

Deepening Malawi's Microfinance Sector Project

DETAILED FIRST YEAR WORK PLAN AND PERFORMANCE MONITORING PLAN (PMP) DECEMBER 15, 2004 - SEPTEMBER 30, 2005

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TABLE OF CONTENTS

ACRONYMS		1-2
SECTION I	Introduction, Background and Current Status	3
	A. Introduction	3
	B. Current Status	4
SECTION II	Micro Level Assistance	5
	A. Microfinance Institutions Capacity Building	5
SECTION III	Meso Level Assistance	7
	A. MAMN	7
	B. Increasing MF Service Provider Capacity	8
	C. Increasing MFI Access to Capital	9
SECTION IV	Macro Level Assistance	9
	A. Legal/Regulatory/Supervisory MF Framework	9
SECTION V	Cross Cutting Issues	10
	A. Gender Considerations	10
	B. Communications Strategy	11
	C. Environmental Impact Management Strategy	12
SECTION VI	Administration and Finance	14
	A. Personnel and Recruitment	14
	B. Procurement	14
	C. Contracting	14
	D. Finance	14
ANNEX A	Work Plan Timeline	A-1
ANNEX B	Performance Monitoring Plan (PMP)	B-1

Abbreviations and Acronyms

AIMS	Malawi Agricultural Inputs Markets Development Project
AMAP	Accelerated Microenterprise Advancement Project
APIP	[European Union] Agricultural Productivity Investment Programme
BDS	Business Development Services
CAMEL	Capital adequacy, Asset quality, Management, Earnings [and] Liquidity
CBF	Capacity-Building Fund
CF-PLR	Commercial funding and policy/legal/regulation [specialist]
CGAP	Consultative Group to Assist the Poor
COMPASS	Community Partnerships for Sustainable Resource Management in Malawi
COP	Chief of Party
DCA	Development Credit Authority
DFID	Department for International Development (Britain)
DMS	Deepening the Microfinance Sector (Malawi)
EU	European Union
FINCA	Finance for International Community Assistance
GDA	Global Development Alliance
GoM	Government of Malawi
INAFI	International Network of Alternative Financial Institutions
IQC	Indefinite Quantity Contract
IR	Intermediate Result
ISP	Integrated Strategic Plan
IT	Information Technology
KRA	Key Results Area
M&E	Monitoring and Evaluation
MAMN	Malawi Microfinance Network
MARDEF	Malawi Rural Development Fund
MFI	Microfinance Institution
MIS	Management Information System
MIX	Microfinance Information Exchange
MoAI	Ministry of Agriculture, Irrigation and Food Security
MoF	Ministry of Finance
MoIC	Ministry of Industry and Commerce
MOU	Memorandum of Understanding
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
MSME	Micro, Small and Medium-size Enterprise
MUSCCO	Malawi Union of Savings and Credit Co-Operatives
NASFAM	National Smallholders Farmers Association of Malawi
OIBM	Opportunity International Bank of Malawi
PA	Project Administrator
PIR	Project Intermediate Result
PMP	Performance Monitoring Plan
PMU	Project Management Unit

PRIDE	Promotion of Rural Initiatives and Development Enterprises
RBM	Reserve Bank of Malawi
RFP	Request for Proposals
SACCO	Savings and Credit Cooperatives
SALES	Support for Agriculturally Linked Enterprises
SO	Strategic Objective
SPEED	Support for Private Enterprise Expansion and Development (Uganda)
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme

I. Introduction, Background and Current Status

A. Introduction

The Deepening Malawi's Microfinance Sector Project (DMS) is a USAID task order contract executed through Chemonics International Inc. under the AMAP Microfinance IQC. Chemonics collaborates on the project with three of its AMAP subcontractors: Bankworld, Enterprising Solutions, and eChange.

DMS is a three-year activity, with a three-person technical team. The Chief of Party (COP) oversees the reporting and management of the project, and provides technical assistance under all three of the project's activity areas as needed. The Capacity Building Specialist (CBS) supports MFIs through training, technical assistance and the identification and use of external consultants. The Commercial Capital and Policy/Legal/Regulatory Specialist will address capital access issues and will support dialogue and developments in the policy/legal and regulatory arenas. However, due to reduced funding levels this post was eliminated for the first year and will be covered by the COP. At such time funding becomes available, the need for the position will be reevaluated in consultations with USAID.

This work plan covers the remaining six and one-half months of the first project year. Because of a smaller-than-expected first-year obligation, the work plan assumes that all technical assistance and training will be delivered by DMS field office personnel. Substantial client cost-sharing is required to leverage limited project funds so that the activities described in this plan can be implemented.

The overarching Results Framework objective which DMS will achieve is the deepening of Malawi's financial sector through expanding access to sustainable financial services for micro-enterprises and low-income households. It will do this through three project components: (1) Improve the sustainability and outreach of MFIs through retail-level capacity building; (2) Facilitate access to greater flows of commercial capital for financial intermediaries through targeted capacity-building, linkages and brokering, and (3) Contribute to a more enabling regulatory, supervisory and legal framework for microfinance.

Recently published donor guidelines on good practice in microfinance¹ emphasized the importance of integrating financial services for the poor into the overall financial system of a country. Such inclusive financial systems are most effectively supported by providing demand-driven assistance at the micro (retail-level financial institutions and other providers), meso (financial infrastructure), and macro (enabling policy environment) levels. As DMS provides assistance through its three project components it will operate at each of these levels to eliminate constraints and build institutional capacities to help increase the legitimacy and professionalization of Malawi's microfinance sector.

