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Concern Worldwide US

**Microfinance Development Program
Cambodia, Haiti, New York**

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**First Year Annual Report
01 October 2001 to 30 September 2002-10-26**

Beneficiary population(s):	
Cambodia:	24,000 clients plus families (120,000)
Haiti:	1,800 clients and their families (9,000)
Concern Supported Microfinance Initiatives:	60,000 clients

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Acronyms

AIMS	Tools for Assessing the Impact of Micro-enterprise Services
MFI	Microfinance Institution
MIS	Management Information Systems
TPT	Thanakea Ponleu Thmey, the Concern microfinance service provider in Cambodia

I Overview of Year One and Changes Subsequent to the DIP

The key objectives of this program involve progressing the sustainability and developing the capacity of the microfinance backstopping support functions based out of the Concern Worldwide office in New York; the transformation of an NGO microfinance program into a microfinance institution in Cambodia; and the piloting of a credit methodology to reach the poor in an existing microfinance service provider in Haiti, Fonkoze. Additional service delivery objectives for Cambodia and Haiti involve explicit pro-poor targets. These objectives are consistent with core principles that Concern's microfinance interventions follow, and which include:

- Targeting the poorest - we must be as effective in targeting microfinance towards the poorest as we are in targeting our other interventions
- Consideration of sustainability from the start of the intervention
- Attention to microfinance Best Practice
- Consideration of Concern's and partners' capacity

This matching grant covers some of the leading components of Concern's microfinance in development environments. In all, Concern is supporting / providing microfinance services in 7 fields. The following table gives an overview of microfinance interventions supported by Concern:

Table 1. Overview of Concern Supported Microfinance

Program	Age of Program	Lending Methodology	Number of Clients
Bangladesh	> 7 yrs	- Solidarity group & through Community Based Organisations	42,586
Ethiopia	< 3 yrs	- Lending through savings and credit cooperatives - Voluntary savings - Business Development Support - Lobbying for market stalls	643
Cambodia	3 – 7 yrs	- Lending to small groups organised to provide guarantee - Voluntary savings	16,073
Lao	< 3 yrs	- Primarily offers resources and technical support to others - Voluntary savings	1,600
Rwanda	<3 yrs	- Lending to individuals without group guarantee - Voluntary savings	600*
Haiti	3 – 7 yrs & < 3 yrs	- Lending to small groups organised to provide guarantee	2,800*
Uganda	< 3 yrs	- Lending to small groups organised to provide guarantee	700

There are additional plans to establish support for microfinance service providers in Sudan, India and Kenya.

In addition to this, Concern is working in conjunction with the Springfield Centre for Business in Development (UK) with the aim of increasing the knowledge, attitude and skills of microfinance practitioners operating in post conflict environments. To this end, field research has been conducted in Cambodia, Rwanda, Mozambique and Angola and quarterly bulletins have been produced and disseminated to over 300 people involved in the sector. These information resources are available on the project's website www.postconflictmicrofinance.org Tools for practitioners operating in post conflict environments have been developed. These have been piloted in Rwanda and will be finalised in 2003 for broad dissemination.

In 1999 Concern Worldwide adopted a microfinance policy and strategy for the organization. This was our first attempt to define Concern's global objectives with

regard to microfinance, our view of what is best practice, and how it should be applied to benefit our target group – those in absolute poverty. The policy represents an increase in our capacity to implement microfinance programs but needs to be regularly updated and reviewed against growing field experience and the experience of other organizations. Over the course of this reporting period, the experience of the programs more directly under the subject of this matching grant have produced exceptional learning from both positive and negative experience which has contributed to organisational learning and will feed into the organisation's policy review and development.

Over the reporting period, the capacity building objectives under this matching grant were mostly achieved. As planned, the microfinance unit / backstopping function has been established in New York and is providing support to programs. For the field projects, this involved mainly developments of systems and technical competency. The capacity of the TPT program in Cambodia has improved as it has developed competency in several areas including product development and monitoring and evaluation. The program did not progress as quickly as planned on MIS, despite steep learning in this area currently being put into practice. Haiti's human resource capacity to impart technical knowledge and skills is at the level planned for, having been augmented by investing in developing the skills of existing microfinance staff and the recruitment of a senior microfinance coordinator with 12 years experience in microfinance / enterprise. Through the partnership with Fonkoze, focusing on the Mirebalais branch, it is evident that their increased technical knowledge and capacity has improved performance, for example through the dramatic improvement in the area of delinquency control.

In the area of service delivery, expansion in outreach in both fields were broadly in line with plans, however, there has been two significant factors which have hampered delivery of services in the TPT program. The first was the growing and cumulative effect of recurrent flooding and the non repayment of loans by several village banks and the second was the uncovering of fraud in one of the three branches involving several members of staff including the assistant branch manager. These issues brought to light shortcomings in the systems and services that are being offered (these are discussed in more detail here below and have been relayed to USAID in correspondence in September 2003). The response to the incidence of fraud was swift with a thorough investigation, firing of guilty staff and a review and upgrading of controls carried out. A case has been taken out in local courts against fraudulent employees. Regarding flooding, there were two consecutive floods in one locality (Pursat) and the response to the second flood was more effective than to the first. However, there were significant losses overall and the development of a strategy to deal with flooding was developed drawing on their own and industry experience.

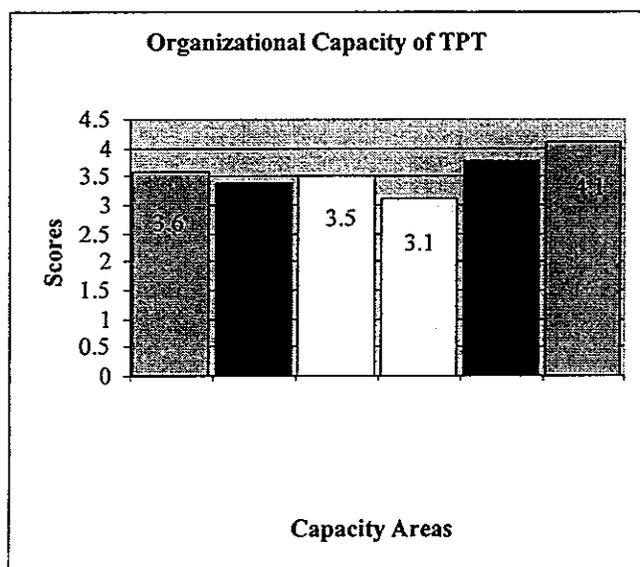
In relation to the final objective, sustainability, all three components (New York, Haiti and Cambodia) of the program under the matching grant did as well or better than planned. The microfinance program unit is established in New York and plans for expanding the funding base for microfinance are underway. Operational sustainability ratios are slightly higher than planned for both TPT in Cambodia and for the Fonkoze branch supported by Concern. TPT is progressing more rapidly than planned to becoming a more independent and separate institution to Concern Cambodia. Concern

in Haiti is providing quality technical support to our partner organisation and has been approached by others to assist them in product development.

Detailed progress is outlined following the structure of the DIP, its objectives and indicators (section I.1.1 to I.1.3). The progress in relation to the partnership plan / relationship with local implementing partner is detailed in section I.1.2. Minor deviations from the DIP are detailed in *italics* in the relevant section and are reiterated in section III.

I.1.1. Organisational Capacity Building

Discussion Orientated Self Assessments were used in both Haiti and Cambodia. During these, a rating system was applied and issues were explored. (Responding to point raised by Niloufer De Silva) the utility of the exercise is less categorically in the actual scores that were produced, although trends will be illustrative. More weight will be attributed to changes in capacity as clarified in the discussion during the DOSA exercise. Clarifications on acceptable standards will be elaborated on in the mid term evaluations. In the DIP submitted to USAID, one of the charts did not print out clearly, and as requested is replicated here. The full DOSA reports are available on request.



[a] Headquarters

Objective: *CW US supports microfinance programs in expanding their provision of sustainable services to the poor.*

Overall, Concern has expanded its support to a client base from 55,000 to approximately 65,000 clients (not all covered by this matching grant). Effective support to service providers has been given through the establishment of a technical support capacity based in New York. Support is given through providing direction and assistance in implementing the microfinance policy, skills upgrading, resource provision and assistance in securing funding.

Through the New York microfinance unit, the organisations microfinance competence has been further developed through the production of in-house materials (including an impact assessment tool; a discussion paper on collateral substitutes; the compilation and dissemination of the quarterly post conflict newsletter and a discussion paper on governance issues), staff skills upgrading (i.e. through organising the Uganda Workshop) and participation in networks such as SEEP. Progress is detailed under the respective indicators.

