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# DEVELOPMENT ALTERNATIVES INC. YEAR THREE WORKPLAN

## AMAP

## FINANCIAL SERVICES KNOWLEDGE GENERATION TASK ORDER

MARCH 2006

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## **A. Overview**

This is the third annual work plan for the AMAP Financial Services Knowledge Generation (FSKG) project, a task order issued to Development Alternatives, Inc. (DAI) under the AMAP Microfinance IQC. DAI's FSKG task order was issued on September 30, 2003. Our second year workplan was approved in June 2004, and this year three workplan is being submitted to conform more closely to the schedule with which the MD office may be able to evaluate and approve the technical and budgetary aspects of the workplan. Accordingly, it describes the new research activities and deliverables that DAI expects to manage and produce between March 2006 and September 2006, the current end date of the contract. In anticipation of USAID granting a one year no-cost extension to this task order, the workplan provides information on activities which would continue through March 2007. It also provides updates for ongoing, previously approved activities.

This work plan elaborates on the activities described in the year one and two work plans and DAI's March 2003 technical proposal, as refined and revised in a series of discussions with the FSKG Cognizant Technical Officer (CTO), Mr. Barry Lennon, with other EGAT/MD activity managers, with other FSKG contractors and with members of DAI's own FSKG team.

In Section B, Project Components, the workplan describes DAI's project management structure and deliverables to USAID, and the activities of each task order component. This includes a detailed description of the on-going and proposed activities of each of the research topics of Component One, Core Knowledge Generation, and the knowledge dissemination activities planned under Component Three, Knowledge Management.

**FOR A SUMMARY OF COMPLETED AND ON-GOING RESEARCH, PLEASE SEE  
B.2.A. Research topics under way and Results to Date (page 8)**

**FOR A SUMMARY OF PROPOSED ACTIVITIES FOR NEW FUNDING, PLEASE SEE:  
B.2.B. New research Activities for Year Three (page 15)**

## **B. Project Components**

### **B.1. Project Management**

#### **B.1.A. Structure**

Management of the FSKG project involves the development and maintenance of financial, contractual and technical information systems; establishment of protocols and systems for all phases of work; provision of technical leadership to guide the overall research activity; production of required management reports; liaison with USAID, the AMAP Support Services Contractors, other FSKG contractors and other donors on the research activities; and maintenance of efficient communication among all parties, including DAI's ten FSKG subcontractors. In year three, DAI will continue to:

- Develop and issue subcontracts for new research topics;
- Develop and share the project vision with the broader FSKG team through a newsletter among other tools;
- Orient team members to the individual research activities; and
- Develop and implement with USAID innovative ways of sharing and disseminating new research.

The FSKG management team includes four individuals at DAI. The Project Director, Colleen Green, has responsibility to provide technical leadership and direction for the overall FSKG project, as well as to ensure the quality of products and deliverables. She is also responsible for all management systems and for reporting to USAID.

Catherine Johnston is the Deputy Director/Knowledge Manager of the Project. Ms. Johnston and Ms. Green will jointly manage the research topics, each overseeing specific topic areas and research leaders. Ms. Johnston will also coordinate with the AMAP Knowledge Management Contractor, QED, on enhancing the quality and breadth of dissemination of FSKG research.

Carmel Pryor has replaced Andrew Iappini in the role of Project Administrator, taking responsibility for most administrative functions including financial monitoring, processing financial vouchers, requesting travel approvals and country clearance, procuring airline tickets and submitting final deliverables to CDIE.

Steve Macleod continues in his role as DAI's Contracts Administrator, responsible for any contracting actions that may be required, and for interactions with USAID's Office of Procurement. He is assisted by Baigal Darambazar.

### **B.1.B. Planning activities**

The development of the work plans included in section B.2.B. has been a highly collaborative process, involving meetings and telephone conversations with USAID, with our consortium members and with our fellow FSKG contractors.

With this work plan we are requesting the approval of the following new level of effort to undertake the stated research activities:

	<b>New LOE</b>	<b>Labor</b>	<b>ODCs/G&amp;A</b>	<b>Total</b>
Constraints and Potential of State Owned Retail Banks	133	122,811	9,548	132,359
Commercial Banks and MFI-Commercial Bank Linkages	28	35,204	0	35,204
MFI Guide to Technology	75	47,152	11,045	58,196
Credit Bureaus for Microfinance	97	67,121	20,431	87,552
Money Transfers and Remittances	55	63,645	12,452	76,097
Private Debt Placements	42	36,953	12,415	49,368
DCA Credit Enhancements	40	TBD	TBD	50,000
Financial Literacy	40	45,479	9,475	54,954
Savings	80	71,897	10,600	82,497
Post Conflict Microfinance	90	63,817	10,600	74,417
<b>TOTAL</b>	<b>680</b>			<b>700,644</b>

### **B.1.C. Management Reporting Deliverables**

Outputs and deliverables from the individual research activities will be produced and delivered as described in the work plans in the section New Research Activities for Year Three (B.2.B.).

We recognize the need for flexibility in work plan implementation and will consult regularly with the FSKG CTO, as well as with the FSKG Activity Managers. Any adjustments to work plans will be discussed with the CTO and Activity Managers and documented in quarterly reports submitted by DAI to the CTO. Quarterly reports will be submitted less than four weeks after the end of each quarter to ensure that both financial and technical data is up to date. The quarterly report schedule has been revised from last year to reflect the USAID fiscal year.

- Quarter 1: October 1- December 31, 2005
- Quarter 2: January 1 – March 31, 2006
- Quarter 3: April 1 – June 30, 2006
- Quarter 4: July 1 – September 30, 2006

Quarterly reports will provide updates on the progress under each of the research topics underway as well as current information on budget expenditures per research topic.

### **B.2. Component One: Core Knowledge Generation**

DAI's award for Component One: Core Knowledge Generation included 26 distinct research topics, each of which will result in one or more deliverables. These topics are grouped under six

themes. To date, the Microenterprise Division has approved activities under 14 topics. A summary of the 14 ongoing topics and the 5 new topics planned for launch during Year Three is provided in Table 1.

Each topic is headed by a research leader, who will guide the development, implementation and documentation of the research and resulting deliverables. This decentralized structure allows many individuals from across DAI's consortium to play a role in shaping the research. Additionally, the Project Director and Deputy Director will work closely with each of the research leaders to develop their work plans, provide guidance, oversight, review and act as the conduit of information to USAID, particularly in cases where the research leader does not work or live in the Washington area. This allows for more streamlined management of the overall project.

Additionally, Project Management will continue to collaborate and coordinate with the FSKG teams headed by IBM and Chemonics, particularly where topics overlap or have synergies. DAI recognizes that close collaboration with the other FSKG consortia as well as with other donor projects is critical to the success of AMAP FSKG.