At the **micro level** DMS will work with MFIs that request DMS assistance and meet project criteria. Assistance will consist of a combination of targeted technical assistance, customized

¹ CGAP. 2004. *Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance*. Consensus Microfinance Guidelines. Washington, DC: CGAP.

training, generic “best-practice” training on a first-come, first-served basis, and MFI assessments as precursors to full-fledged ratings. Requests for DMS assistance from MUSCCO and FINCA are now under consideration.

The **meso level** refers to the overall infrastructure of the financial system. In the Malawi context this includes Malawi’s Microfinance Network (MAMN), information systems, capital markets, donors, projects and consulting firms providing technical assistance, training and audit services to MFIs. In its first year DMS will focus its efforts to improve the capacity of MAMN to compile and disseminate information on its members, promote transparency in reporting standards, promulgate best practices by stakeholders, and lobby effectively on critical issues confronting Malawi’s MF sector. DMS will consult with the Government of Malawi (GoM) Malawi Rural Development Fund (MARDEF) to encourage it to adapt best practices to the fullest extent possible and to minimize market distortions and negative impact on the sector if it does not. DMS will position itself to play a lead role in the MF Stakeholder meetings to eliminate information asymmetries and reach broad consensus on key actions supporting the sector. Plans are underway to support a UNCDF/UNDP-funded National MF Conference in FY2005 (tentatively scheduled for June 2005). Lastly, when future DMS funding levels permit, DMS will solicit tenders from service providers and closely monitor deliverables to help build local consulting capacities to offer market-based, demand driven services to the microfinance sector.

At the **macro level**, DMS will seek forums to engage the GoM to construct an enabling environment leading to the development of inclusive financial systems favoring the deepening of Malawi’s microfinance sector. This will happen by increasing the level of awareness within the Ministry of Finance and the Reserve Bank as to best practices for the regulation and supervision of microfinance and persuading them to actively participate in stakeholder meetings and other DMS-supported activities. Should an announced AfDB-funded consultancy to study the legal/regulatory/supervisory environment for microfinance go forward, DMS will support the process to help ensure that the GoM adopt appropriate policies to achieve optimal outcomes. If it does not, DMS will support the process using DMS staff in year 1 and supplement this with external consultants, funds permitting.

B. Current status

This work plan is a refinement of an earlier work plan drafted in December before the DMS field office team arrived. We have scaled the first year of DMS activities to the initial resources available to the project.

This second phase work plan covers the remaining six and one-half months of the first project year that ends September 30, 2005. It provides updates to the project start-up in Malawi from the last month in the first quarter (December) and the second quarter (January-March) and an overview of the activities which the project plans to implement during the last two quarters of the first project year (April-June and July-September).

The COP arrived in Malawi on December 15, 2004 and the CBS began work on January 1, 2005. The first months of the project through February 2005 focused on the startup process which included initial tasks such as identifying and leasing office space and one expatriate residence, equipping and staffing the office, and adapting Chemonics’ standard project office operating

procedures and policies to the local context. During this time stakeholders were consulted to inform the drafting of this final first-year work plan that includes a final performance management plan (PMP) containing appropriate and agreed upon baselines, indicators and targets.

The two-phased approach to work plan development for the first year of DMS has several advantages. First, it gave an idea of how the project will approach start up activities and how the team developed relationships with the microfinance sector. Second, it allowed the project to be demand-driven and to develop specific activities suited to initial findings in Malawi. Finally, it allows the project to be flexible and to expand activities according to the availability of contract funds.

The work plan discusses initial activities in each of the three technical components and at the micro, meso and macro financial sector levels, cross-cutting themes, and administrative and financial management activities. **Annex A** presents the work plan in a timeline.

II. Micro Level Assistance

A. Microfinance Institutions Capacity Building

Activities to Date

During the first three months in-country, the COP and the CBS focused on developing relationships with the Mission and the microfinance community including MFIs, consultants, GoM entities, and other donors. The COP and CBS met individually and in groups with the MFIs and MF sector stakeholders to discuss DMS' scope and mission and identify potential areas of collaboration. At the same time, the COP liaised with the SO team to meet with other donors such as DFID, EU, UNDP, UNCDF and the World Bank to identify overlapping areas of interest. DMS actively participated in MF stakeholder meetings and hosted the February meeting at the DMS offices. Likewise, DMS met with the MAMN secretariat and the COP was invited to the February meeting of the network.

Activities to Come

DMS will not have the resources to work with all MFIs or to address all of their needs, especially in the first year as it awaits additional funding obligations to finance project activities beyond May 2005. Thus, during meetings with MFIs, the COP and CBS made sure that MFI expectations of the project were realistic. Given the expected funding this year, the DMS resources will be limited to the direct assistance that the COP and the CBS can provide.

DMS capacity building will take the form of broad generic training as well as targeted technical assistance and customized training. Generic best-practice microfinance training based on off-the-shelf training material will be offered for a fee to the general public in Lilongwe in June on a pilot basis. If well subscribed and liked, the pilot can be repeated in Blantyre and Mzuzu in August.

Following visits of MFIs in Lilongwe and Blantyre, DMS received requests for assistance from FINCA and MUSCCO. Discussions are continuing to define the type of assistance that is needed at each of these structures and prioritize addressing the needs that emerge.