INDICATOR: Concern Worldwide US establishes a permanent Microfinance Technical Support Capacity in New York.

The candidate was in place slightly earlier than planned (May 2003 instead of June). The candidate was the existing microfinance advisor with Concern Worldwide who coordinated the development of the DIP for this matching grant.

INDICATOR: Increased financial support for microfinance from individuals, foundations and institutional donors.

Targets: Year 1: Fundraising Advisory Board established

As planned, the Fundraising Advisory Board was established. This board is being led by a Concern US board member who is organising a major corporate fundraising event. Five senior corporate women have been involved in developing a fundraising strategy and they will draw on corporate contacts and resources to support the fundraising efforts. The theme will be on women and in particular entrepreneurial women to make the connection between business acumen of women North and South. The objective of the group is to develop one or more sustainable sources of funding for microfinance from events, earned income mechanisms and / or endowments through a tiered base of on-going supporters.

INDICATOR: Fields demand support from the microfinance unit in microfinance program design, implementation, monitoring and evaluation.

Targets: Microfinance Technical Advisor makes at least six visits per year and maintains monthly e-mail contact with program staff. Program/Finance Manager makes four field visits over the life of the program.

As planned, the microfinance advisor made 6 field visits, but as the new finance manager was only in place from July of this year, he had not made any field visits over the course of the reporting period. The visits by the microfinance advisor included:

Table 2. Microfinance Advisor Support Field Trips in Year 1.

Country	Number of Visits	Duration of Visit	Technical Support
Cambodia	2	8 weeks	Program Design
Haiti	1	10 days	Implementation
Bangladesh	1	3 days	Implementation
Uganda	1	3 weeks	Implementation*
Rwanda	1	1 week	Program Design

*The visit to Uganda also included hosting the 10-day policy and practice workshop for microfinance management staff from different fields.

Support has been given to these and other countries through e-mail contact, the international workshop described below and through resource provision. The following were the key areas of support provided to various fields at different stages of supporting microfinance interventions:

Table 3. Areas of Support Provided by the Microfinance Advisor

Country	Improved Performance
Cambodia	<ul style="list-style-type: none"> • Development of the DIP • Development of disaster response strategy • Support in conducting AIMS impact assessment tools • Development of governance
Haiti	<ul style="list-style-type: none"> • Recruitment of MF coordinator • Development of DIP • Program implementation • Partnership strategies
Bangladesh	<ul style="list-style-type: none"> • Management information systems • Program institutional development
Uganda	<ul style="list-style-type: none"> • Strategic planning for partners • Selection of partners • Working through partners
Rwanda	<ul style="list-style-type: none"> • Environmental assessment • Product development • Accounting and MIS systems development • Project design issues • Desk study of collateral substitutes
Kenya	<ul style="list-style-type: none"> • Partner selection • Project design
India	<ul style="list-style-type: none"> • Partner selection • Project design
Sudan	<ul style="list-style-type: none"> • Partner selection • Project design
Ethiopia	<ul style="list-style-type: none"> • Project assessment planning
Laos	<ul style="list-style-type: none"> • Advice on project direction • Support to product development tools

The microfinance advisor also supported two MBA students in doing their thesis on microfinance related subjects. One was on collateral substitutes (role of guarantees etc.) and the second was on regulatory framework in Cambodia. These pieces of work contributed to institutional learning on these issues and also helped to forge links with the Smurfit Business School / University College Dublin who are interested in providing private sector perspectives on the microfinance industry.

The key accomplishments of the microfinance advisor were coordination and compilation of the DIP which in the event, was an intensive review and design finalisation; overall increased compliance programs to Concern microfinance policy (especially in the areas of working with partners, targeting and management information system development); and staff retention and development.

INDICATOR: Annual microfinance policy & practice workshops attended by at least 10 fields by September 2004.

Targets: Year 1: 7 fields:

In pursuit of high standards of service delivery and accountability, an annual workshop is held on microfinance, which brings together our field managers and partners with the technical advisor and specialists from the wider microfinance sector.

The purpose of this annual microfinance workshop was to help disseminate standards and approaches in respect of financial product development, impact assessment and management information systems.

A ten day workshop was held in Kampala, Uganda in August 2002. The workshop was facilitated by the microfinance advisor, covering impact assessment, a consultant from the Springfield Centre for Business in Development presenting on financial product development and a consultant accountant with MEDA (the US based microfinance consultancy group suggested by USAID in feedback on the DIP), presenting on management information systems, internal control & fraud prevention. The content of the workshop resulted from a consultative process of soliciting opinions from all Concern staff associated with microfinance.

The workshop drew on inputs and presentations from the field; imparted microfinance industry standards and recent innovations; and assisted the wider microfinance team in agreeing minimum appropriate standards and adaptations of tools presented for appropriate use within their own programs.

Two practitioner manuals and a set of guidelines were produced for the workshop. One manual covers Financial Product Development which incorporated private sector marketing practices with innovations in market research such as those created by MicroSave Africa. The second manual provides a conceptual framework and a step by step guide to impact assessment ('Proving impact and Improving Performance') drawing on participatory methods for indicator setting combined with a simplified AIMS impact assessment tool. The methodology enables the user to accommodate improvements in programming. Finally, guidelines were discussed and provided as a set of minimum standards on financial, portfolio quality and efficiency indicators.

The sessions on impact assessment took on board the recommendations by Niloufer De Silva emphasising the need for well designed impact orientated indicators including at a minimum trends in income, food intake and coping strategies including comparisons with a control group.

A total of 15 participants attended from 10 operational fields and one senior manager from the office in Dublin also attended (Howard Dalzell):

Table 4. Participants at the Practice and Policy Workshop, Uganda 2002.

No.	Country	Name	Position	National or International Staff
1.	Cambodia	Rosemarie P. Apostol	Branch Manager	International
2.	India	Sebastian TV	Project Officer for income generation	National
3.	Bangladesh	Naved Ahmed Chowdhury	Assistant Country Director	National
4.	Uganda	Margaret N. Ssemukasa	Program Manager	National
5.	Uganda	Mayanja Jude	Credit Manager in Local Partner CBO	National
6.	Uganda	Milly Sserwadda	Partner Support Development Agent	National
7.	Uganda	Mbabazi Rosemary	Program Manager	National
8.	Laos	Palash Kumar Bagchi	Microfinance Program Manager	International
9.	Sudan	Mohammed Osman Ali	Assistant Country Director	National
10.	Ethiopia	Philipos Ageze	Street Vendors Program Manager	National
11.	Haiti	Jean Frenel Tham	Microfinance Project Manager	National
12.	Haiti	Jean Francois Bethony	Senior Microfinance Project Officer	National
13.	Rwanda	Stephen Townsend	Microfinance Program Manager	International
14.	Rwanda	Straton Haliyamana	National counterpart – Microfinance Program Manager	National
15.	Ireland	Howard Dalzell	Head of Policy Unit	International
16.	Kenya	Rita Kihara	Community Development and Training Assistant	National

The workshop had the following impact:

- The wider microfinance team are more knowledgeable of industry standards and innovations in the areas of product development, impact assessment and MIS.
- Minimum standards on accountability under management information systems are agreed.

The workshop also presented the group with an opportunity to discuss the microfinance policy review process and content. Some of the key issues raised by the group were working through partners, minimalist versus integrated microfinance (i.e. credit with education), the impact of the HIV pandemic on microfinance and institutional development.

INDICATOR: Information exchange system established to enable information sharing within CW & with other microfinance organizations/ networks.

Definition and Criteria for Judgment: information system used by senior management, technical advisors and program staff/partners to inform programs, policy and assist with networking within/outside CW.

A knowledge based project is being undertaken to develop an intranet facility to enhance institutional learning through making available on the intranet documents such as:

- In-house materials for example, policy documents, best practice papers, induction materials, manuals, project proposals, briefs, newsletters, research and departmental progress reports.
- Resource documents for example, NGO / MF publications, donor descriptions and guidelines, and articles from newspapers and journals.
- Websites: list of seminal websites.

The steps that have been undertaken for this project include the design of the website and dispatchment of the materials to the IT department for posting. At end of the reporting period, this was at the development stage and will be piloted shortly.

It is acknowledged here that this indicator lacks appropriate benchmarking. Therefore one benchmark will be that for internal information sharing, that this intranet becomes a useful source of useful documents and may act as a clearing house for new publications of special interest. In relation to wider dissemination of learning from this program, the appropriate route for this will be identified in the mid-term evaluations.

INDICATOR: CW US contributes to the review & development of microfinance policy.

Targets: At least two CW US staff participate in annual policy and practice workshops.

