Gdes)
OCTOBER 98 TO SEPTEMBER 99

ITEM	SEPTEMBER 99		YEAR TO DATE
	CURRENT MONTH	QUARTER TO DATE	
Total payments	207,844	502,769	861,455
Capital Reimbursement	170,002	404,188	667,601
Active clients (end of period)	455	455	455
Clients trained	395	1,094	4,500
# Outstanding loans	30	30	30
Value of loans outstanding	1,282,156	1,282,156	1,282,156
Financial institution interest		863	4,273
Operations expenses	N/A	N/A	36,640
New RLF	N/A	N/A	490,575
Total RLF	1,198,820	1,198,820	1,198,820
Use of loans			
Commerce	37%	31%	40%
Agriculture/Breeding	42%	33%	36%
Grain Storage	21%	36%	24%

4 4 Constraints, Benefits and Lessons Learned

4 4 1 Constraints

Social-Political Constraints

Social-political instability has been consistent in the Haitian context for several years now This year has not been an exception to that rule With the municipal, local, and parliamentary elections previously scheduled for December 1999, MEDA Haiti had rescheduled loan disbursement for January 2000, after the elections Unfortunately, the date of the elections have been postponed to March 19, 2000 Therefore, the second quarter has been maintained for the first loan disbursements

4 4 2 Benefits

The benefits of this program are great because of the "multiplier effect" it has There are 3 different programs currently run by MEDA Haiti that benefit from every action that is taken in this program and vice versa

- **The CODEP Village Banking Program** This was previously the pilot program that led to this Expansion Program It has greatly improved its own systems and procedures since the new program began Its staff has benefitted from every training session organized during the year The first section of this report provides plenty of evidence of this fact
- **FEDEREC** The Fonds pour l'Environnement, le Developpement Economique et la Reconstruction Civile is a new rural integrated development program funded by the Canadian International Development Agency (CIDA) that started in April 1999 This program included 4 components Agroforestry/Agriculture, Water Infrastructure, Credit and Production and Marketing R&D The credit component will use the community banking methodology as well and calls for the formation of 50 banks in the South, the Southwest (Grand Anse) and the West regions of Haiti There has been very fruitful crossbreeding between that program and the current program being reported on The intention is to have, at the end of 3 years, a network of 150 to 200 community banks in several rural communities in Haiti

4 4 3 Lessons Learned

Table 12 provides a comparative study of the traditional Village Banking approach and the MEDA Haiti approach which is an adaptation to the specific needs of rural communities The main lesson learned has been that credit methodologies and approaches cannot just be applied to any settings Each environment has its specific needs that need to be taken into account for a successful program

TABLE 12
TRADITIONAL VILLAGE BANKING V S MEDA HAITI COMMUNITY BANKING

BANK FEATURES	TRADITIONAL VB METHODOLOGY	MEDA CB METHODOLOGY
LOAN TERM	16 weeks	9 months
INTEREST REPAYMENT	Weekly	Monthly
CAPITAL REPAYMENT	Weekly	quarterly or balloon
ACTIVITIES FINANCED	Mostly small commerce	commerce production (Ag and non-Ag) cattle breeding grain storage
LOAN SIZE	800 to 5000 Gourdes (most programs)	1500 to 10000 Gourdes
BENEFICIARIES	90% women (most programs)	Individual loans 60% women Collective loans groups
SAVINGS	20% per loan, payable with weekly payment	15% per loan payable during last payment
GRADUATION	Graduation at end of 3 years and presumed self-sufficiency of bank member	options offered to ensure ongoing access to credit through the CBP or linking clients to financial partner institutions
MEETINGS	weekly	bi-weekly
TARGETS	loan policies tailored to attract	loan policies tailored to attract women and men
BENEFICIARIES	the poorest especially women	men within poor communities
BANK MEMBERSHIP	30 to 50	20 to 70
CONTROL	control in hands of bank members	control exercised by bank members implementing agency partner organization, accounting systems loan loss reserved etc
MONITORING	lax monitoring and internal accounting	tight monitoring and accounting
ORGANIZATION PERIOD	1-3 months to organize a bank	minimum 3 months to organize a bank
TRAINING	limited training on credit and bank management	additional training on accounting records keeping literacy
ACCOUNTING SYSTEM	individualized accounting system	standardized accounting system

5 0 BUDGET

Explanation of Budget Variances found on the following page

Haiti Loan Fund - as lending has not yet begun, the loan funds have not yet been drawn by Haiti As a result the MEDA match for Haiti is below expectations for the first year of the program As the program is scaled up in the second year, the loan funds will be drawn and the MEDA match will be met

Haiti Operations and Supplies - since the Haiti program has not been scaled up to the extent expected in the first year, operational expenses and supplies are both less than anticipated for the first year

Haiti Training and Services - The training program for new credit officers began in the last quarter and thus not all of the funds budgeted for the first year of the program were used

Haiti Services - Implementation of the MIS system has been deferred to the second year of the program

Mozambique Operations - Due to higher than expected operational costs in country, as well as poor portfolio performance, MEDA's share of operational costs for the year were higher than expected The USAID portion was within 2% of budget

Mozambique Training - The training component of the Mozambique program will begin in the second year of the program

Headquarters salaries - Headquarter salaries were only 61% of the budget for the year Salaries will increase in the second year of the project as we have added a 70% FTE equivalent position to our Headquarters Technical Resource Unit who will be primarily involved with the PVC program Any additional savings on head quarter salaries will be used to cover salaries and operational costs in our Haiti program

Headquarters audit - The audit line has not yet been utilized as our program audit has not yet been completed

Total AID funding - As a result of the above variances, the AID portion of the budget was 35% below budget for the year The savings will be applied to year two of the project where we anticipate the funds will be fully utilized