In the case of FINCA, it has benchmarked itself against its model program in Uganda which recently formalized and registered as a licensed commercial bank. FINCA Malawi's most urgent self-diagnosed needs are funding support for a 1-2 week on-the-job training visit for the Human Resource and Finance Manager to travel to FINCA Uganda, which recently won an award for "the best HR department in Uganda." A second study tour was desired for the Operations Manager to travel to FINCA Tanzania to examine its highly successful \$500,000 micro-leasing portfolio with an eye towards offering this new product in Malawi. The estimated total DMS cost share for these two visits is \$10,000. By the second week of April, FINCA will send to DMS a detailed description of the visit purpose, activities planned, expected outcomes, and budget that includes FINCA cost sharing and DMS funding requested. Upon returning to Malawi, FINCA will debrief DMS and an action plan drawn up with areas DMS can support will be clearly indicated. Funding and timing of these study tours will be contingent on DMS receipt of its "third" obligation from USAID.

A third request for assistance was for DMS-led management training for FINCA's 12 branch managers to instill commercial-oriented behavior by sensitizing them to the concepts of productivity, cost/benefit analysis, and return on assets. A last DMS-led training for FINCA supervisors would help them become more effective coaches, motivators and supervisors. Planning for these sessions has begun with FINCA assembling background information requested by DMS.

Discussions with MUSCCO to define the areas DMS could assist are continuing. Initial ideas include helping MUSCCO profile and categorize its SACO members, building a MUSCCO brand identity, and refining MUSCCO's training programs to increase subscription by member SACOs.

OIBM was recently the subject of a mid-project review that was co-funded by DFID and USAID. The review identified several areas that could be reinforced including new product development such as a payroll loan product and identification of human resource consultants among others. DMS is willing to serve as a resource to OIBM on areas they feel constrained, provided that it complements, and does not duplicate, assistance they are receiving from other sources. When the review report is final, DMS will meet with OIBM to explore possible areas of collaboration.

Mr. Luboyeski and Ms. Maru will continue working with FINCA, MUSCCO and possibly OIBM to help them clarify their support needs, sources of financing for capacity building assistance (DMS, client, other donors) and timelines. Once agreed upon, DMS and MFI clients will enter Memorandums of Understanding (MOUs) that will outline the identified needs, the assistance DMS will provide, and the contributions and reporting required in return from the MFI or other recipient of project assistance. After MOU's are signed, the COP and the CBS will work with the client to develop scopes of work for technical assistance and training. In April, the COP and CBS will begin to organize and deliver project assistance according to the MOUs signed with clients.

Among the activities to plan for the third and fourth quarters of FY 2005 are additional information visits in July 2005 that will expand the reach of the project to additional clients. Also, DMS will investigate MFI interest in subjecting themselves to an international rating in year two of the project. If demand exists, DMS will lead a short workshop of one to two days in the fourth quarter with the MFI to expose it to the various rating systems. Workshop participants will do a "rapid rating" on themselves that will help inform DMS as to their strengths and weaknesses and prepare the MFI for an eventual full-rating exercise.

Depending upon the level of new funding obligation received, new information days may mark the launch of the Capacity Building Fund (CBF), which so far is unfunded for the first year of the project. However, as soon as it is feasible, DMS will introduce the concept of the CBF so that project clients will be able to access the funds to support their capacity building needs. Subsequently, DMS will negotiate MOUs with interested stakeholders operating at the micro, meso, and macro level of Malawi's finance sector and will collaborate with them to develop scopes of work funded by the CBF. By the time that the CBF receives funding, DMS and its clients will be ready to launch RFPs and begin local subcontracting.

Activities will be scheduled based on the identified needs of project clients starting from the third quarter. An illustrative list of assistance interventions that DMS could provide in FY2005, if asked, include:

- Client Satisfaction and Retention Support
 - Client exit surveys and management tools
 - Focus groups to assess client satisfaction
- Microfinance Management and Operations Support
- New Product Development Support
 - Better targeted financial products
 - Partnerships with commercial banks to downstream financing
- MIS Support
 - Improved data collection tools
 - Improved reporting formats and data analysis
- Operating Procedures Strengthened
 - Control policies
 - Liquidity management
 - Human resource plan

III. Meso Level Assistance

The meso level relates to the overall infrastructure of the financial system which can either aid or obstruct the emergence and performance of MFIs. Project support at this level will be designed to emphasize local ownership of support structures that foster the development of the microfinance sector and mainstream the services offered.

A. MAMN

The structure at this level that DMS will support is MAMN which has the potential to play a key role in supporting the overall professionalization and deepening of Malawi's microfinance sector, advocacy of MFI interests and lobbying the GoM to create an efficient, enabling environment for MF. Given the pervasive presence of Government at all levels of Malawi's microfinance sector, MAMN has the unique potential to become a relatively independent voice speaking out for the best interests of the sector.

MAMN members recognize that its network is nascent and could benefit by capacity building assistance but no consensus has been reached as to what its priority needs for assistance are, beyond obtaining a grant for operations or budgetary support to fund a General Manager position. However in year one, DMS will assist MAMN to deepen its self-assessment to identify such needs as improved adherence of members to MAMN's Code of Conduct, refining the performance indicators submitted by members for compiling and dissemination, increasing the percent of members' who submit the data as agreed, and building staff capacities to better respond to the needs of its members. The DMS-assisted assessment will be useful in helping other interested donors to MAMN, such as UNDP/UNCDF, determine what shape their help would take and avoid duplication of donor resources.

In Uganda, USAID and other donors collaborated to develop an approved reporting tool that all donors use to monitor MFI performance. If donors, MFIs and relevant government structures in Malawi could come to agreement on such a tool, it could greatly improve MFI reporting compliance, streamline the data collection process, facilitate comparisons between MFIs and permit trend analysis for the sector as a whole. DMS will lead discussions amongst MF stakeholders to gather support for a standard reporting tool and help to bring it about. MAMN is expected to play a key role in this effort.