## **Table 1: Research Topics and Leaders by Theme**

### **Theme 1: Institutional and Innovative Models for Outreach**

State-Owned Retail Banks	Robin Young/CG
Commercial Banks and MFI-Commercial Bank Linkages	Robin Young/Hillary Miller Wise/Greta Bull/CG

### **Theme 2: Market Research and Product Development**

Housing Products	Sally Merrill/CJ
Non-Traditional Models	TBD/CG
HIV/AIDS Responsive Products and Services	Colleen Green/CG
Money Transfers and Remittances	Anke Wolf/CJ

### **Theme 3: Rural and Agricultural Finance**

Rural and Agricultural Finance research	Catherine Johnston/CJ
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### **Theme 4: Improving Microfinance Management**

MFI Guide to Technology	John Cann/CG
Dissemination of Defining Options	Colleen Green/CG
Credit Scoring Models for Microfinance	Dean Caire/CG
Promotion of Financial Standards	Till Bruett/CJ

### **Theme 5: Access to Capital**

Private Debt Placements	Mary Miller/CJ
DCA and Other Credit Enhancements	Mary Miller/CG

### **Theme 6: Enabling Environment for Microfinance**

Private Credit Bureaus and Microfinance	TBD/CJ
Proving Microfinance Matters	TBD/CJ
The Role of Microfinance Networks	Sharyn Tenn/CJ

Request to add three new topics:  
Post Conflict Microfinance  
Savings  
Financial Literacy

Note: the initials CG or CJ appear after the name of the research leader. These initials designate the DAI project management oversight responsibilities for that topic. CG = Colleen Green, CJ = Catherine Johnston

The following workplan for research by topic will present the following information:

### **Section B.2.A Research topics under way and results to date**

Summaries of previously funded research by topic.

### **Section B.2.B New Research Activities for Year Three**

These proposals are for all research activities that require approval of new funding. Some proposals are for topics that have previously received funding but require additional monies to undertake new activities. Some proposals are for topics that have not yet received any funding.

### **Budgets**

Budgets will be presented in summary and by individual topic.

### **B.2.A. Research topics under way and Results to Date**

The following presents a summary of deliverables completed to date, ongoing efforts for which no new funding is required, and any special knowledge dissemination efforts by topic. Completed topics are noted. Topics that have not received funding, and for which we are not currently requesting funding, are listed in **Annex One**.

#### ***Theme 1: Institutional and Innovative Models for Outreach***

##### *Subtopic 112: Constraints and Potential of State-Owned Retail Banks*

This research began with a global census and bibliography search of all relevant state owned retail bank experiences. This information was compiled and analyzed to prepare an overview framework on the status and trends in state owned retail banks and their relevance for rural and microfinance. A series of short case studies was prepared based on existing documentation to demonstrate the different approaches to SORBs: closure, restructuring and privatization and specialized microfinance units. Then cases around the globe were selected for detailed case studies to present different approaches to working with SORBs for expanding micro and rural finance. The specific cases studied to date include:

Amhara Credit and Savings Institute in Ethiopia (ACSI) is a case of a new state owned financial intermediary dedicated to rural microfinance which has demonstrated strong growth and sustainability in a difficult operating environment.

The Land Bank Philippines is a case of an ongoing state owned bank focused on rural finance, at the first and second tier, that has succeeded in profitably meeting its difficult mission despite bailouts of other state owned banks in the country.

Banque du Caire in Egypt is a state owned bank that has developed a successful urban microfinance department.

The ACSI case has been completed and currently a brief is being prepared. The Land Bank case has been completed and is undergoing final edits and a brief is being prepared. The Banque du Caire research was conducted in early 2006 and the case is being prepared. All papers and briefs will be posted on the microLinks website. In

addition a seminar session proposal on The Potential and Constraints of State Owned Retail Banks in Rural and Microfinance has been presented for USAID's learning conference planned for this spring 2006.

Additional research for the coming year is proposed (see Section B.2.B New Research Activities for Year Three) on the National Microfinance Bank of Tanzania which was turned around, under a World Bank and Government financed management contract, from a failing state owned bank to a profitable and growing retail bank with a rural and microfinance focus, that was privatized and continues to operate successfully under this strategy. Additional research has been proposed to study the vast array of state owned retail banks and other financial intermediaries in Mexico to better understand diverse approaches to transformation as well as the ongoing tension and best practices of first and second tier operations.

### *Subtopic 113: Commercial Banks and MFI-Commercial Bank Linkages*

#### Commercial Banks

The commercial banks in microfinance research builds on USAID's research under the Microenterprise Best Practices Project and mission support to banks on this topic. The research began with "Banking at the Base of the Pyramid: A Microfinance Primer for Commercial Banks" which provides a concise summary of the issues and options facing bankers when designing and implementing microfinance programs, including a discussion of emerging trends and promising innovations. It was followed by a microNote "Banks in Microfinance: Guidelines for Successful Partnerships" which is written primarily for USAID staff and others who may consider approaching banks to develop microfinance programs. It is intended to help donors, bank advisors, and other strategic partners to make better-informed decisions about whether and how to approach a bank to offer support for implementing or expanding a microfinance program, and how to ensure success for such an endeavor. The final research completed under this topic to date includes two case studies whose primary objective is to measure the profitability of a microfinance unit related to a private commercial bank, regardless of the business model chosen. CREDIFE, a service company in Ecuador, was selected as the subject of this case study because of its relatively straightforward and transparent relationship with Banco del Pichincha (the bank), its majority shareholder and parent company, for which it services the microenterprise loan portfolio. CREDIFE's apparent success, in terms of both rapid growth and contribution to bank profitability, demonstrates how a bank can become a significant player in the microfinance market in a relatively short time. Hatton National Bank was selected because, with microcredit operating as a product line integrated within a commercial bank in Asia, it provides an organizational and geographic contrast to CREDIFE. IFCAI has requested to reprint the case studies in a book it is compiling on microfinance. All papers have been posted on the microLinks website.

Additional proposed research (see Section B.2.B New Research Activities for Year Three) on commercial banks in microfinance includes a case study on Pronegocio, the wholly owned financial subsidiary of Banorte in Mexico. This study would explore the

strategy, operations, results and challenges of this aggressive and rapidly expanding model while comparing its clients and services to other microfinance institutions in the Mexican microfinance market. Another study on microfinance in Ecuador would focus on the differences in clients and services of diverse microfinance institutions including commercial banks (specialized in microfinance, with a service company, with a specialized internal unit and thru the consumer lending division), finance companies, credit unions and NGOs. It would build on and further analyze data collected through the USAID supported national microenterprise survey, data from the Superintendence and private credit bureaus and USAID's SALTO project institutional data.

### MFI-Commercial Bank Linkages

The microfinance industry has focused attention recently on linkages between financial institutions as innovative strategies for reaching under-served markets. CGAP and the FAO, most notably, have produced research on a range of linkages from lines of credit to service company models to those that seek to overcome the challenges of rural finance.

The research that DAI has conducted to date on this topic focuses on two types of linkages that are formal, contractual and on-going relationships between two independent entities. This first type of linkage entails one financial institution leveraging the physical and informational infrastructure of another institution in order to lower costs and expand outreach. To date, DAI has produced one case study that probes this model, which looked at the linkage between FIE and ProMujer in Bolivia. In that case study, the two institutions successfully expanded deposit services in the El Alto region through the linkage.

In the second type that DAI has analyzed, one financial institution – typically a commercial bank – outsources retail operations to a non-bank financial institution. Under this type, DAI has conducted two case studies. The first study analyzed the linkage between ICICI Bank and Cashpor in India. The second study analyzed the relationship between AMEEN – a non-profit MFI affiliated with CHF – and several local commercial banks in Lebanon. Both cases offered important insights into the potential of this model to expand financial services to under-served microenterprise markets.

All the case studies to date have sought to understand the mechanics of the linkage, the challenges and obstacles that emerged during implementation, and the sustainability and replicability of the model. In addition, DAI is currently producing contractual guidelines for institutions contemplating entering into a linkage. DAI proposes (see Section B.2.B New Research Activities for Year Three) to document another example of the "leveraging infrastructure" model, and to identify lessons learned and best practices resulting from DAI's research and drawing on the research produced by CGAP and FAO.