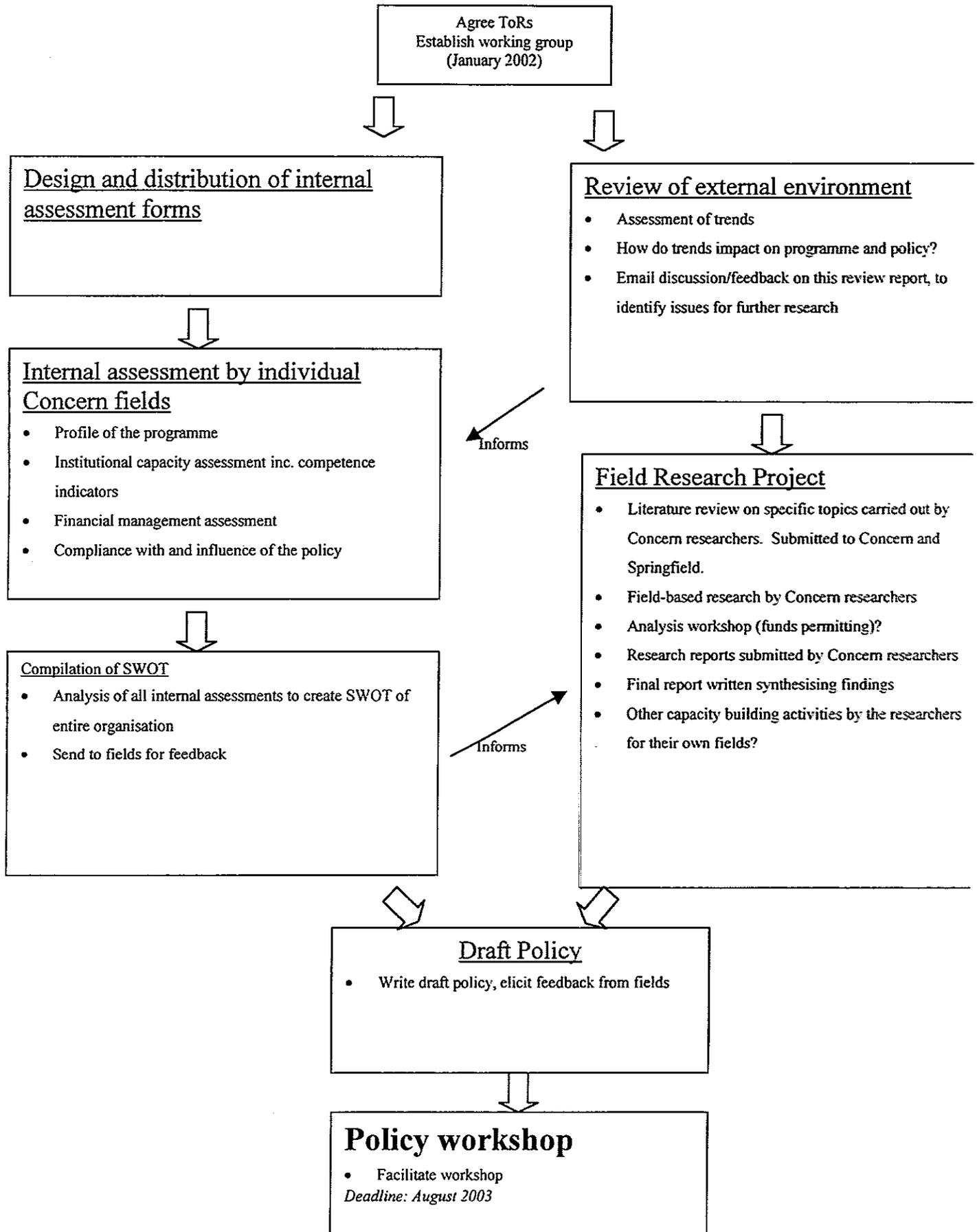
As this workshop was focused on technical skills development, the participation of additional Concern US staff was not necessary.

Plans regarding the content and the process of the policy review process have been developing since the workshop in Uganda. The process to be completed in year two will be structured as follows:

Process of Policy Review

Internal analysis

External analysis



INDICATOR: CW US recruits microfinance field staff.

This did not occur over the current reporting period as the microfinance advisor was not based in the US for the full year. However, being based in the US resulted in utilising the consultancy services of MEDA, the microfinance consultancy group.

[b] Concern Worldwide Cambodia

Objective: Increased technical capacity in microfinance programming within Concern Cambodia.

The target on development of competence in MIS was not fully achieved however, technical capacity in other areas such as delinquency and portfolio management, targeting, impact assessment skills, client exit interview and loan evaluation skills were strengthened during the year. Management staff of the program, national and expatriates participated in various CGAP-module trainings on financial management and microfinance concepts. Discussions and assessment of real situations in the field relative to fraud, targeting, portfolio and account management and monitoring strengthened technical capacity within the program.

INDICATOR: Concern Cambodia retains core staff of technical advisors able to support the continued development of TPT.

Target: Year 1: competence in MIS developed:

The objective of increasing technical capacity in microfinance programming within Concern Cambodia as indicated by Concern's ability to retain core staff of technical advisors with competence in MIS for its year one target was not fully achieved. This was due to staff turnover. The Finance Manager who oversees the production of reports finished his contract in July and his temporary replacement came in mid September. Recruitment for a Finance Manager with competence in MIS has been a setback for the program. Recruitment continues during the coming months. On the other hand, a local branch manager trainee with MIS competence particularly on the Microbanker System was recruited.

As highlighted by Niloufer De Silva it is agreed that this indicator is not clear in that the competence should be developed rather than the development of TPT being contingent on retention or not of staff. However, at this early point in the MFIs development the speed and satisfaction to which a competency is developed continues to be contingent on the retention and recruitment of key staff.

Objective: Thaneakea Ponleu Thmey's (TPTs) strategic planning, financial, and administration systems are fully established.

The preparation work for the registration and licensing of the independent MFI accelerated during the year. As of this writing, decision on the governance/ownership structure of the new MFI and preparation of documents for licensing are ongoing. Action plan and timetables for the licensing procedure are in place up until December 2002, the deadline for filing the license application.

INDICATOR: TPT staff have developed a 3 year strategic plan implemented over the period December 2002 and November 2005.

Targets: BASE: no strategic plan; Year 1: Baseline data collected:

As stated in the DIP, a strategic plan will be developed during the second year. An external evaluation of the TPT Program will take place in year 2 before the strategic planning. Earlier during the preparation of the DIP, baseline data was collected on institution and organizational capacity using the DOSA and client's socio-economic condition through the use of survey and focused group discussions. Several discussions on targeting leading to the decision to change the program target group from the poorest of the poor to the economically active poor took place during the year. Research initiatives and assessment of clients in the flood prone areas in Pursat branch provided supplementary program baseline information.

Additional preparatory activities have also been undertaken; such as review and revision of the Manual of Operations and the upgrading of the in-house accounting MIS called the Branch Office System (BOS) to include portfolio and arrears reports were undertaken.

INDICATOR: Increased staff capacities illustrated by there being at least 2 out of 3 branch managers who are Cambodian nationals and a Cambodian national Deputy Operations Manager is in training to take over as Operations Manager.

Target: Base: 0; Year1: 0:

It was not planned to have localized branch manager positions during year 1. However, staff capacity building towards localization has started with the implementation of the Branch Manager Trainee Program where three local branch managers were recruited in June. The branch trainee program is the first step towards localization of the Branch Manager position, which comes a year earlier than the original schedule in year three (2003-2004) where 2 of the 3 branch manager positions are expected to be localized. First phase of the branch manager-training program is scheduled for completion in December. Mid term evaluation of the trainees took place in September. In another undertaking, staff performance appraisal tool was developed and implemented in August with the first review on the use of the tool in December. Several internal and external training courses were provided the staff which included financial management, portfolio management, financial planning in Microfin, CGAP-courses on portfolio and operations risk management and MFI accounting.

A change is proposed on the yearly target under the indicator 'Increased staff capacities illustrated by there being at least 2 out of 3 branch managers who are Cambodian national and National Deputy Operations Manager is in training to take over as Operations Manager' is hereby proposed as: Base:0, YEAR 1:0, Year 2:3 Branch Manager in position and Operations Manager in training, Year 3: local Operations Manager in position and Finance Manager in training.

INDICATOR: TPT MIS system is fully developed by June 2003, is managed by the national financial controller by Jan 2004.