DMS will work with MAMN to help it effectively represent MFIs in Malawi, provide demand-led services to its members, and play an active role in the healthy development of Malawi's MF sector. Working with the MAMN secretariat, Ms. Maru will be available to organize focus groups and help conduct research to assess the goals and objectives of MAMN and the needs of its members. Based on what is learned and MAMN's desire to move forward, DMS could help MAMN describe implement a revised and/or new strategic and operating plan.

B. Increasing MF Service Provider Capacity

DMS will rely exclusively on long-term project staff for assistance during year one but will be creative about opportunities to increase MFI service provider capacity, without being able to hire short-term consultants or local subcontractors.

The COP and CBS, during their meetings with MFIs and donors, will gather data on the service providers known to have worked in the MF sector already, noting their areas of expertise and amount of experience. Surveys questionnaires will be used to quantify data and measure customer satisfaction with the consulting services received. Visits to Malawi's identified service providers will allow DMS to complete the profiles of consulting firms that have provided assistance in the past to Malawi's microfinance sector.

DMS will investigate the possibility of engaging local service providers to participate in the implementation of scopes of work carried out by DMS with project clients. Although DMS will not have the financial resources in its first year to issue subcontracts to local consultants, the recipients of capacity building assistance may agree to pay a portion of the cost. Also, the consulting firms themselves may be willing work pro-bono in order to build their capacity to take on work that is new to them and learn by “shadowing” the COP or CBS.

Finally, the COP and CBS will organize general microfinance best practice and microfinance-specific skills workshops of interest to MFI service providers during the third and fourth quarters of FY 2005. In addition, the COP and PMU will use the Microfinance Practice Network at Chemonics to identify regional and international training opportunities for Malawi-based consultants. DMS will advertise those opportunities through MAMN and other professional networks for service providers, although it will not finance participants in FY2005.

C. Increasing MFI Access to Capital

The original Request for Proposal and Chemonics’ response to it detailed the assumed need of MFIs who are not allowed to mobilize deposits to have increased access to commercial sources of capital. One mechanism proposed to release excess liquidity held by Malawi commercial banks in treasury bills was USAID’s Development Credit Authority (DCA). However, while the need for loan funds still exists at FINCA and PRIDE, the GoM announcement of the establishment of a billion Kwacha loan scheme may alleviate capital constraints in the MF market. Therefore, until it is certain whether the loan scheme is going forward, it is prudent to wait and find out if the DCA is a priority area Malawi.

The GoM increased to 1 billion Kwacha the Malawi Rural Development Fund (MARDEF) that plans to distribute small loans to Malawian micro entrepreneurs. MARDEF captured the attention of MF stakeholders over the past three months as the GoM rushed forward to finalize the modalities of the fund’s operation. While existing MFIs would greatly benefit from additional capital for on lending, there exists an enormous risk that the MARDEF initiative will become politicized with bureaucratic structures following dysfunctional policies that could lead to wholesale loan defaults and the rapid decapitalization of the fund. DMS has met with key players in government and lobbied MFIs and other stakeholders to examine the potential gains and risks of this government scheme whose details are still being worked out. DMS will continue to meet with key decision-makers and other stakeholders in an attempt to favorably influence the final form MARDEF will take.

As noted in the AMAP-funded MF sector assessment of 2004, commercial banks in Malawi facilitate the provision of MF in a number of ways. Many MFIs require client groups to open accounts at commercial banks in which they deposit required “savings” and loan principal and interest payments; also some MFIs disburse loans through the form of checks drawn on commercial banks. Some USAID-supported partners such as NASFAM, COMPASS II, IFDC, and Land O’Lakes have approached banks and/or have interest in working more closely with them to ensure their project clients receive needed financial services. Despite these and other ongoing programs, commercial banks have not participated in the MF Stakeholder meetings to date. However, DMS will encourage the banks to do so over the balance of this year. Further,

DMS will study the market to quantify and describe banks' activities relating to microfinance in Malawi.

IV. Macro Level Assistance

While evidence that the best role of government to aid the development of inclusive financial systems characterized by vibrant, sustainable MFIs is to concentrate on creating an enabling environment, the GoM through its parastatals and grandiose credit schemes assumes a much larger influence than that. DMS will work with the GoM to disseminate information that encourages it to formulate policies, practices, and regulation that minimizes harmful market distortions while maximizing behaviors that are beneficial to the microfinance sector.

A. Legal/Regulatory/Supervisory MF Framework

The Reserve Bank of Malawi (RBM) and Ministry of Finance (MoF) received promises of AfDB funding to engage consultants who will study Malawi's legal and regulatory environment as it pertains to the microfinance sector and to make specific recommendations to establish improved microfinance laws and policies. The consultants were also expected to recommend which GoM ministry should act as the licensing authority and supervisory body for the MF portion of the financial sector. DMS expects to play an active role in these discussions by helping to inform the relevant GoM bodies of MF best-practices as gleaned from the many years of USAID support to microenterprise and microfinance development throughout the world. The COP will initiate meetings with all of the GoM bodies responsible for licensing and supervising microfinance activities over the remaining project year. If requested, the DMS could play a more active role in this process, i.e., identification of potential consultants for the task, assistance to the RBM in managing the process, helping to disseminate the results of the studies, to name a few.

Based on a needs assessment for technical assistance and/or training at GoM ministries involved in MF, the COP will provide demand-led project assistance to identified key individuals and departments in the third and fourth quarters of FY 2005.