## ***Theme 2: Market Research and New Product Development***

### *Subtopic 121: Housing Products*

DAI consortium members ACCION and the Urban Institute are currently drafting an accessible and short microNOTE on housing microfinance, capturing the current achievements of MFH, the lessons learned, the constraints and limits, and most importantly, how MFH can support and enhance USAID projects. The microNOTE will

be based largely on the recently published *Housing Microfinance: A Guide to Practice* (Kumerian Press, 2004). The microNOTE will add value to the broader discussion by also assessing how to bring together several themes of current donor activity: urban development strategies, slum upgrading models, and assistance to micro lenders, and to show how microfinance for housing fits within each of these development efforts.

To assist in formulating the microNOTE, researchers will undertake a limited update on microfinance for housing, to be done by informally contacting selected micro lenders who offer MFH as well as groups focused on MFH alone. Interviews will provide information on the following questions:

- to what extent is MFH being offered in emerging markets and how has the practice been growing?
- what is the current status of MFH portfolios and product lines?
- what major micro lenders now offer MFH, and why?
- what lenders in Africa are addressing MFH?
- what are the key problems and constraints now being encountered, including access to medium-term funding, underwriting criteria, title issues, non-performing loans?

Anticipated publication date of the microNOTE is **May 2006**. The information gathered in these interviews will guide the development of future scopes of work under this topic, intended to analyze and disseminate current promising practices.

#### *Subtopic 123: HIV/AIDS Responsive Products and Services*

In Year Two, DAI and ECI conducted a joint training using the Defining Options materials with the Mozambique Microfinance Facility (MMF), a CIDA-funded, MEDA-managed microfinance capacity building project in Mozambique. In Year Three, a DAI/ECI/MEDA collaboration will build upon this training to create further awareness and institutionalize HIV/AIDS mitigation activities with up to four (4) Mozambican MFIs through the direct provision of technical assistance and some financial assistance. Some of the supported activities/interventions could include: adopting a client and portfolio monitoring system; implementing a HIV/AIDS workplace program; refining or developing new products to better serve an AIDS-affected market; and forming partnerships with AIDS support organizations as a way to address AIDS within their institutions or client base. Lessons learned and emerging best practices will be publicized through a series of learning activities and publications.

Anticipated completion date for this activity is December 2006 (contingent upon the granting of a one-year no-cost extension to this task order).

#### *Subtopic 144: Money Transfers and Remittances*

5 issues of the Migrant Remittances newsletter have been produced to date. The newsletter is available on microLINKS and is directly distributed to a mailing list of over 440 subscribers. While the original target audience emphasized USAID staff, the newsletter has become a key source of information and insight for subscribers

worldwide. These subscribers include USAID staff, financial service practitioners, other donors and organizations working on migrant issues, private sector firms engaged in remittances, and national diaspora support organizations.

The newsletters produced to date establish a firm grounding in international, intra-regional, and domestic remittances, the role of microfinance institutions, the innovative use of technology, and issues around cost and pricing. Future issues will expand on these topics, looking at the role of financial institutions other than MFIs, the importance of information and competition in lowering prices, the roles of donors and diaspora support organizations in connecting migrants to institutions and information, and the contribution of remittances to development. Planned deliverables include 5 newsletters produced quarterly through September 2007 (contingent upon one-year no-cost extension of task order period of performance).

In addition to the production of the newsletter, current funding for this topic and additional requested funding will be allocated to several studies examining how MFIs or other lenders are using remittances as part of the credit analysis for borrowers. Regular remittance flows may be used as part of the calculation of income, or as a guarantee, or the remittance sender may be a co-signer. Loans may be for businesses or mortgages. Loans may be given by institutions in the receiver's country, or in the sender's country. Scopes of work will be developed to survey existing practices, study successful cases, and possibly disseminate tools developed by or in collaboration with lenders.

### ***Theme 3: Pushing the Frontier – Rural/Agricultural Finance***

#### *Subtopic 131: Rural and Agricultural Finance*

Deliverables completed or in production to date include:

- RAFI Note 3: Financial Institutions in Rural and Agricultural Finance
- microREPORT: Hortifruti in Central America: The Development of Creditworthiness for Small and Medium Agricultural Producers through Financial and Non-Financial Linkages
- microREPORT: Value Chain Finance in Uganda

The agenda for work under this topic will be guided by the results of the RAF coordination meeting to be held in March 2006. This meeting will bring together the AMAP research consortia, the FIELD LWA consortium, the Practitioner Learning Program, and the USAID MD office to complete a review of research produced to date, identification of remaining gaps in knowledge, and strategies for consolidating and completing research and implementation agendas over the next year.

DAI will propose a set of activities and deliverables that are critical to completing research underway, and filling specific remaining gaps in knowledge. These activities include:

- Value Chain Finance microREPORT (one additional case study following the model established by the Chemonics' Peru study and DAI's Uganda study)

- Access to finance for agricultural MSMEs: analysis of the role of value chain actors (processors, exporters) in facilitating access to formal finance for agricultural MSMEs, emphasizing the provision of finance for upgrading
- Summary “what makes it work” Value Chain Finance microNOTE
- Urban MFIs serving rural markets: survey, case studies, and analysis of lessons learned and best practices
- Rural savings: Case studies and microNOTE

#### ***Theme 4: Improving Microfinance Management***

##### *Subtopic 141: MFI Guide to Technology*

DAI and its subcontractor, ACCION, have begun to conduct two lines of research that will address important gaps in knowledge regarding usage of non-MIS technologies in microfinance institutions, paving the way for an improvement on the return of MFI technology investments. A literature census of non-MIS technologies has been completed, focusing in particular on PDA’s, smart cards and ATMs, but also including cellular phones and biometric technologies.

In conjunction with the census, we are also performing a statistically significant survey of MFIs to determine the real level of usage for these technologies. Through the survey, we will also attempt to determine the true impact and value of the three technologies. The team will examine the challenges of implementing these technologies and the success factors required for integrating installations of each. Anticipated completion date for the survey results is March 2006.

Following the completion of the survey, the team is slated to produce one case study on one of the technologies. The study will compare the experience of multiple MFIs in developing and implementing the technology. The study will also analyze the replicability of the technology in other institutions. Anticipated completion date for the case study is September 2006.

##### *Subtopic 142: Dissemination of Defining Options*

The delivery of the training course Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change, has been completed in five countries (Ethiopia, South Africa, Kenya, Rwanda and Mozambique) using trained Africa-based microfinance practitioners. 76 participants from 48 microfinance institutions attended these trainings. In addition, DAI and ECIAfrica created a companion guide to the training course, Microfinance and HIV/AIDS: Tools for Making Institutional Changes in Response to HIV/AIDS to help institutions implement activities. Both the training course and the companion guide have been translated into French and Portuguese. The final deliverable for this topic, a microNOTE summarizing lessons learned and emerging best practices, is currently being drafted. No additional activities are proposed for this topic.

*Subtopic 146: Credit Scoring Models for Microfinance*

A draft report has recently been submitted to USAID for review. This deliverable when finalized will complete this topic.

*Subtopic 147: Financial Standards Promotion*

This topic is complete.

**Theme 5: Gaining Access to Capital**

*Subtopic 151: Private Debt Placements (re-oriented to Guarantees for MFI Capitalization)*

This research topic explores credit guarantees for MFI capitalization. Phase I of the research is currently underway. DAI is contributing to CGAP's research and production of a Focus Note on the topic, by gathering and assisting with the analysis of financial and other data on 97 transactions by 8 guarantors. DAI will also review and comment on the draft CGAP Focus Note that will contain a number of observations regarding the data set and highlight areas that could benefit from further investigation. The Focus Note is expected to be completed in March 2006.