Targets: Base: not in place; Year 1: review and design of new MIS undertaken:

The identification of software for the MIS of the TPT Program started during the year. The current three year old in-house system developed by the Finance Manager was reviewed and found to be needing a replacement to accommodate the expansion and the complexity of managing information for greater number of clients and transactions. Recruitment of a Finance Manager with MIS competence started in

March that remains ongoing until the end of the reporting year towards this end. Therefore a full review and design has not yet taken place.

INDICATOR: As a more fully independent institution, the accounting and administrative systems will operate separately from Concern Cambodia's by June 2003.

Targets: BASE: systems are within Concern; Year 1: as baseline:

On the development of the TPT accounting and administrative system, inquiries were undertaken with different MFIs and MIS providers and users in Cambodia. Likewise, review of the in-house Branch Office System (BOS) based on current need relative to portfolio management showed its inability to support on time portfolio management information of TPT. These undertakings led to a decision to use the Microbanker System for the program and pilot test the system in Kompong Speu.

The setting up of an internal audit system within the program is being explored with the initial undertaking of designing and formulating internal controls and mechanism in the program. In addition, inquiries and visits to other MFIs accounting system were undertaken with a view to look for a compatible accounting package for TPT relative to Microbanker system.

Under the human resource functions, performance review tools were introduced to the program, trainings on the use of the tool were undertaken in June and implementation started in July with the formulation of staff objectives at all levels for six months. The first review of the performance using the tool is expected in December.

[c1] Concern Worldwide Haiti:

Implementation of the project in Haiti started in October 2001. Although some of the initial activities were delayed due to various circumstantial problems, the objectives set out for the initial year have been substantially achieved.

Objective: Increased technical capacity in microfinance programming within Concern Haiti by September 2004.

INDICATOR: Concern Haiti has a full time staff of three people able to design, implement, monitor and evaluate microfinance programs by September 2004.

Targets: BASE: staff require external assistance; YEAR 1: 3 staff skilled in design, implementation and monitoring:

Technical capacity in microfinancing programming within Concern Haiti has increased substantially over the past year from a position where staff required external assistance one year ago. A training need assessment was carried out by an external consultant and a training plan was designed to train the staff members in the deficit skills areas. Consequently, the microfinance staff have undergone various training courses in the country and abroad. The improvement has been brought about in the following areas:

- Design & Implementation:
 - Two of the staff members went to Uganda to attend a ten day Concern inter-country microfinance skills development workshop on product development, impact assessment and management information systems.
 - The staff members have also participated in various seminars on market research and targeting methods that was offered by DAI/FINNET in Haiti.

- One staff member participated in the DIP preparation process organized by USAID in October 22-23 in Washington DC.
- Monitoring and evaluation
 - A senior staff member has attended the microfinance management course at Naropa University in Boulder, Colorado.

In addition, the program staff of Concern also received practical experience in market research and in planning and evaluation of microfinance programs from the external Consultant, who was engaged in the DIP preparation process.

Thus, the microfinance staff has gained knowledge in related areas of microfinance, which in turn, helped them to upgrade their skill in designing, implementing, monitoring and evaluating microfinance programs

The following are examples where this training is directly assisting the quality of support provided to partners:

- Project design as outlined in the DIP.
- Transferring of skills for delinquency management to local partner staff. The project officer has organized and led a microfinance training for Fonkoze Directors and Credit Agents. He has developed specific training materials to be used by Fonkoze. He works closely with the branches' credit agents in the field and in his guidance the portfolio has grown more than 200% and the delinquency has come down to a minimum of 1%.
- Assistance with development of accountability at branch level.

In addition to this, Concern Worldwide has hired a microfinance coordinator. He has 12 years experience of microfinance / income generation projects in Eritrea, Sierra Leone and Bangladesh and has a masters in business studies (MBA). He has assisted with skills development of Concern and partners staff and has provided strategic direction to the programs.

[C2] Fonkoze

Objective: Improved technical knowledge and management capacity of FKZ's Mirebalais branch staff by September 2004.

INDICATOR: Improved capacity of the Mirebalais branch.

This is planned to be more thoroughly assessed in the mid term evaluation. The DOSA (Discussion Oriented Self Assessment) was used to make an organizational assessment of the Fonkoze Branch in Mirebalais and the Branch at the Central Office in Port-au-Prince. This assessment tool was quite useful in helping to ascertain the strengths and weaknesses of these operating units and to identify skills gaps in order to devise appropriate training plans. The results suggested needed improvements in the operational performance of the Mirebalais Branch and of the capacity of operating field staff. In addition to on-the-job training, different training programs were subsequently conducted for the field staff by the Concern Project Officer which included:

- Delinquency management
- Portfolio quality assessment and reporting
- Mobilization of rural savings
- Management of risk (Guarantees used by MFIs)
- Microfinance as a development tool
- Basic computer skill
- Targeting methods

The field staff are now able to prepare and analyse their own portfolio reports. This in turn has contributed to better management and control of the quality of their loan portfolios. The performance of the operating field staff is reviewed and evaluated by Fonkoze and Concern on a regular basis.

INDICATOR: Training methods and materials in the Mirebalais branch replicated and a training system standardized for FKZ by September 2004.

The training program for above were ready at the end of the reporting period for replication in other Fonkoze branches.

INDICATOR: Staff performance appraisal system reviewed and further developed to contribute to improvements in staff performance.

Key developments undertaken over the reporting period include

- An incentive program is in effect for the Credit Agents based on the portfolio quality and quantity of work.
- A credit manual has been developed and distributed and training has been conducted on the manual.
- Fonkoze now has a Human Resource Director who has put in place a formal evaluation process since last year and is done on six monthly basis.

It is too early at this point to assist in a review of this new system.

I.1.2. Country Programs : Service Delivery

(Note, headquarters is not included in this section.)

[a] Concern Worldwide Cambodia

Objective: (Appropriate) Microfinance services being delivered to 24,000 clients, including the poorest families, by June 2004.

Overall the target set for year 1 under this objective was achieved by the program. The program was able to provide financial services to the clients and managed to keep a reasonable client retention and participation rate considering the incidents of fraud and the flooding situation in two branches. The incidents of fraud prompted the program to temporarily stop the disbursement of new loans and establishment of new village banks while loans affected by the floods required more monitoring and adversely affect the loan repayment performance of the overall program. The fraud and the flooding provided opportunities for the program to assess and revise its policies and procedures and thereafter implement new ones in line with staff capacity building.

Note, the appropriateness of the products is dealt with relating to indicators on product development and retention rates detailed below. It is recognised that the inclusion of the word appropriateness may make the indicator multidimensional, but it is hoped that the distinct indicators lend sufficient clarification to this (responding to comments by Niloufer De Silva).

(Two related indicators are reviewed in this section).

INDICATOR: 24,000 clients in 434 village banks by June 2004.

INDICATOR: 90% of total poorest villagers in each village are clients, and overall, 70% of total members are poor and poorest.

TPT services were provided to 16,633 active clients against the year one target of 14,650. These clients are active members of the village banks including savers and those with outstanding loans by the end of September. Using the year 1 target of reaching 55% of the poorest in villagers in each village bank and overall 70% of total members are poor and poorest, the program achieved 60% on the first indicator and 72% for the second indicator by end of September. This figure is under validation as wealth ranking in 74 village banks in Kompong Speu were repeated starting August and expected for completion in November.

One of the recurrent and difficult hurdles has been the issue of targeting the poorest. TPT has a target to reach 90% of the poorest in each village where it operates, in accordance with TPT wealth ranking procedures. In August 2001 the programme had achieved 40% and renewed efforts were made to achieve the stated 90%. At the same time the Post Conflict Micro finance Research suggested that people who took loans from TPT were suffering greater hardship after the floods in Pursat. For the next six months the issue was regularly discussed in Concern. TPT staff struggled with definitions, and began to recommend a change from *the poorest* to *the economically active poorest*.

Over ambitious target setting in especially in relation to numbers of poorest accessing the microfinance service fostered a climate where numbers of loans / clients were given priority over, for example the quality of loans outstanding. This misplaced emphasis rewarded staff whose client numbers were high without following up satisfactorily on whether or who the actual loans had been disbursed to.

A change in targeting definition of the program from poorest of the poor to economically active poor was recognized in September subsequent to the discovery of the fraud in Kompong Speu branch and the findings of the research initiatives in the flood-prone areas in Pursat branch. On another note, the change was also necessary to reflect the appropriateness of the microfinance service, (financial services to economically active individual) and reflect the actual clients serve by the program in the fields. Data collected and reports showed that majority of the program's actual clients belong to the economically active poor rather than the poorest of the poor.

Following this change in the targeting definition, a change in targeting policies and procedures was implemented whereby clients loan eligibility criteria includes 1) individual belongs to the economically active poor people; 2) not highly indebted; and 3) must be willing to be part of a solidarity group.