V. Cross Cutting Issues

A performance management plan is included in **Annex B**. The final PMP includes indicators expected to be within the reporting capacities of DMS' MFI partners. Some indicators are based on data reported as of September 2003 and listed in the AMAP Malawi Microfinance Sector Assessment. Other baselines will be taken at the time USAID-financed assistance is begun to MFI clients.

The DMS PMU collaborated with the field team to develop environment, gender and communications plans for the project. These plans are based on best practices and lessons learned by Chemonics during the management of other projects. Over the life of the DMS project, the DMS team will refine these approaches in consultation with other projects in Malawi who have experience addressing these issues.

A. Gender Considerations

Malawi DMS will incorporate gender considerations into its technical activities to help ensure that both men and women equitably benefit from microfinance services as clients as well as find equal employment opportunities in the sector. This will require fostering an awareness of gender equity issues among stakeholders in the microfinance industry in Malawi.

DMS will strive at all times to be sensitive to financial service methodologies and employment conditions that could place one gender or the other at a disadvantage. If gender discrimination is found to be pervasive in Malawi's microfinance sector, DMS will mainstream the topic by bringing it before a regular meeting of the MF stakeholders group to raise awareness of the problem and reach a consensus on solutions to end prejudices and follow-up on efforts put forth by all clients and stakeholders.

When carrying out technical assignments or training activities for the benefit of MFIs or other project clients, DMS will take steps to ensure that the design of its interventions does not pose a burden on one gender over another and that its capacity building assistance does not favor any one group. One technique to address gender equity is helping MFIs design and offer demand-driven financial services that take into account individual client preferences. Product and program features to consider in the design of gender-sensitive financial services are meeting times and locations, loan disbursement and repayment schedules, gender-neutral eligibility criteria, and the provision of niche products that address needs that may vary by gender, such as microinsurance that targets risk-averse women.

Wherever appropriate the DMS performance monitoring plan (PMP) has disaggregated its performance indicators by gender to measure impact of project activities on male and female recipients of microfinance services to evaluate where more assistance could be provided by DMS or the MF sector.

As part of its year 1 profiling of consultant firms operating on the meso level of Malawi's microfinance sector, local gender specialists will be identified. These specialists could assist DMS in year 2 implementing its activities, identifying areas for improvement in areas of data collection and analysis, identifying lessons learned and best practices, and making suggestions for an integrated gender strategy for DMS.

B. Communication Strategy

DMS has an integrated communications strategy to provide a framework for supporting technical activities with appropriate communications initiatives. The strategy will communicate and initiate dialogue on best practices, experiences, and lessons learned to the institutions and parties working in the microfinance sector in Malawi. Our plan is guided by the conviction that a principled approach to project communications is the most effective means of conveying the project's work and having a positive impact on the communications style and practice in the industry.

The DMS communications strategy is driven by several factors. Regular and contractual reporting requirements are the majority of the project's anticipated communications. Other elements that shape the strategy include:

- A range of target project audiences and stakeholders, both primary and secondary;
- Integrated activities such as trainings and capacity building which have specific communication requirements;
- USAID requires Regular updates for USAID on DMS's activities and accomplishments;
- Synergy among project components; and
- Impact on cross-cutting issues such as gender and HIV/AIDS.

Target Audiences

DMS must communicate messages to primary target audiences while anticipating and responding to secondary audiences as well.

- *MFIs*: These constitute a primary target audience. To become actively involved in DMS activities, MFIs need to know how they can benefit from participation;
- *Policy Makers*: To support policy change, this target audience needs information on the social and economic benefits of MFIs and their clients, as well as necessary changes to the microfinance policy and regulatory frameworks
- *USAID and other International Organizations*: In order to coordinate development activities, this primary target audience needs to know about DMS project's findings, applications and results successes; and
- *Client base/General Public*: In order to support policy change and, perhaps become clients, this secondary target group needs information on benefits to MFIs and clients.

Needs Assessment

As part of its communication strategy, the project will determine what the existing knowledge base is and ascertain where the key knowledge gaps in the sector are. Through meetings with partners, stakeholders and clients, the project will learn what needs to be communicated to stakeholders for them to take desired actions and support the project goals. Anticipated workshops, client exit surveys and focus groups as well as seminars and information days will be opportunities to evaluate existing knowledge gaps. DMS may identify a communications expert to analyze the project's communication goals and recommend an approach, funding permitted.

Project Communication Tools

The project will use a mix of communication tools to achieve objectives at the Micro, Meso and Macro levels while addressing the reporting requirements and objectives of the project. As we use these tools we will assess their effectiveness through consultation with stakeholders..

Micro Level:

- *Media*: Working with MFIs and broadcast media to reach a wider audience and stimulate growth of client base. Encourage MFI's to use mass media as a marketing tool;
- *Presentations*: Training in best practices.
- *Branding and Logo*: Communicating the merits of effective logos and product identity and encouraging the use of branding and logos in the sector;

Meso Level:

- Websites: If desired, working with MAMN to create a web site that lists member information, provides links to best practices, posts newsletters or highlights stories of interest to sector stakeholders or the public at large.

Macro Level:

- Presentations: Demonstrating how a vigorous microfinance sector can reduce poverty, stimulate economic recovery and address key social and development issues.
- Mass media/website: Helping the GoM disseminate information in support of policy formulation and best practices

DMS/Project Level:

- Branding and Logo: The project logo provides a consistent and distinct profile.
- USAID Correspondence: Reports and success stories demonstrate how the project is achieving results and contributing to the strategic objective. USAID can use these products to promote the project's approach and share lessons learned.