Phase II, which is in the process of being defined in discussions with the MD office, will build upon and complement the research supported under Phase I. Phase II will focus on the following:

- Providing a more robust overview of credit guarantees/structures and the universe of guarantors involved with MFI capitalization
- Building upon Phase I and other FSKG research (DCA Enhancements and Transitions to Private Capital) to further explore/discuss the role of guarantees in MFIs' transition to private capital
- Identifying appropriate/representative non-DCA guarantee transactions for MFI capitalization for more detailed research and case study development. Cases will be selected to demonstrate how guarantees can play a positive role in an MFI's transition to private capital in varying environments (e.g. degree of microfinance market sophistication) and under different guarantee structures.

Additional funding will be required to complete Phase II. Details are provided in Section B.2.B, New Research Activities for Year Three.

*Subtopic 152: DCA Credit Enhancement*

Credit enhancements from DCA and other sources can be used to expand access to capital by MFIs, and to catalyze sustainable MFI relationships with formal financial sector actors. In this way, the DCA and comparable guarantees can increase the availability of credit to small and micro businesses. Under this topic, researchers will:

- Identify and document the use of guarantees or other credit enhancements to support MFI operations and expansion

- Create a guide for mission staff, built on specific cases of “best practices” in using DCA and other credit enhancement tools to support MFIs and bank expansion to small scale lending

The anticipated delivery date for the guide is May 2006.

Additional funding will be requested under Section B.2.B New Research Activities for Year Three to continue examining DCA guarantees identified during the course of this research, including:

- Ecuador
- Kenya
- Nicaragua
- Peru
- Deutsche Bank and Oiko credit global guarantees

### ***Theme 6: Enabling Environment for Microfinance***

#### *Subtopic 164: Policy Advocacy by Country Level Microfinance Networks*

This topic is complete.

#### *Subtopic: Proving Microfinance Matters*

Programming of funds under this topic has been delayed due to changing personnel at both DAI and the MD office. Work will continue in Year Three to develop consensus on effective and efficient ways that FSKG research can contribute to the knowledge and data available to the MD office, consultants, and practitioners regarding the economic impacts of sustainable microfinance institutions providing a variety of financial services to a significant share of the market.

### **B.2.B. New research Activities for Year Three**

This section provides workplans and budget information for activities requiring new funding in Year Three, by topic.

1. SORBS
2. Commercial Banks and MFI-Commercial Bank Linkages
3. Money Transfers and Remittances
4. MFI Guide to Technology
5. Private Debt Placements
6. DCA Credit Enhancements
7. Credit Bureaus
8. Savings
9. Financial literacy
10. Post-conflict microfinance

**New Funding Request**  
**Topic 112: Constraints and Potential of State-Owned Retail Banks**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 1: Institutional and Innovative Models for Outreach
<b>Topic:</b>	Topic 112: Constraints and Potential of State-Owned Retail Banks
<b>Objective:</b>	To understand the success factors in the turnaround and privatization of the National Microfinance Bank of Tanzania
<b>Deliverables:</b>	Case Study microREPORT and microNOTE
<b>Level of Effort:</b>	24 days
<b>Total Labor and ODC Costs:</b>	\$31,096
<b>Timetable for Research</b>	June to September 2006
<b>Personnel and Firms involved in Research</b>	John Giles, Colleen Green, DAI

**Background:** In 1997, efforts began to restructure and privatize the National Microfinance Bank of Tanzania, one of the three financial entities created out of the former National Bank of Commerce, a failing state bank. Formed of some of the less attractive assets of NBC, NMB was designed to serve the “unbanked”, rural and average Tanzanian client. These assets included: 92 branches located mostly in district and rural villages, but no loans or current accounts. Initial efforts to privatize the banks brought no bidders to the table. In 1998, the government of Tanzania tendered a contract to restructure the bank, restoring it to profitability, institutionalizing knowledge of lending to the lower end of the market, and preparing the bank for the eventual privatization. DAI was awarded this contract in mid 1999. The initial contract was for 30 months with the privatization planned for late 2002. Subsequently, the contract was extended three and a half additional years and the privatization took place June 30, 2005.

In the six years since the turnaround began, NMB has had some impressive growth. It:

- Has expanded its branch network from 92 to 108 branches and agencies, 81% of them in rural areas or districts;
- Manages 1.1 million deposit accounts, 95.5% of which are for individuals. These accounts amount to 541 million Tanzanian shillings (of which 51.4% are held in individual accounts);
- Has successfully launched and is managing 7 different loan products including microfinance loans, salary worker loans, pensioner loans, sugar cane outgrower loans, personal loans, loans to MFIs and SME loans (which are still in the pilot phase);
- Has successfully launched five new savings products, money transfers, salary and pension payments, collections for up-country businesses, and foreign exchange.;
- Participates actively in the inter-bank lending market, lending extensively to other Tanzanian commercial banks<sup>1</sup>.

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<sup>1</sup> The statistics noted in this work plan are current as of October 2005.

The success of the bank was perhaps best exemplified by the active participation of four different consortia in the privatization process. This culminated in the sale of a 49% stake in June 2005 to the Dutch bank, Rabobank, with the Government of Tanzania maintaining the remaining stake.

**Research objectives and limitations:** The turnaround of NMB has been an unpublished success story<sup>2</sup>. The intent of the case study will be to show how – given the right circumstances – state banks, with large branch networks and extensive outreach in rural areas, can be turned around, reoriented to the lower end of the market, privatized and continue to successfully serve this difficult to reach and often unbanked market segment. The case study could be limited only by the Government of Tanzania’s unwillingness to disclose issues that reflect poorly on the government’s participation in the effort.

**Research methodology:** Because of DAI’s extensive involvement with the bank over the past six years, this case study could be completed as a desk study without the need for travel or primary research in Tanzania. Phone interviews and email exchanges would be conducted with the current management to obtain up to date information on portfolio, growth and new endeavors.

**Past research completed under this topic area and relevance to current work (if necessary):** To date, no research has been published on the topic of NMB. However, the success of the turnaround and privatization effort could be compared with other similar case studies such as the case of the former Agricultural Bank of Mongolia, Khan Bank which has also been turned around and privatized after its reorientation to the low end of the market.

**Deliverables and Audience:** The research would result in two deliverables:

- A microREPORT on the success of the turnaround effort
- A microNOTE on the case study, which would mirror the major findings of the report.

Both deliverables are oriented at two primary audiences:

- the donor community, including USAID as a technical assistance provider in some examples of these bank turnarounds, but also the World Bank which often lends to governments for the restructuring or liquidation of these banks;
- the broader practitioner community interested in serving the lower end of the financial services market.

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<sup>2</sup> In its contract with the Government of Tanzania DAI has been limited in what it can publish about the turnaround effort. We are currently requesting permission from the Governor of the Central Bank to publish an article or report on the success of the turnaround.