In this context, it was agreed that the appropriate target group for TPT, as it develops into an independent Micro finance Institution, is *economically active poor people*. (that is people trying to live on less than US\$2, with a sub-group of those people trying to survive on less than US\$1, per day.)

Consequently, a change in indicators under the DIP is recommended where the 90% of total poorest villagers in each village are client and 70% of total members are poor and poorest is replaced by 100% of total members are economically active poor people/individual.

A major lesson for TPT from the investigations in Kompong Speu (branch affected by fraud) and research in Pursat (branch affected by flooding detailed below) was the extent to which overzealous *targeting quotas especially of the poorest* led to the weakening of operating procedures, to inappropriate restructuring, and made it easier for the staff to commit fraud. These in turn helped to enhance the figures for participation of the poorest: for example, many people used the names of the poorest to take multiple loans, to take loans for friends and family members living in other places, to pay off other loans, and ghost loans.

In May 2002, allegations were made of fraud in the Kompong Speu Branch of TPT. In June 2002 an internal investigation confirmed the widespread (c30 village banks) practice of fraud in the Kompong Speu branch. Also in June 2002 participatory problem identification research in Pursat revealed that the biggest single contributor to the increasing past-due loans from the flood prone areas (c32 village banks) was bad credit discipline.

The fraud in Kompong Speu Branch was relatively small in US\$ terms (c\$12,000 in July 2002). However, further investigation showed that operating procedures were not being followed in all three branches, and that the fraud was relatively easy for the staff to commit and had been going on from as early as 1999. Savings funds and personal property were also expropriated from Village Bank Members. Five staff members were dismissed and legal recourse is being pursued with a formal complaint lodged with the Prosecutor in Kompong Speu.

The discovery of fraud in Kompong Speu prompted the suspension of disbursement of new loans from June in all three branches. Loans for old village banks were disbursed in Pursat and Banteay Mencheay. New loans are scheduled for disbursement in January 2003 after the new policies and procedures are put in place through a training and orientation for all staff and village bank committee members.

Consequently, the TPT Manual of Operations was revised in accordance with the following principles: 1) TPT will provide loans for productive economic purposes to poor people in Cambodia; 2) TPT will issue loans that are appropriate to the capacity of borrowers to pay; 3) TPT will be grounded in good credit discipline and will operate in a way that empowers group members to make their own decisions; 4) TPT will be committed to openness and transparency in all areas of management and operations; 5) TPT will be committed to providing credit and savings to poor people or productive economic activities in the most appropriate and cost effective way; 6) TPT will be a learning organization in which appropriate research will continue to staff development and training and to updating operating policies and system.

INDICATOR: Development and piloting of appropriate new product(s) for the poorest by June 2003.

Base: no new products; Year 1: research conducted:

On the development and piloting of new products for the poorest, several research initiatives were undertaken which included 1) conduct of focused group discussions with clients in three branches on markets, coping mechanism, usage and control of benefits and resources; 2) client exit interviews in Pursat and Banteay Mecnheay; 3) problem identification exercise in Pursat and 4) AIMS-Impact Survey. The conduct of the impact survey and the final report was unsatisfactory. Thus, a re-analysis of the AIMS impact report and desk review of the research initiatives was undertaken in September. The findings and data gathered in these undertakings will be the used in the designing and or revising both the features and methodologies of the loan and the savings product. The client feedback, comments and suggestions on the terms, conditions, policies and procedures of the loans will form part of the design of the new product.

INDICATOR: \$161,663 in client savings.

Targets: YEAR 1: \$107,841

Client savings is recorded at \$119,000 as against the target of \$107,841 for year one. Savings are held at village bank level by the village bank committee who on-lend savings at a higher rate of interest, the profit from which becomes dividend for village bank members. Review of the savings policies and procedures were undertaken resulting to implementation of strict loan disbursement from savings during the monthly meeting in the presence of all group members. The maintenance of a \$50 balance in the savings fund to be made available for emergency loans was introduced and is being strictly implemented. Meetings with the village bank officers and the village local leaders were undertaken to explain the benefits of good management of the savings fund and the roles and responsibilities of the leadership in maintaining the savings fund.

INDICATOR: 95% retention rate of clients.

A total of 1,116 withdrew from the program in the two branches where this was recorded (Banteay Mencheay and Pursat) indicating a retention rate of 90% as against the target of 95%. The conduct of client exit interview started in June for Pursat and Banteay Mencheay. The AIMS-Client Exit Interview tool was adopted. All clients who left the program during the year were interviewed. Reasons cited for leaving the program include; clients' personal reasons, problem with group lending, business reasons, problem with policies and procedures and others. For personal reasons, clients identified the following: migration, family members told them to stop, marital problems, money spent on emergency and pregnancy. Other reasons cited by the clients were absence of regular occupation that will guarantee payment of the loan, old age and inability to earn money and dissatisfaction with the village bank leadership. Two major reasons under the clients business reasons were clients having enough working capital and the seasonality of the business. It is anticipated that more relevant targeting and an improved product will help to turn round this trend.

Objective: TPT has a policy and is able to deal with natural disasters appropriately.

INDICATOR: Respond optimally to natural disasters and provide financial services (such as appropriate savings facilities) to assist with coping with natural disasters.

In April it was ascertained that the amount of past-due loans in c32 village banks in flood prone areas of Pursat had reached as high as \$65,000, and a *problem identification* research exercise was commissioned as a joint exercise between Concern's three programmes in Pursat. The research was carried out in June and covered 9 villages where TPT village banks operate. Six villages were experiencing serious repayment problems for the last two loan cycles (years 2000 and 2001) while three represented the villages that were also flood-hit but were relatively better in repayment of their loans.

The research showed that four of the six villages attributed client repayment problems to inappropriate borrowings (loan sharing, taking more than one loan, and ghost loans) and bad credit discipline (copying and waiting for others to pay first) and not to disaster and flood. The research highlighted the non-uniqueness of these four villages to other villages that have experienced flooding in the same years. Generally, clients in flood-affected villages have been demonstrating capacity to pay their loans.

On the recommendation of the program officer in USAID, Dave Larson from World Relief was contacted and he supplied a very useful evaluation by Geetha Nagarajan on the MF response to flooding in Mozambique. The TPT Guidelines on Emergency and Natural Disaster was finalized in June but training on the use of the guidelines was not undertaken during the reporting period. The guidelines were presented and discussed to Pursat Branch staff only as they were involved in the formulation of the guidelines. Drought affected the province of Kompong Speu and Concern Cambodia responded to the drought emergency situation by distributing rice seeds to 7,718 families in 9 communes. The TPT staff in Kompong Speu supervised the distribution, which was coordinated with the commune councils.

The management and monitoring of restructured accounts in Pursat Branch due to the last two years flooding is ongoing and adheres to these guidelines. Information on water level in the river and lake around Pursat province were provided the village banks at the start of the rainy season in June. Likewise, village banks members and leaders report on the water level or drought situation in the villages during the monthly meetings. Village bank leaders were tasked to ensure availability of emergency fund at all times in the village safe.

The provision of disaster fund under the program and the implementation pre and during emergency measures and steps is expected to cushion both the clients and the program from the effects of any floods and drought particularly on the repayment ability of the client and the maintenance of a healthy portfolio by the program.

[b] Concern Worldwide Haiti

Objective: Appropriate microfinance services for the rural poor piloted in Mirebalais branch and ready for replication to other branches.

Apart from its regular microfinance service, a new loan product for the poorest has been developed by the Mirebalais branch of Fonkoze after a series of surveys were conducted with the local population. A plan to use a targeting strategy has been made, but yet to be fully designed and implemented.

INDICATOR: 1,800 active clients by September 2004.

Targets: Base: 83; Year 1: 500;

In order to identify potential clients and to target the poorest, several surveys were conducted around Mirebalais and Saut d'eau. These surveys were undertaken as part of the preparation for the DIP. The information analyzed from these surveys provided a complete picture of the socio-economic conditions of the Mirebalais and Saut D'eau areas. This was helpful in designing a new microfinance product targeting the poorest which would have wide acceptance and contribute to higher outreach for the program.

The project activities have now spread out into 21 localities of Saut D'eau and Mirebalais. According to the DIP, the Mirebalais Branch was expected to reach 500 clients by the end of first year. Presently the program has reached 330 clients. However about 150 more clients are still in the training process who are expected to be graduated soon and become qualified for the first loan. Due to Fonkoze's limited resources and the country's problem of infrastructure, the trainer was unable to conduct the training sessions according to the scheduled time. Therefore, the process of graduation of the new members to become active clients was delayed.