The DMS communication plan will be organic and subject to change as information is learned about the attitudes and awareness of target audiences. Further, the strategy will be updated annually to reflect progress and potential changes and developments.

C. Environmental impact management strategy

As a USAID funded project DMS has certain obligations regarding the environmental impact of its activities according to 22 CFR Part 216 and Malawian legislation. Our environmental impact management strategy addresses these requirements while educating MFIs about competitiveness considerations for MSME clients.

Direct Impacts

DMS will apply a basic environmental policy to ensure that it is conscious of and taking active steps to manage its own and its clients' environmental impacts. DMS will share the environmental policy with clients, noting that many of the activities reduce operating costs. This policy is designed to encourage reduce, reuse and recycle activities.

Activity: Request copy of IEE for SO6 activities and GoM environmental regulations. Review the IEE for determination, recommended monitoring or mitigation conditions, or other relevant findings and observations. Review GoM regulations for requirements related to primary sectors in MSME financing, especially agriculture, fishing and forestry. Use findings, observations and GoM regulations to design project activities appropriately in years 2 and 3.

Activity: Disseminate project environmental policy to staff to reduced impact of office operations. Include suggestions such as: duplex printing, turning off lights, moderating air conditioning and limited vehicle idling.

Indirect impacts

To have the greatest effect on the environmental impact of increased MSME financing, we are focusing on the lending practices of our client MFIs. Studies of MSME environmental impact (IDB, 1998; IFC, 2000) show that more than 75 percent of microenterprises have no substantial

negative environmental impact. However, rural MSMEs such as tanneries, textile dyeing, forestry, agriculture, and charcoal production can have significant, negative environmental impacts,

These negative impacts increase a lending MFIs risk either because MSMEs are not meeting regulatory requirements and/or they are degrading the resource base. Negative environmental impacts limit MSME sustainability with increased costs (inefficient use of inputs) and degraded resources for long-term use. MFIs can limit the environmental risk to their portfolios. The first step is to evaluate the level of environmental risk involved in MSME financing.

Activity: DMS will initiate discussions with MFIs to sensitize them to environmental risks in their portfolios, identifying special concerns for consideration in high risk sectors that could include: pesticides and fertilizers, wastewater, deforestation, construction, and endangered flora and fauna.

VI. Administration and Finance

A. Personnel and Recruitment

Chemonics has locally recruited a driver/logistics assistant and is in the process of interviewing candidates for a combined office manager/accountant position. The project was forced to reopen the recruitment following protracted negotiations with two candidates who accepted an offer for the position only to later change their minds. It is expected that the post will be filled by April, subject to notification requirements if the candidate is currently employed.

We have postponed the recruitment of the Commercial Capital and Policy/Legal/Regulatory Specialist until the end of year one of the project. Given DMS' current funding, we determined that this position could be reasonably filled in the short term by the COP. Once funding becomes available we will consider the best options to cover this technical position and if need be, we will launch the recruit for this position immediately.

At the end of FY 2005, or sooner depending on project funding, we will recruit additional office staff, such as an additional driver and an administrative assistant.

B. Procurement

Project equipment and furnishings for the office and expatriate residence are nearly complete and will be essentially finished by April. As project activities scale up, we will manage procurement of additional vehicles, computer equipment and office equipment at the end of FY 2005.

C. Contracting

The PMU is negotiating sub-task orders with three of Chemonics' AMAP subcontractors, Bankworld, Enterprising Solutions, and eChange. The subcontractors were consulted during the start-up phase, as needed, for work planning purposes. However, there will be no short-term LOE scheduled during the first year of the contract due to the limited funds available.

D. Finance

This work plan has been developed based on the initial \$500,000 obligation, which will be fully consumed by May 2005, and an expectation of an additional \$200,000 in obligated funds before April 2005. The total \$700,000 will be completely expended by September 2005 and thus a third obligation will be needed by June 2005 to fund the project beyond September. After the normally higher expenses of project start-up, monthly invoices will average around \$45,000 for the balance of the year. Initial investments in project equipment and deposits on office and house leases brought total January and February invoices close to \$100,000.

If additional funding beyond the \$700,000 is available, revised scenarios would include short-term technical assistance, subcontracting activities, and more comprehensive training and technical assistance to project beneficiaries.