**Personnel and LOE:**

<b>Name of Researcher</b>	<b>Firm</b>	<b>Level</b>	<b>Level of Effort</b>
John Giles	DAI	Level I Microenterprise Research Specialist	10
Colleen Green	DAI	Level I Microenterprise Research Specialist	12
Robin Young	DAI	Level I Microenterprise Research Specialist	2
			24 days

**New Funding Request**  
**Topic 112: Constraints and Potential of State-Owned Retail Banks**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 1: Institutional and Innovative Models for Outreach
<b>Topic:</b>	Topic 112: Constraints and Potential of State Owned Retail Banks
<b>Objective:</b>	State Owned Banks in Rural and Microfinance in Mexico will document and analyze the changing role and impact of state owned banks in rural and microfinance in Mexico, and draw lessons on how to privatize, reform, restructure and re-orient these institutions to promote financial sector deepening.
<b>Deliverables:</b>	microReport, microNote and RAF case study
<b>Level of Effort:</b>	TBD*
<b>Total Labor and ODC Costs:</b>	*
<b>Timetable for Research</b>	June – December 2006
<b>Personnel and Firms involved in Research</b>	DAI, OSU, CIDE (Mexican academic and research organization)

**Background:**

Over the past century, Mexico has developed a financial system with significant public sector involvement both through direct ownership and management of development and retail banks and programs and institutions that work with private sector institutions.

Over the past decade Mexico has conducted two important experiments with its commercial banking system. The first took place in 1991 when the government privatized the commercial banks that it had expropriated in 1982 as part of a broad program of privatization of state run enterprises. The second took place in 1997, when the government, having had to rescue the banks that it had just privatized, allowed foreign firms to purchase controlling interests in the restructured banks. It also carried out a reform of accounting rules and reorganized the country's deposit insurance system. Neither of these experiments produced the outcome that the government and the Mexican public expected. The first experiment contributed to banking system that became insolvent within four years and that had to be bailed out at a cost estimated at \$65 billion. The second experiment produced a banking system that is profitable and stable, but that is risk averse and therefore extends only modest amounts of credit to firms and households. The ratio of private sector lending to GDP in Mexico is only 11%, an extraordinarily low figure in relationship to that of other middle-income developing countries. (Taken from "Mexico's Experiments with Bank Privatization and Liberalization, 1991-2003" Draft, by Stephen Haber Stanford University, October 18, 2004).

Subsequent to privatization and liberalization, the current Mexican administration developed and implemented a focused policy on popular finance which orients the public sector institutions toward second tier lending while providing a legal framework and financial support for

institutional development of private sector retail financial institutions. Meanwhile, for rural finance, the Mexican Government continues to channel considerable amounts of public-sector funds to rural credit programs and other financial interventions, through organizations such as the *Fideicomisos Instituidos en Relación con la Agricultura* (FIRA or Agricultural Trust Funds), the *Financiera Rural* and the *Banco de Ahorro Nacional y Servicios Financieros* (BANSEFI) as well as through several departments of the Executive—the *Secretaría de Agricultura, Ganadería, Desarrollo Rural, Pesca y Alimentación* [SAGARPA], the *Secretaría de Desarrollo Social* [SEDESOL], and the *Secretaría de Economía* [SE], among many others. State-owned second-tier interventions have been reformed to create organizational designs that reverse the major deficiencies of earlier programs. Of particular interest here has been the replacement of the *Patronato del Ahorro Nacional* (PAHNAL) by BANSEFI which is specialized in providing deposit and other liquidity management services, but cannot grant loans. Similarly important has been the closing of the infamous BANRURAL and its replacement by the *Financiera Rural* which is fully specialized in credit and is prohibited from mobilizing deposits from the public. Thus, through the privatization and reform of these state owned financial institutions, the Government of Mexico has discouraged direct financial intermediation by state-owned organizations, although they continue to play an important role in the financial sector. For Mexico, this has been a monumental step. Major innovations in institutional design have been that the new rural finance organization will not have access to the fiscal accounts (thereby constraining potential opportunistic behavior) and that incentives compatible with the sustainability of the organization have been created, by requiring that its costs of operation be covered with earnings on its fixed endowment. The new structure of compatible incentives to encourage sustainability has forced both Bansefi and Financiera Rural to operate, at least for the time being, at both the second and first-tier levels, in direct competition with the very organizations that are supposed to become their future clients. This dual role has created potential conflicts of interest, but the intention is to make these organizations exclusively second-tier operations within a reasonable time. (Excerpts from “Rural Financial Markets in Mexico: Issues and Options.” By Claudio Gonzales-Vega for USAID, Chemonics International, Washington D.C., 2004.)

At the same time, two development banks finance the private sector, primarily as second tier lending through retail financial intermediaries but also directly to businesses. These institutions are not allowed to mobilize deposits but raise capital through securities and from the InterAmerican Development Bank and the World Bank and foreign bank loans. They also provide other financial and non-financial services to enterprises. These are Nacional Financiera (NAFIN) established in the 1930s which today focuses on micro and small enterprises and Bancomext which focuses on small and medium exporters and industries that support import substitution. In addition, the Federal and State governments have established a number of trust funds and other types of finance programs that provide credit, guarantees and other financial and non-financial services to micro, small, medium and agricultural enterprises and farmers.

### **Research objectives and limitations:**

Exploring the case of Mexican state-owned financial institutions, this research would document, analyze and draw lessons regarding the changing role of the public sector in the promotion of financial deepening with a particular focus on the rural sector. In particular, it will focus on the

restructuring and role of specialized state owned financial institutions that focus only on deposit mobilization or lending, the challenges and benefits of SORB first and second tier lending and deposit mobilization or liquidity management, and the impact of massive bank privatization and reform on rural and microfinance. It will examine these issues within the context of a country where the state continues to play an important role in financial sector development, where the commercial banking sector has a significant level of foreign ownership (>80%) and where a new legal framework has enabled and promoted the development of new types of private sector, non-bank financial intermediaries.

The size and complexity of Mexican public administration and the financial sector will cause research limitations and complications in focusing the research objective, data gathering, analysis and summarizing lessons.

**Research methodology:** The research methodology would begin with a close review of existing literature and a map of the institutions and programs to be examined. This would be followed by a series of interviews with staff and directors from the SORBs as well as the first tier financial institutions and other clients in Mexico with which they work and other relevant stakeholders. An interview guide and list of interviewees will be prepared in conjunction with researchers from OSU and CIDE as well as USAID's AFIRMA project staff and CTO in Mexico.

**Past research completed under this topic area and relevance to current work (if necessary):**

The FSKG project has conducted a global census and prepared an extensive bibliography on state owned retail banks, has prepared a research framework and three case studies on SORBs. SORB case studies to date have examined the creation of a new SORB (ACSI in Ethiopia), the reform of a SORB (Land Bank in Philippines) and development of a specialized microfinance unit (Banque du Caire in Egypt). Another proposed case study will examine the reform under a rural and microfinance mandate and subsequent privatization of the National Microfinance Bank in Tanzania. To date, no case has examined the impact of closure and restructuring to limited operations (only deposits or credit, but not both) or the focus on second-tier operations as would be the focus of research on Mexican SORBs.

The AFIRMA project has conducted an initial assessment of the Mexican financial system with a particular focus on rural and microfinance. Papers that have focused specifically on SORBs in Mexico and which would provide valuable background information include the following:

Gonzales-Vega, Claudio. 2004. "Rural Financial Markets in Mexico: Issues and options." Washington D.C.: Chemonics International.

Haber, Stephen. 2004. "Mexico's Experiments with Bank Privatization and Liberalization 1991-1992." Stanford, CA: Stanford University.

Haber, Stephen, and Shawn Khantor. 2003. "Getting Privatization Wrong: The Mexican Banking System, 1991-2003." Draft Adobe Acrobat presented at World Bank Conference on Bank Privatization, November 20-21.