INDICATOR: US\$280,000 in client savings by September 2004.

Targets: Base: \$171,545; Year 1: \$205,000;

It is mandatory that each member will save 10% of the amount of the loan during the two month training period. The target for savings was set at US\$205,000 by the end of first year. As of June 30, 2002, the total savings mobilized amounts to US\$175,912.

The savings have been low because of the bad experience people had from the cooperatives during the reporting period. Cooperatives were offering higher interests on savings and the majority of savers were putting their money into the cooperatives instead of banks. Over the reporting period, there was a sudden collapse of the cooperatives and members lost their savings. Consequently, people are very sceptical about putting their money into any financial institution.

INDICATOR: Portfolio at risk >30 days of less than 10% by September 2004.

Targets: Base: 24%; Year 1: 18%;

Before the start of the project the portfolio of the Mirebalais Branch had suffered from a chronic portfolio at risk of 24%. As a result of better trained and knowledgeable staff and more logistical support, a substantial amount of past due loans were realized and eventually the portfolio at risk has come down presently to 1%.

INDICATOR: At least 50% of new clients are from the poorer category by September 2004.

The environmental survey that was conducted with the population produced a definition of small, medium and large households based on assets and housing conditions. Credit Agents are required to go to the houses of the clients and fill out a 'Client visit Form' with information that indicates the target clients are mostly from the poor households.

I.1.3. Plan to achieve sustainability

[a] Headquarters

Objective: Microfinance program unit established in New York with a strategic plan and guaranteed funding base.

INDICATOR: Strategic plan in place guiding the work of the microfinance program unit.

In the current strategic plan (2001 – 2003) the strategy encompasses the development of US operational support for Concern Worldwide programs including microfinance. The objective set out is to develop US operational capacity to support programs in the areas of technical support for program development and staff recruitment.

INDICATOR: Long term funding for microfinance programs and New York personnel secured from at least three donors with not more than 30% of funds from general public donations.

Targets: Year 1 – one donor funding programs:

At present, the main funder of Concern Worldwide's microfinance programs are USAID. Other funders supported by Concern's office in Dublin include the British government / DFID, the Irish government through Ireland Aid and the British National Lottery fund.

[b] Cambodia

Objective: TPT is operating at a specified level of sustainability by September 2004 & has established a governance framework to take it to full legal independence and beyond.

Under new legislation in Cambodia, NGO's with savings and credit operations reaching more than 10,000 clients are obliged to apply to the National Bank of Cambodia for an operating licence by 31 December 2002. A basic requirement of the application process is that the savings and credit operation is incorporated as a separate legal entity - a private limited company - under Cambodian company law. It is the new company which applies for an operating licence, not the founding NGO.

Lawyers in Cambodia have advised the Concern Country Management Team that the process of incorporation will take between two and three months. This means that the new company will only be able to submit a credible licence application to the National Bank within the 31/12/2002 deadline if we begin the incorporation process immediately, and if we are lucky in securing company registration with no unforeseen delays.

Thus the licensing of TPT as a microfinance institution under the banking law of Cambodia is in progress. In preparation for this, the TPT governance structure proposal was submitted for discussion and decision to the Concern Worldwide Senior Management in Dublin, Ireland. Applications for a private limited company will be submitted in October and application for licensing will also begin in October.

INDICATOR: TPT has achieved 56% return on operations by the September 2004

Targets: Base: 35%, Year 1 43%:

The program achieved 55% on returns on operations as against the year 1 target of 43%. The decision to temporarily halt the disbursement of loans allowed the program more opportunities to monitor its loan portfolio and manage the delinquencies. However, the expansion must be kept in a reasonable mode to increase the current

loan portfolio and bring it to the next level of sustainability. Cost management along with increase in good quality portfolio will allow the program to reach a higher level of sustainability.

The program achieved the target set for the year and achieved beyond on the return on operations indicator due to better cost management in the operations in the field. Operations efficiency particularly in the conduct of monthly meeting and closing of account were given attention during the year. Setting up of district offices to reduce cost on transport and bring the services nearer to the village of operations was implemented.

INDICATOR: TPT is legally licensed as an MFI with by June 2003

Targets: Base: not registered or licensed; Year 1: registered:

As planned, TPT was formally registered in January as an NGO-microfinance program with the National Bank of Cambodia. This is the first step required before becoming a licensed microfinance institution.

INDICATOR: Final legal structure has been researched & agreed upon by Dec. 2002

Targets: BASE: not in place; YEAR 1: research and review takes place:

Preparation for the transformation and licensing of TPT as an independent microfinance institution started during the year. The following steps were taken to inform the development of the legal structure:

1. Analysis of the regulatory environment in Cambodia (MBA thesis).
2. Analysis of various form of proposed institutional arrangement from a legal and program perspective.
3. Desk study of key issues and recommendations emerging from the wider microfinance community.

A decision on the governance and ownership structure was reached by the Concern Worldwide management in advance of the target date.

[c] Concern Worldwide Haiti:

Objective: Concern Haiti core microfinance staff continue to provide high quality technical support to MFIs in Haiti.

INDICATOR: Concern Haiti engaged in partnerships to provide technical assistance to at least three MFIs by September 2004.

Targets: BASE: 2 MFIs; Year 1: 2 MFIs:

Concern Worldwide in Haiti now has a fulltime team of microfinance professionals to provide quality services to its microfinance partners. It provides day-to-day technical backstopping to its microfinance program partners in La Gonave, 'AAPLAG' (not directly funded under this grant) and also to microfinance program in Mirebalais Branch which are implemented through partners. Concern has reached an improved capacity to expand its programs in collaboration with new partners. The staff members continue to attend training courses and workshops to enrich their knowledge of new microfinance management disciplines.

Concern has become more prominent in the microfinance sector in Haiti with some microfinance institutions eg. CARE, ACMEF contacting concern Haiti for information and advice on various issues. Also, Concern Haiti was also contacted by

Arc-en-Ciel, a local NGO with a view to starting a microfinance program in alliance in the early months of next year.

Objective: The microfinance program of FKZ's Mirebalais branch is operationally sustainable by September 2004

INDICATOR: 102% return on operations for microfinance services in Mirebalais branch by September 2004.

Targets: Base: 55%; Year 1: 59%:

Fonkoze staff are committed to their work and have demonstrated their skill and efforts to manage the operations of the program. The branch exceeded its target by reaching 66% operational sustainability. However, the program is still young and there is considerable room to grow in scale so as to realize operational and financial sustainability.

I.2 Partnership Plan : Nature of Relationship, Background Information & Structure of Working Relationship

In order to have sustainable impact on the life of the poor Concern is committed to work through local partners and providing them with the necessary support in the implementation of programs.

The nature of the relationship with both microfinance providers is very different. In Cambodia, Concern is the parent institution which is facilitating the transformation of TPT to become a microfinance institution. With Fonkoze, the service provider is established. However, in their drive for financial viability, their effectiveness in reaching the poor has diminished and Concern is primarily assisting them with developing a methodology which will provide for greater depth and which can be replicated.