Annex A. Initial Work Plan for Year 1

Week/Month of Year 1 Component/Activities	Resp.*	Dec	Dec	Jan	Jan	Jan	Jan	Jan 31	Feb	Feb	Feb	Feb 28	Mar	A	M	J	J	A	S
		20-24	27-31	3-7	10-14	17-21	24-28	- Feb 4	7-11	14-18	21-25	Mar 4	7-11	4	5	6	7	8	9
Project Management and Administration																			
<i>Administration</i>																			
Identify potential office sites	COP																		
Identify potential housing sites	COP																		
Select locations and negotiate leases	COP/PA																		
Compete, contract, and manage office and household make-ready	PA																		
<i>Personnel and Recruitment</i>																			
Recruit first driver and office manager/accountant	COP/PA																		
Train accountant	FA																		
Recruit additional office staff	OM/COP																		
Recruit Commercial/Legal/Regulatory Specialist	COP/CBS																		
<i>Contracting</i>																			
Adapt project manuals and templates for DMS	PA																		
Develop policies and procedures for CBF	PMU/COP																		
Draft Sub-task order contracts with subcontractors	PMU																		
<i>Procurement</i>																			
Procure initial office equipment	PA																		
Procure household equipment	PA																		
Procure computer equipment for additional staff	OM																		
Procure additional project vehicles	OM																		
<i>Workplan development</i>																			
Workplan and teambuilding meetings with USAID	COP/CBS																		
Monthly meetings with CTO and SO6 team	COP																		
Establish relationships with microfinance sector	COP/CBS																		
Conduct baseline survey	COP/CBS																		
Prepare refined monitoring and evaluation plan/PMP	COP/CBS																		
Review current reporting requirements of MFIs & other clients	COP/CBS																		
Develop reporting tool for MFIs	CBS																		
Develop environmental impact approach	PMU/COP																		
Develop integrated project communications plan	COP																		
Develop and submit gender plan	CBS																		
Finalize Year 1 Work Plan	COP/CBS																		
<i>Reporting</i>																			
Prepare/submit monthly reports	COP																		
Prepare/submit quarterly progress reports	COP																		
Prepare/submit annual report	COP																		
Component I: Microfinance Industry Capacity Building																			
<i>KRA 1.1 MFI Demand for Sustainable Capacity Building Services Increased</i>																			
Develop criteria for selecting MFIs and other clients	COP/CBS																		
Conduct Information Days with MFIs & other clients	COP/CBS																		
Classify Partner MFIs on sustainability/outreach	CBS																		
Develop MOUs with Partner MFIs	COP/CBS																		
Conduct initial assessments of MFIs and other clients	COP/CBS																		
Work with clients to develop SOWs for Capacity Building assistance	COP/CBS																		
<i>KRA 1.2 MFI Service Provider Capacity Increased</i>																			
Compile list and preliminary assessment of local service providers	CBS																		
Pairing Service Providers with DMS on TA and training interventions	CBS																		
General Microfinance Best Practices Training	CBS																		
<i>KRA 1.3 Sustainability and Outreach of MFIs Increased</i>																			
Microfinance Management and Operations Support	COP/CBS																		
Client Satisfaction and Retention Support	CBS																		
Develop client exit surveys and management tools	CBS																		
Focus groups to assess client satisfaction	COP/CBS																		
Growth and Outreach Support	COP/CBS																		
Improved MFI operations	COP/CBS																		
Product Development Support	COP/CBS																		
Partnerships with commercial banks to downstream financing	COP/CBS																		
Warehouse Receipts Feasibility Study	COP/CBS																		
<i>KRA 1.4 Capacity of Microfinance Support Institutions Increased</i>																			
Meet and assist MAMN	COP/CBS																		
Strategic Plan Development and Discussion with MAMN	CBS																		
Focus groups to assess MAMN member satisfaction	CBS																		
Collaborate with organizers of microfinance Awareness Week	COP/CBS																		
MAMN-organized General Microfinance Trainings	CBS																		
Component II: Facilitation of Access to Capital																			
<i>KRA 2.1 Increased Capacity of MFIs to Absorb Commercial Capital</i>																			
Information on Transparency and Reporting Best Practices	COP/CBS																		
Financial Performance Monitoring Training	CBS																		
Improved MIS for MFIs	CBS																		
<i>KRA 2.2 Increased Ability of MFIs to Access Commercial Capital</i>																			
Develop DCA Relationships with MFIs, Commercial Banks, Other Inst.	COP/CBS																		
Feasibility Study of DCA Facility	COP/CBS																		
Adapt DCA Tracking and Reporting Tools	COP/CBS																		
Component III: Improving the Enabling Environment																			
<i>KRA 3.1 Legal, Regulatory and Supervisory Environment Strengthened</i>																			
Support to GoM consultancies to evaluate legal & regulatory environment	COP																		
Survey GoM demand for training and TA	COP/CBS																		
Assistance to GoM on MFI Regulation and Policy Development	COP																		
General Microfinance Best Practices Training	CBS																		
<i>KRA 3.2 Advocacy for Effective Malawian Government Policy Strengthened</i>																			
Support for appropriate and harmonized MFI reporting formats	COP/CBS																		
Donor Coordination on Microfinance	COP																		

*Legend
COP Chief of Party
CBS Capacity Building Specialist
PA Project Assistant
FA Field Accounting
OM Office Manager
PMU Project Management Unit

ANNEX B

DMS Project Performance Monitoring Plan

Performance Indicators		Definition	Baseline	Frequency	Target Yr1 10/01/04 – 9/30/05	Target Yr2 10/01/05 – 9/30/06	Target Yr3 10/01/06 – 9/30/07
A. Micro Level: Promoting Strong Retail-level Institutions							
A1	Total value (cumulative) of loans disbursed to agriculturally linked enterprises by USAID-financed Microfinance Institutions (MFIs)	Cumulative amount of micro-credit/loans disbursed by USAID-financed Microfinance Institutions (MFIs). An “agriculturally-linked enterprise” is defined as any enterprise (informal or formal) involved in income-generating activities in any of the following areas: production, marketing, transformation, transportation, etc. of agricultural products. This indicator will be disaggregated by Gender (M/F) and sector of activity. Reported in MK and also in US\$ converted at exchange rate on September 30 th . (Corresponds to Indicator 6.2b of SEG PMP)	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	20% above the previous year	20% above the previous year
A2	Cumulative number of loans disbursed during period by USAID-financed micro-finance intermediaries.	Cumulative number of loans by USAID-financed Microfinance Institutions (MFIs). This indicator will be disaggregated by Gender (M/F). (Corresponds to Indicator 6.2.1c of SEG PMP)	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	20% above the previous year	20% above the previous year
A3	Number of depositors reported by USAID-financed Microfinance Institutions (MFIs)	Cumulative total of the number of depositors defined as persons receiving microfinance services by USAID-financed MFIs that have accumulated deposits as savings or as loan guarantees, in the case of MFIs legally prohibited from mobilizing savings. This indicator will be disaggregated by Gender (M/F) and by savings versus loan guarantee deposits. (Corresponds to Indicator 6.2.1d of SEG PMP)	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	20% above the previous year	20% above the previous year
A4	Total value of deposits mobilized by USAID-financed Microfinance Institutions (MFIs)	Cumulative value of deposits mobilized by USAID-financed MFIs that have accumulated deposits as savings or as loan guarantees, in the case of MFIs legally prohibited from mobilizing savings. This indicator will be disaggregated by Gender (M/F) and by savings versus loan guarantee deposit.	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	20% above the previous year	20% above the previous year
A5	Portfolio at Risk (PAR) ratio: Loan Portfolio at Risk (PAR) > 30 days /Gross Loan Portfolio	PAR ratio, used to determine portfolio quality, is equal to the value of all loans outstanding that have one or more installments of principal past due more than 30 days divided by the Gross Loan Portfolio.	Baseline at time MOU is signed	Quarterly	Baseline for supported MFIs determined	At supported MFI's, 10% improvement over baseline	At supported MFI's, 10% improvement over baseline