La Porta, Rafael, and Florencio Lopez de Silanes. 1997. "The Benefits of Privatization: Evidence from Mexico." Adobe Acrobat Working Paper No. 6215. NBER Working Paper Series. Presented at World Bank staff workshop "Reforming Public Sector Banks," December 10, 2002.

**Deliverables and Audience:** The primary audience for this research includes policymakers, donors and practitioners working on rural and microfinance in Mexico and in other developing countries where the state plays an important role in the financial markets.

Deliverables would include a microReport, microNote, training case study for USAID's Rural and Agricultural Finance course , as well as a power point presentation to be presented at an AFIRMA project meeting. Other channels for dissemination will be pursued.

**Personnel and LOE:**

The proposed research activity would be a joint effort between USAID's FSKG and AFIRMA (USAID Mexico) projects both managed by DAI with OSU as a subcontractor. Additional collaboration would be coordinated with the CIDE/OSU research initiative sponsored by USAID in Mexico. If USAID approves this FSKG research proposal, a detailed research plan, budget and specific project contributions, roles and responsibilities will be developed and submitted to the CTO for each project for review and approval.

Robin Young, the research leader for the FSKG SORBs research would serve as research coordinator for this activity in collaboration with local Mexican researchers and Claudio Gonzalez Vega and OSU researcher(s).

**New Funding Request**  
**Topic 113: Commercial Banks and MFI-Commercial Bank Linkages**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 1: Institutional and Innovative Models for Outreach
<b>Topic:</b>	Topic 113: Commercial Banks and MFI-Commercial Bank Linkages
<b>Objective:</b>	Microenterprise Clients and Commercial Banks in Ecuador: Profiles, Preferences and Perceptions will study the impact of bank expansion into microfinance on market segmentation, products and services.
<b>Deliverables:</b>	microReport and microNOTE Powerpoint presentation for delivery at INCAE's Commercial Banks Seminar and the IX Microenterprise Forum of the IDB in Quito.
<b>Level of Effort:</b>	20 days
<b>Total Labor and ODC Costs:</b>	
<b>Timetable for Research</b>	April – September 2006
<b>Personnel and Firms involved in Research</b>	Robin Young, DAI John Magill, DAI Local Ecuadoran research firm Calmeadow

**Background:** Ecuador has experienced a rapid expansion of microfinance during the past five years, fueled by the expansion of NGO programs, an increased emphasis on microfinance by credit unions, the conversion of several NGOs to finance companies and banks, and the entrance of commercial banks into the field. This process has been facilitated by the Superintendencia de Bancos, which has taken a major role in promoting microfinance among regulated institutions, and the USAID/SALTO project, which has worked to expand microfinance programs in credit unions and banks.

Still, a nation-wide survey of microenterprises in Ecuador found that very few (about 15%) had taken loans from formal institutions during the past year, and levels of use of other financial services were low. The authors hypothesized that the formal financial sector was reaching a more well-to-do sector of the population than the microenterprises covered in the survey.

**Research objectives and limitations:** The objectives of the proposed research project would be to identify the underlying differences between microenterprise clients of banks and non-banks and document differences in their preferences and perceptions. The study would look at differences in the client profiles of the diverse financial institutions (banks, credit unions and NGOs) to see if there are systematic differences in the clientele targeted by the different institutions -- income, businesses, location, gender, etc. The study will attempt to explain why those differences exist – why clients chose one institution versus another. The study will also attempt to explain how the entrance of traditional commercial banks into the microfinance arena is affecting the market (both those that have declared microenterprise lending operations like

Banco del Pichincha's Credife and Banco Guayaquil's microfinance program, and other commercial banks, such as Banco Centro Mundo, that reach the sector through consumer credit, and specialized banks such as Banco Solidario), and how the segmentation of the market is expanding or contracting access to financial services on the part of the poor.

**Research methodology:** The study primarily will make use of existing data, augmented by interviews with executives of financial institutions engaged in microfinance and a small sample survey of institutional clients to explore the specific differences in the targeted clientele and characteristics of clients recruited by the different institutions. Institutional microfinance executives will be interviewed to gain a perspective on how the accelerating competition in the industry affects client strategies.

**Past research completed under this topic area and relevance to current work (if necessary):**

In 2005 USAID/Ecuador's SALTO project conducted a nation-wide survey of microenterprises to provide a baseline for understanding their characteristics and access to finance. More than 17,000 microenterprises were surveyed. The study also included 18 focus groups with microenterprises, assembled data from other surveys and studies, and examined data from Household Surveys carried out by the National Statistics Institute. SALTO has recently begun a new round of focus group sessions with small enterprises to generate information on attitudes and experiences with financial services.

There is a richness in these data that has yet to be explored. All of the studies are directly relevant to the proposed research. The microenterprise survey can be further analyzed to determine if there are significant differences between clients of different institutions, and will greatly facilitate the design of the sample survey to fill in missing data.

In 2004, the FSKG project conducted a case study of Banco del Pichincha's microcredit service company Credife in Ecuador. This study focused primarily on the profitability of microcredit at the commercial bank. The proposed study would complement this institutional study to focus on the client attributes and impact of commercial bank entrance into the microfinance marketplace.

**Deliverables and Audience:** The primarily deliverables would include a microReport and microNote. In addition, a power point presentation would be prepared for INCAE's commercial banks seminar scheduled for May 2006 in Costa Rica and the IDB's IX Microfinance Forum planned to be held in Quito in September 2006. The authors will attempt to place the article in a Journal publication and will search out other dissemination venues in addition to MicroLinks and other FSKG project channels.

**Personnel and LOE:**

Name of Researcher	Firm	Level	Level of Effort
Robin Young	DAI	Level I Microenterprise Research Specialist	20
TBD	Local Firm in Ecuador	TCN	20
John Magill	DAI	n/a	5 (no cost)

TBD SALTO project	DAI	n/a	4 (no cost)
			40 days *

\* John Magill, of DAI, who ran the initial microenterprise survey in Ecuador will provide research guidance and data analysis and staff from the SALTO project in Ecuador would provide input and review the paper at no additional cost to the FSKG project. Moreover, Calmeadow has indicated it could contribute to this research which would allow the research team to gather additional data on the financial sector and their clients in Ecuador.

**New Funding Request**  
**Topic 113: Commercial Banks and MFI-Commercial Bank Linkages**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 1: Institutional and Innovative Models for Outreach
<b>Topic:</b>	Topic 113: Commercial Banks and MFI-Commercial Bank Linkages
<b>Objective:</b>	This study of Pronegocio in Mexico will document and analyze the drivers, strategy, operations and results of one of the most aggressive commercial entrants into microfinance in a Latin American country.
<b>Deliverables:</b>	microReport and microNote
<b>Level of Effort:</b>	20 days (see notes at end of document)
<b>Total Labor and ODC Costs:</b>	
<b>Timetable for Research</b>	April – September 2006
<b>Personnel and Firms involved in Research</b>	DAI

**Background:** Pronegocio is a Mexican finance company specialized in credit for microenterprises (known as a Sofol) and forms part of the Banorte Financial Group. Following a year studying microfinance (2003) and another year running a pilot microcredit program within the bank (2004), Pronegocio has been operating since the beginning of 2005.

Its arrival in the Mexican microfinance market is timely and Pronegocio presents important strengths. The Mexican microfinance market is very large, the level of penetration is low, competition is fragmented and inefficient and, as a result, financial margins are high. At the same time, the institution has the resources and commitment of the Banorte Financial Group, a favorable public policy and has established a differentiated strategy and operating model for servicing the microenterprise segment.