[a] Cambodia

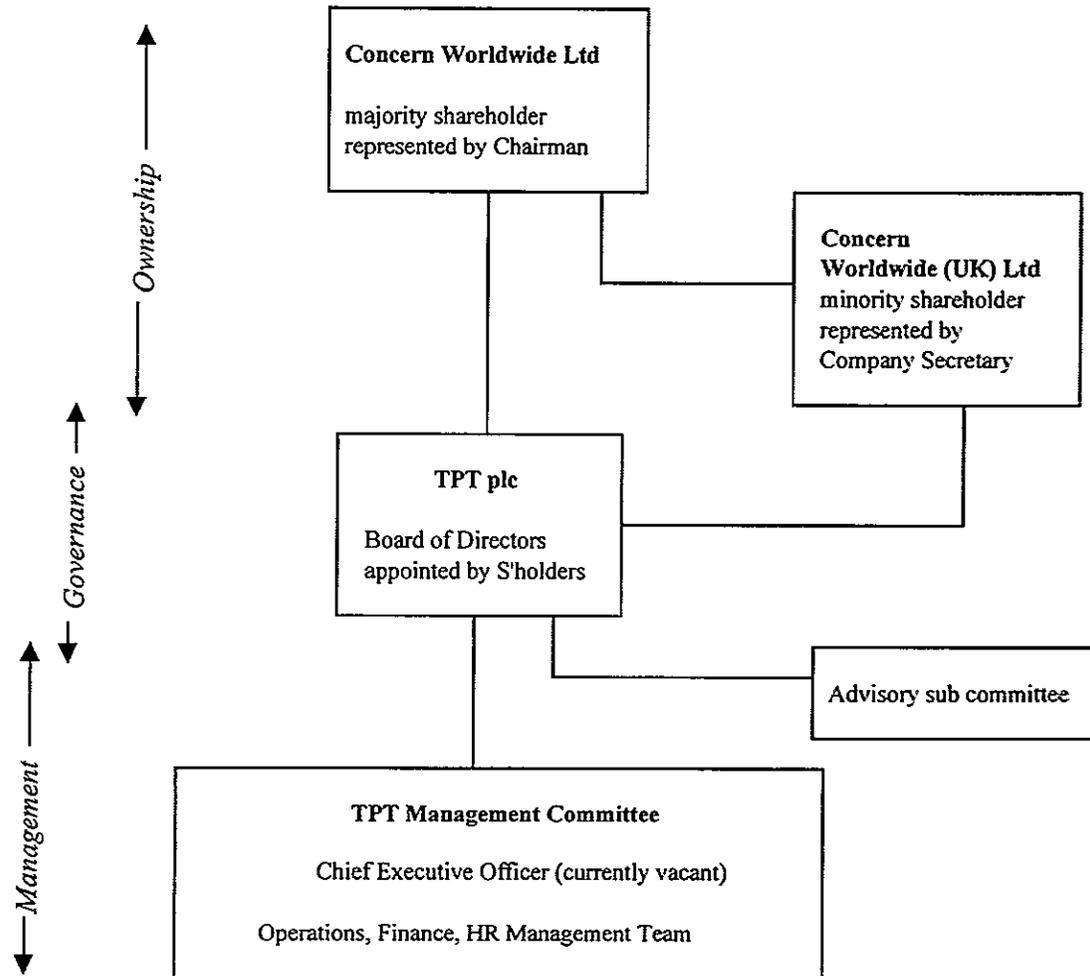
In preparation of the licensing of TPT as a microfinance institution in Cambodia, Concern Worldwide decided on the governance and ownership structure of the new MFI. The new MFI, taking the form of a private limited company will have shareholders who would in turn appoints the directors. The directors appointed by the shareholders will be responsible for governing the new MFI. A Chief Executive Officer will be appointed by the Director, the former will head the management team of the new MFI, which will include operations, finance, human resources and monitoring, and training managers.

After transformation and licensing, a new partnership arrangement may take shape between the new MFI and Concern Cambodia. As a result of the transformation, the new licensed microfinance institution will report to the board (who will have its first meeting in January 2003 in Cambodia). The process of separation will be fully supported by Concern Worldwide which will ensure as much as possible that critical success factors are in place. These should include visionary management and board, a commitment to staff development, a strong credit discipline and innovative, responsive product development.

The working arrangement will consist of support as required in the areas of human resources, finance and administration as well as through overall monitoring and guidance provided by the quarterly board meetings.

Shown below is the proposed organogram for the new MFI:

TPT Suggested Corporate Structure



The immediate steps to bring this to fruition are:

- Lawyers in Phnom Penh draft TPT plc Memorandum and Articles of Association.
- Application made for registration of TPT plc.
- Implementation of Cambodia's detailed plans for separation and transfer of assets and liabilities to TPT plc, generation of TPT policy and procedures, and administration of HR changes.

This is a model which can be built on and developed in the future, when we wish to embark on further changes to the ownership and governance of TPT.

[b] Haiti

Fondasyon Kole Zepol (Fonkoze) is an alternative bank for the poor funded in 1994. Currently it has 18 branches throughout the country. It offers various financial services like small loans, savings, transfer service, currency exchange literacy and business development.

Fonkoze has recently submitted an application to the Central Bank to become the first micricredit oriented commercial bank in Haiti.

In this incidence, Concern's role is carried out in the following areas:

- Provide technical support to the field staff engaged in the operations of the credit program.
- Supports Fonkoze financially by providing a portion of the loan fund and salaries of staff, the running costs of the Branch and its equipments.

The Project Officer spends a considerable part of his time in the field with the Credit Agents assisting and supporting their work.

Working arrangement between both partners

The working arrangement is based on mutual sharing of the role and responsibilities between Concern and Fonkoze.

Fonkoze is responsible for the management of the operations of the Mirebalais Branch including finance, personnel and administration. Fonkoze assists in group formation, trains the members and motivates its existing and potential clients.

Fonkoze is fully involved in loan administration, disbursement and collection of loans through its field and central office staff.

Concern is involved in providing logistical, technical and management supports to Fonkoze Mirebalais Branch. Concern works in the areas of assisting in training of Credit agents and Supervisors, in the promotion of the project to the population and in targeting clients.

In addition, most of the developmental issues arising in the process of implementation are regularly discussed between Concern and Fonkoze in scheduled monthly meetings.

III. Constraints, Unexpected Benefits and Lesson Learnt

[a] Headquarters

A Problems or constraints that have affected project implementation.

There have been no significant problems or constraints that have affected project implementation from the headquarters perspective.

B Strategies

Not applicable

C Circumstances that have facilitated implementation / produced unexpected benefits

Several factors contributed to the successful execution of the DIP and implementation in year one. These included:

- The USAID DIP workshop which brought together the main people involved in preparing the DIP.
- The transfer of the existing MF advisor from Dublin to New York facilitated a smooth transition to the post.
- Proximity to SEEP and participation in the SEEP AIDS core working group have enabled the advisor to support fields exploring this issue.

[b] Cambodia

A Problems or constraints that have affected project implementation

These are detailed under the headings of fraud and flooding.

[i] Fraud

As explained in detail above, a major lesson for TPT from the investigations in the fraud in Kompong Speu and research in Pursat was the extent to which unclear targeting and targeting definition / drive for client numbers led to the weakening of operating procedures, to inappropriate restructuring, and made it easier for the staff to commit fraud.

The overwhelming lessons learned during the year have been from the fraud and corruption discovered in Kompong Speu Branch. Two major factors contributed to the spread of corruption: 1) lack of adherence to the TPT Manual of Operations and 2) lack of formal monitoring at branch management level. As the Assistant Branch Manager was involved, it would be down to the Branch Manager to detect what the fraud. Having Branch Managers who did not speak the local language, Khmer, and frequent changes in management did aggravated the situation.

Other factors that contributed to fraud are:

- 1) Lack of MIS exposed TPT to fraud. An institution has to be able to detect delinquency at loan officer level in order to minimise fraud.
- 2) Weak internal control mechanisms. The experience has highlighted the need for an internal audit function. In general, external auditors are not specialised enough to be able to audit MFI's adequately. They often do not even visit branches and track individual clients. Therefore the internal audit function will have a strong 'spot checking' and money / paper trailing component.
- 3) The village bank committee members did not understand the importance of obtaining a correctly filled out receipt. Socially powerful TPT staffs were able to make the village bank committee members' accept blank receipts or falsely filled out ones.

[ii] Flooding

A problem identification exercise in (the flood affected) Pursat Branch in June provided the program another valuable lesson relative to the problem of non-payment of loans by clients. The research covers 9 villages where TPT village banks are operating. Six villages are the ones experiencing serious repayment problem for last two loan cycles (year 2000 and 2001) while the three others represents the villages

that are also flood –hit areas but are relatively better in repayment of their loan. The research showed that four of the six villages mentioned attribute serious repayment problem to inappropriate borrowings (loan sharing and taking more than one loan) and bad credit discipline (copying and waiting for other to pay first) and not to disaster and flood. The research highlights the non-uniqueness of these four villages to other villages that have experienced flooding in the same years. Generally, clients in flood-affected villages have been demonstrating capacity to pay their loans. The research led the program to strictly enforce credit discipline and be very cautious in loan restructuring.

B Strategies used to over come constraints

[i] Fraud

In response to the constraints identified above the following steps were undertaken: a) change the targeting definition of the program; b) review and revision of the Operations Manual, c) review of the program priorities whereby temporarily stoppage of loans issuance was identified to go along with the training and orientation of all staff and village bank members and leaders on the new policies and procedures; and d) start the setting up of an internal audit function within the program through the design of an internal control process and procedures.

[ii] Flooding

To address the flooding situation, guidelines were produced to help the branches deliver services that help to protect the client and the institution. There has been greater enforcement of credit discipline in non – hardship cases and measures at village bank level, such as the provision of an emergency fund from savings, have been taken.

C Circumstances that have facilitated implementation / produced unexpected benefits

[i] Fraud

The incident of fraud was an important wake up call for the TPT and other Concern supported microfinance programs. This brought the issue of internal control and fraud prevention to the forefront and dealing with the issues was part of the agenda at the workshop in Uganda.