Performance Indicators		Definition	Baseline	Frequency	Target Yr1 10/01/04 – 9/30/05	Target Yr2 10/01/05 – 9/30/06	Target Yr3 10/01/06 – 9/30/07
A6	Loan Loss ratio: Value of loans written off in period /Average gross loan portfolio	Loan Loss ratio represents the percentage of an MFI's loans that have been removed from the balance of the gross loan portfolio because they are unlikely to be repaid.	Baseline at first time LLR is calculated after MOU	Annually	Baseline for supported MFIs determined	At supported MFI's, 10% improvement over baseline	At supported MFI's, 10% improvement over baseline
A7	Return on Assets (ROA): Net operating income / Average assets	ROA looks at financial sustainability by measuring how well an MFI uses its total assets to generate returns.	Baseline at first time LLR is calculated after MOU	Annually	Baseline for supported MFIs determined	At supported MFI's, 10% improvement over baseline	At supported MFI's, 10% improvement over baseline
A8	Number of new or improved demand-driven loan products developed by project-supported MFIs (each year)	Designing and offering new and/or improved demand-driven financial services allow MFIs to improve client retention, diversify portfolios and expand volume of services. This indicator will count the number of new or improved products offered by USAID-financed MFIs over a project year.	Zero	Quarterly	1	6	6
A9	Total value (cumulative) of loans disbursed to ALL Microfinance Institutions (MFIs)	Cumulative amount of micro-credit/loans disbursed by ALL Microfinance Institutions (MFIs) Reported in MK and also in US\$ converted at exchange rate on September 30 th .	MF Sector Assessment Report	Annually	10% above sector assessment baseline	10% above the previous year	10% above the previous year
A10	Cumulative number of loans disbursed during period by ALL MFIs	Cumulative number of loans by ALL MFIs	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	10% above the previous year	10% above the previous year
A11	Number of depositors reported by ALL MFIs	Cumulative total of the number of depositors defined as persons receiving microfinance services by ALL MFIs that have accumulated deposits as savings or as loan guarantees, in the case of MFIs legally prohibited from mobilizing savings.	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	10% above the previous year	10% above the previous year
A12	Total value of deposits mobilized by USAID-financed Microfinance Institutions (MFIs)	Cumulative value of deposits mobilized by USAID-financed MFIs that have accumulated deposits as savings or as loan guarantees, in the case of MFIs legally prohibited from mobilizing savings. This indicator will be disaggregated by Gender (M/F) and by savings versus loan guarantee deposit.	MF Sector Assessment Report	Quarterly	10% above sector assessment baseline	10% above the previous year	10% above the previous year

B. Meso Level - Supporting Industry Infrastructure							
Performance Indicators		Definition	Baseline	Frequency	Target Yr1 10/01/04 – 9/30/05	Target Yr2 10/01/05 – 9/30/06	Target Yr3 10/01/06 – 9/30/07
B1	Number of Malawi Microfinance Network (MAMN) members submitting performance indicators as stipulated in the MAMN code of conduct.	The number of MAMN members that submit performance indicators on their institution's activities to the MAMN secretariat as stipulated in the MAMN members' Code of Conduct.	Year prior to DMS startup	Annual	5	9	12
B2	Number of project-supported MFIs who pay part or all of the costs of a credit rating (each year)	USAID-financed MFIs will subject themselves to a recognized MFI rating instrument such as MicroRate, Planet Rating, Accion International, or others.	Zero	Annual	0	2	1
B3	Number of MF stakeholder meetings held	MF Stakeholder meetings include broad representation from MFIs, parastatals, MAMN, reserve bank, Govt. of Malawi ministries, bilateral and multilateral donors, MF sector support structures, project staff.	Zero at Project startup	Annual	4	10	10
B4	Number of project-supported MFIs that successfully access commercial capital (cumulative)	MFIs who capitalize a portion of their loan fund from commercial sources	Zero	Annual	0	2	3
C. Macro Level - Fostering a Conducive Policy Environment and Ensuring the Appropriate Role of Government							
C1	Number of DMS-supported MF policy and best practice events	DMS supported events could include such things as trainings, roundtables, conferences, stakeholders' meetings, etc... at which MF policy, MFI licensing, supervision, regulation, or best practices for an enabling environment are discussed.	Zero	Annual	4	10	10