During its first year of operations, it has made an important investment in its corporate image, branch infrastructure and hiring personnel and as a result has experienced accelerated growth. As of September 2005, it had 40 branches, an outstanding portfolio of \$237 million pesos (US\$22 million) and 10,636 clients. It plans to expand to 190 branches, \$1.8 billion pesos in portfolio and 168,090 clients by December 2008.

The business model of operating a Sofol as a subsidiary affiliated with the Banorte Group takes advantage of the bank's existing centralized capacity in human resources, accounting, systems, operations, marketing, procurement, risk management and internal audit. The executive director of Pronegocio has a small administrative team that coordinates with the bank's supporting services departments. This light operating structure minimizes costs, providing specialized attention to the microenterprise sector while maintaining back-office banking systems and

procedures. This strategy has permitted Pronegocio to establish a service network rapidly and efficiently.

In order to cover the credit risk, Pronegocio has contracted guarantees from Nacional Financiera (NAFIN) % and from the Secretary of the Economy's Programa Nacional de Financiamiento al Microempresario (PRONAFIM) which together cover 80% of losses. In late 2005, Pronegocio's General Manager approached the USAID microfinance project in Mexico, AFIRMA, to request a diagnostic and subsequently has requested technical assistance to address identified weaknesses and improve the program's operations (USAID's decision to provide technical assistance is pending at the time this document is being prepared).

**Research objectives and limitations:** The primary objective of this case study is to document and analyze the drivers, strategy, operations and results (growth, profitability, portfolio quality, etc.) of a large and aggressive commercial bank that has entered the microfinance market in a serious manner. A secondary objective is to analyze the role public sector incentives (in this case the Government of Mexico and USAID) and assistance have and could potentially play in enticing and supporting the bank to enter and how it structures its operations. A third objective is to compare this institution's performance, product and service offering to others in the market. A fourth and final objective is to analyze the profile, preferences and perceptions of microenterprise clients regarding diverse microfinance providers in the market.

The limitations will be due to budgetary constraints (Calmeadow has indicated it could co-finance this study to enable the researcher team to conduct studies on clients to include an analysis of the differences in profile, preferences and perceptions among clients of diverse institutions. However, if this support is not secured, this aspect of the study would be severely constrained.). The second limitation is due to the openness of Pronegocio to publish all aspects of the case, including its mistakes and weaknesses. The final limitation is related to the access to and authorization to publish information on other financial institutions in the market.

**Research methodology:** This research will combine a review of existing reports and data on Pronegocio and the microfinance industry in Mexico (available primarily thru the AFIRMA project) and follow up interviews with Pronegocio staff, management and directors. In addition, it will include a series of interviews with select other financial institutions in Mexico to provide comparisons with other bank and non-banks that are operating in the microfinance market (either explicitly thru microfinance institutions or through their consumer lending operations). Finally, focus groups composed of clients from diverse microfinance institutions will be conducted to analyze the profile as well as the preferences and perceptions of clients from diverse institutions serving the sector.

**Past research completed under this topic area and relevance to current work (if necessary):** FSKG has published two cases on commercial banks in microfinance: Credife, Ecuador (the service company of Banco del Pichincha) and Hatton Bank in Sri Lanka. In addition it has published a primer for commercial banks in microfinance and a microNote for donors assisting commercial banks in microfinance. These papers provide a useful framework and reference for the paper on Pronegocio. In addition, USAID's AFIRMA project has conducted an initial diagnostic of Pronegocio which provides preliminary data and other relevant information on the

institution's background, operations and initial results. Finally, the AFIRMA project gathers performance data from an additional 12 microfinance institutions in Mexico which will prove useful in benchmarking Pronegocio. The Pronegocio study would be the first of a financial subsidiary of a commercial bank specialized in microfinance.

**Deliverables and Audience:** This research will result in a primary report (microReport) as well as a summary microNote. Dissemination opportunities include a seminar for commercial bankers from Latin America being organized at INCAE in Costa Rica (tentatively May 2006) as well as the IDB Forum scheduled for September in Ecuador and during an AFIRMA project seminar in Mexico.

**Personnel and LOE:**

<b>Name of Researcher</b>	<b>Firm</b>	<b>Level</b>	<b>Level of Effort</b>
Robin Young	DAI	Level I Microenterprise Research Specialist	20
TBD	Local Firm in Mexico	TCN	TBD
			20 days *

- In addition, staff from USAID and the AFIRMA project in Mexico would provide input and review the paper at no additional cost to the FSKG project. Moreover, Calmeadow has indicated it could contribute to this research which would allow the research team to gather additional data on the financial sector in Mexico and focus on the client preferences and perceptions of diverse financial institutions serving the microenterprise sector in Mexico. If the client perspective analysis is not included, the LOE for the primary researcher may be reduced 5 days.

**New Funding Request**  
**Topic 141: MFI Guide to Technology**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 4: Improving Microfinance Management
<b>Topic:</b>	Topic 141: MFI Guide to Technology
<b>Objective:</b>	Improvement of knowledge gaps on the return of MFI technology investments
<b>Deliverables:</b>	Literature census on non-MIS technologies, survey results from MFIs on investment, case study of a technology in an MFI
<b>Level of Effort:</b>	75 days (additional)
<b>Total Labor and ODC Costs:</b>	\$58,196
<b>Timetable for Research</b>	Research will begin in the first quarter of fiscal year 2006.
<b>Personnel and Firms involved in Research</b>	John Cann, DAI Alice Liu, DAI Alexis Curtis, DAI Cynthia Canelas, DAI Susanna Barton, ACCION

**Background:**

In today's rapidly changing and competitive microfinance industry, most institutions are looking hard at the potential benefits derived from Information and Communications Technology (ICT). This focus has taken on even greater urgency as institutions struggle with the issue of sustainable rural finance and the challenges of outreach. Over recent years, a significant amount of institutional capital and donor funds have been invested in overcoming the technology and infrastructure barriers that have confounded microfinance practitioners. For the most part, investments in resolving or overcoming these barriers have not lived up to the expectations of donors, users, management, and ICT professionals alike.

To date, the results of technology investments in the microfinance industry have been mixed, but the fault is not always with the technology itself. Most of the solutions attempted are stable and useful across a wide variety of applications. To fully understand the problems in implementing ICT we must examine the environment and institutions themselves, as well as the technology.

Under the AMAP FSKG task order, DAI and its subcontractor, ACCION, have begun to conduct two lines of research that will address important remaining gaps in knowledge:

1. A literature review of non-MIS technologies
2. A survey of MFIs regarding technology usage

Following the completion of the census/desk research, the team plans to produce one case study for one of the technologies (with MFI examples) and suggest the likely degree of applicability of the findings to installations of the same technologies in other institution types. Examples of technologies include:

- Hand held devices (a.k.a., PDA)
- Cellular phone applications
- Smart cards and POS
- Biometrics
- ATMs

Preliminary results of the survey have provided a glimpse into several intriguing applications of technology in the provision of financial services to microentrepreneurs. In 2006, DAI and ACCION propose to prepare a second case study on an additional technology being applied by a microfinance institution.