[ii] Flooding

The research in Pursat attributing non-payment problems to bad credit discipline and not due to the flooding resulted to changes in mindset of staff and management relative to strict enforcement of credit discipline and collection of repayment. The lessons from dealing with this natural disaster will be disseminated to other fields.

[c] Haiti

A Problems or constraints that have affected project implementation.

In the implementation of the program, it faced a diverse nature of constraints that challenged the program in achieving the stated targets, especially in terms of the number of clients and their savings.

[i] Infrastructures (Road)

One of the main constraints was bad infrastructure conditions which has frequently prevented the program services from reaching poor household families in remote areas. There are areas that can only be reached by mules or by foot and could take 4-6 hours to get there. Transport of money to these areas put field staff and clients at risk due to high level of insecurity in the country.

[ii] Cooperative crisis.

Since 1999, the number of cooperatives in Haiti had grown to a phenomenal amount, even in the remote areas of the country. In order to attract new clients, the cooperatives started offering a monthly interest rate of 10 - 12% on savings accounts. Their strategy was effective as a mass number of people withdrew their money from the commercial banks and deposited them into the cooperatives. Many went as far as to sell their assets like homes, cars and land to have the money to deposit into the cooperatives. The accessibility and popularity of the cooperatives gave them a strong presence in the financial sector of Haiti, although there was no control or regulation by the Central Bank of Haiti.

By June 2002, the majority of cooperatives closed their doors and in some cases, management ran off with the money of their clients. Despite mass protests by the population, the majority of people was unable to recover their money and lost all that they had saved. Because of this, there is a general mistrust of financial institutions, especially on the part of the poor who before the cooperatives never saved or used the services of a financial institution. Although they are interested in the services, they are afraid of being deceived again and losing their money. In this sense, Fonkoze, which requires that their clients start to save in order to receive a loan, has been faced with the challenge of gaining the trust of the people, proving the legitimacy and durability of its institution and encouraging clients' savings.

[iii] The structure of Fonkoze

Since its inception in 1994, Fonkoze has grown to become a viable and solid financial institution. Due to past experiences and lessons learnt, Fonkoze has been able to make needed changes and improvements to its structure and systems. The present structure of Fonkoze has proven to be an added benefit for the program. Their system of internal and external controls have created a checks and balances which minimizes fraud or theft among employees and clients, gives a level of transparency which contributes to client, employee and external confidence in Fonkoze, and improves the monitoring and sharing of information. As Fonkoze has 18 branches throughout the country including the Mirebalais branch, it has been able to centralize the information and activities of these branches in the head office, which is always a struggle in a country that has problems of infrastructure.

However, this structure has also created an inconvenience for the program. As all branch information and activities are collected and kept in the central office, there is also a centralization of management and decision-making in the central office of Fonkoze. For example, the credit agents in the field prepare the loan dossiers with the recommendation of the Centre Chief / branch manager. They are then sent to the Central Office to be given final approval by the Credit Director and the Regional Credit Director. Each client's savings accounts are also verified. Because the dossiers pass through many hands before they are finally approved, the clients spend about a

maximum of 2 weeks waiting to receive their credit. This is in addition to the 2 months of training and time given to them to make deposits in their savings accounts.

[iv] Staff Turnover

Ever since the opening of the Mirebalais Branch in 1997, the office was unable to grow and develop under leadership of its former branch director. Since the beginning of the program in October 2001, it was apparent that the director did not have the qualifications and motivation to continue on with his position and its responsibilities. In addition, the staff had become unmotivated and frustrated under his leadership. Fonkoze hired a new branch director who faced the challenges of motivating his new staff, creating a sense of working in a team and correcting any inherited errors from the former Director.

During the 2002 year, the office was under the leadership of 2 different directors, until the present, third branch director was hired. These frequent changes in the managerial staff caused some confusion, especially on the part of the credit agents, as to who was supervising their work and the program, and many times confusing the roles of Fonkoze and Concern. It also affected some aspects of coordination in the program because each director had to be orientated on the various objectives and aspects of the program. The change in personnel made it difficult at times to make final plans and divisions of roles and responsibilities in the program.

[v] Availability of good micro finance programs within Haiti.

The microfinance industry in Haiti is relatively new and still growing. Most microfinance institutions are still developing their programs. Thus, it is difficult to find an ideal and experienced microfinance program in the country to visit and gain knowledge from the program. Exposure visits within the country were designed into the program to continue with the capacity building of Fonkoze's field staff. However, only one exposure visit was undertaken and it was to a well-running Fonkoze Branch in the area of Hinche in Haiti.

B Strategies and Lessons learned in Haiti

In the result of the baseline surveys, there were many findings that were useful in improving Fonkozes' current loan product as well as developing a new loan product targeted for the poorest of the poor.

The financial services recognized by the population were those offered by Fonkoze, various cooperatives and street moneylenders.

Although they knew what services were offered, they did not know the details of these services. This led us to conclude that they did not know because they felt they did not have access to these services. As the majority of the people surveyed, were observed to be small traders and it was clear that Fonkoze's current loan product was not accessible to all small traders.

The people agreed that the moneylenders were not a good option for them due to the high interest rates. However, they liked the fact that there was no waiting time to borrow the money from the moneylenders and that in any type of urgency they might have, they could get the money immediately.

C Circumstances that have facilitated implementation / produced unexpected benefits

[i] Infrastructure (Road).

As a way to address this problem, the clients have been asked to find a place, geographically positioned, that is convenient for them as well as for the field staff to gather and hold meetings. This seemed to have worked well as the field staff can meet their clients in a common place without travelling longer distances.

[ii] Cooperative Crisis

The efforts of promotional and educational drives are continued by Fonkoze and Concern with the hope that it will increase and restore the confidence of the local people in the program. More clients are now becoming interested in Fonkoze credit. In fact, very few clients closed their accounts during this crisis, and the number of accounts opened by potential clients with the Branch is also increasing too.

[iii] The structure of Fonkoze

Fonkoze has realized that the lead time for their clients to receive loans is long. Originally, it would take 3 months of training to finally approve a loan. The time has now been reduced to 2 months and every effort is being made by the credit Directors to approve loans in a fast and timely manner. Intensive training for the credit agents have also helped to facilitate the process as they have a better understanding of the loan appraisal process. The credit agents are now playing an active role in delivering loans and feel the importance of quick and efficient preparation of the loan dossiers. This in turn, is expected to minimize the lead time for disbursement of first loans.

[iv] Staff Turnover

The present Director has adapted himself well with the staff and in the Branch. The growth of the Branch activities in terms of loan portfolio, increased savings and currency exchange are all positive indicators of a motivated and committed staff. Fonkoze will provide necessary support to the Branch for its growth and stability.

Additional Circumstances that May have Facilitated Implementation in Haiti.

[i] Concern Image

Concern is well known in the communities of Saut D'eau and Mirebalais and is respected by community people because of its health project in the area. Concern's presence and its reputation has helped give the partnership and program credibility to gain the trust and continued cooperation of the community people.

[ii] Presence of Fonkoze.

The Fonkoze Mirebalais Branch was already present in the area since 1997 and had many clients using its services in the surrounding areas. This also contributed in the implementation of the program.

[iii] Experience of the women in association

There has been a number of women community groups in the area who organize groups by themselves to do various community development work. These women groups are quite familiar with the ideals and disciplines of women associations and solidarity groups. Presence of such women groups has considerably facilitated promotion of program objectives and services, finding new clients and formation of groups in the process of implementation process of the program.

[iv] Church

The multitude of the churches in the localities was an advantage to the extent that majority of the people in the countryside go to church and it was a common place where people could be easily approached and program issues could be discussed. The churches also allowed the team to use their premises to hold group meetings and disbursement of loans.

[v] Markets

The rural markets around the Mirebalais and Saut D'eau has served as a place to contact clients and to find new clients for the program.

VI CHANGES IN PROJECT DESIGN

There has been no significant change in project design apart from the deviations indicators in Cambodia mentioned above including:

1. A change on the yearly target under the indicator *Increased staff capacities illustrated by there being at least 2 out of 3 branch managers who are Cambodian national and National Deputy Operations Manager is in training to take over as Operations Manager* is hereby proposed as: Base:0, Year 1:0, Year 2:3 Branch Manager in position and Operations Manager in training, Year 3: local Operations Manager in position and Finance Manager in training.
2. A change in indicators under the DIP is recommended where the *90% of total poorest villagers in each village are client and 70% of total members are poor and poorest* is replace by *100% of total members are economically active poor people/individual*.

These are re-iterated here for information purposes. However, they do not constitute very significant deviations from the DIP and do not result in changes to overall objectives.