### **Research objectives and limitations:**

Among the issues to be examined in both case studies are:

- Common problems of MFIs that affect their ability to deploy and manage advanced technology,
- The reality of cost versus impact of ICT investments,
- Theory vs. practice inherent in the solutions themselves (i.e., are they really appropriate), and
- The infrastructure limitations present in country environments that create a real barrier to effectively deploying ICT

Clarity and guidance are critical as practitioners and donors begin to consider large investments in ICT. The time is right to look more closely at what these technologies truly provide in the way of impact and sustainability.

Through the case study, the team will provide a detailed and in depth analysis of one technology as it is implemented in several MFIs. The goal is to provide full treatment of each innovation, to produce comparisons across different organizational and market environments, and to generate meaningful lessons learned.

The research is not intended to be an exhaustive analysis of all technologies or all microfinance institutions using technology. Broad industry statistics on the levels of technology penetration, amounts of investment, statistical averages, and returns on investment, are beyond the limited scope and budget for this study. The intention is to select as broad a number of institutions as time practically allows and to thoroughly analyze the role the technologies have played against a series of performance metrics.

In addition to the case study, the team will produce three technology briefs during the course of the research highlighting selected aspects of ICT in microfinance with practical and applicable guidance for IT managers in MFIs.

### **Research methodology:**

The research team will utilize a combination of techniques for gathering specific institutional level data and lessons learned including:

- Literature reviews
- Interviews
- Project documentation
- Project reports

Where possible, we will analyze existing industry statistical data and market studies already produced as a departure point for the research. The team will conduct this literature review from industry journals, media, the Internet, and other academic bodies of work, if available. From this review, the team will develop a number of focus areas and performance metrics as part of the case study analysis. These metrics will become the measures used to evaluate the impact each technology has on the selected institutions. For example, the literature review might indicate that hand held devices (PDAs) increase the daily number of loan officer transactions in a specific MFI or country context. The team will use such a metric to measure similar results across the study group of MFIs to determine if these results are also observed or if there are other factors influencing the use and benefit of that specific technology.

As part of the case study, the team will meet with and interview a number of MFIs. As part of these interviews, the team will survey users and customers to determine the overall impact as well as specific benefits derived from each technology. We will also analyze any available project documentation and reports to determine levels of investment (with special consideration given to competitive secrecy), specific implementation processes and techniques, critical success factors required for each implementation, and levels of staff knowledge and awareness before and after the technology is introduced.

**Past research completed under this topic area and relevance to current work (if necessary):**

Other than the ongoing literature census and the statistical survey of technology penetration, no other research has been completed under this topic area.

**Deliverables and Audience:**

The deliverables will be:

- A case study on the application of a non-MIS technology in MFI's based on the survey results

The audience for the research will be:

- USAID and other donors, to provide guidance on making technology investments and to provide reliable evidence of real value from such investments, and
- MFIs seeking practical knowledge and assistance in managing the decision process and a how-to guide for proceeding with adopting new technology into their businesses.

**Personnel and LOE:**

Our proposed allocation of LOE appears below. It may be adjusted as the needs of the topic evolve.

<b>Name</b>	<b>Level</b>	<b>Firm</b>	<b>LOE 2005</b>
John Cann	I	DAI	5
Alice Liu	II	DAI	5
Alexis Curtis	III	DAI	10
Cynthia Canelas	TCN	DAI	20
TBD	TCN	ACCION	20
Susana Barton	I	ACCION	5
TBD	II	ACCION	10
		Total	75

**New Funding Request**  
**Topic 144: Money Transfers and Remittances**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 4: Improving MF Management
<b>Topic:</b>	Topic 144: Money Transfers and Remittances
<b>Objective:</b>	Examine and disseminate emerging best practices in the use of remittances in credit analysis
<b>Deliverables:</b>	<ul style="list-style-type: none"> <li>• Global survey data</li> <li>• microNOTE</li> <li>• Two case studies</li> <li>• Lending methodology tool</li> </ul>
<b>Level of Effort:</b>	55 days
<b>Total Labor and ODC Costs:</b>	\$76,097
<b>Timetable for Research</b>	TBD
<b>Personnel and Firms involved in Research</b>	Hillary Miller Wise, DAI Maria Jaramillo, ACCION

**Background:**

Migrants’ remittances to developing countries have tripled in the past decade or so: from US\$30.4 billion recorded in 1990 to \$93 billion in 2003. With \$68.4 billion recorded in 2000, the data also suggests accelerated growth. Remittance flows are second only to foreign direct investment (FDI) and are significantly larger than official development assistance (ODA). Remittances surpassed ODA in 1995.

To migrants and their families, sending money home is a natural thing to do—to support the family, save for the long term, or invest in a home to which they will return some day. Remittance recipients use most of the money to finance daily needs and consumption, but also to invest in “human capital” (such as food, education, or housing) or assets (real estate, perhaps, or business). Migrants typically send \$100 to \$200 per month. Remittance recipients are often among the poorest of the poor, living in rural and remote areas. These recipients face some of the greatest challenges to receiving credit. Consistent remittance cash flows provide an opportunity to increase access to credit for recipients by including these “income streams” in calculations of repayment capacity and risk.

**Research objectives and limitations:**

This research will examine how MFIs or other lenders are using remittances as part of the credit analysis for borrowers. Regular remittance flows may be used as part of the calculation of income, or as a guarantee, or the remittance sender may be a co-signer. Loans may be for businesses, mortgages, or personal consumption. Loans may be given by institutions in the receiver's country, or in the sender's country. While anecdotal information is available about such lending methodologies, there is little documented information about the role of remittances in increasing access to credit.

**Research methodology:**

We will begin with a survey of current examples, in collaboration with the Remittances team at USAID, with experts we have worked with at DFID, and with our network of contacts in the remittance and microfinance industries. This broad survey will result in a microNOTE that outlines the variety and richness of examples that will generate topics for two case studies. The case studies may examine one institution which provides a superior example that deserves in-

depth examination, or the case study could concentrate on a certain methodology or product which is used in multiple institutions.

The completion of the survey and two case studies will enable DAI research team to draft a tool / guide for MFI managers which synthesizes global lessons learned and best practices in developing and implementing a lending methodology that incorporates remittances.

**Past research completed under this topic area and relevance to current work (if necessary):**

DAI’s participation in the production of the Migrant Remittances newsletter has created a strong global network of migrant groups, donors, MFIs, private sector firms, financial institutions and other supporting organizations working in the field of remittances and economic growth. This network will allow us to quickly and efficiently complete the global survey and bring together key information that is not currently accessible. This network also gives us the opportunity to “check” our findings with practitioners in the field, among donors, public sector, civil society, and private sectors.

**Deliverables and Audience:**

Deliverables include:

- Global survey data
- microNOTE
- two case studies
- one lending methodology tool

**Personnel and LOE:**

<b>Researcher</b>	<b>Firm</b>	<b>Category/Level</b>	<b>LOE</b>
Hillary Miller Wise	DAI	Level 1 ME Research Specialist	30
Maria Jaramillo	ACCION	Level 2 ME Research Specialist	15
TBD	TBD	Level 1 ME Research Specialist	10
TOTAL			55

**New Funding Request**  
**Topic 151: Private Debt Placement (Guarantees for MFI Capitalization)**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 5: Gaining Access to Capital
<b>Topic:</b>	Subtopic 151: Private Debt Placements (now Guarantees for MFI Capitalization)
<b>Objective:</b>	Knowledge generation regarding the use of credit guarantees to increase access to finance for MFIs and to catalyze sustainable private sector lending to MFIs.
<b>Deliverables:</b>	3 case studies and synthesis report
<b>Level of Effort:</b>	80 days
<b>Total Labor and ODC Costs:</b>	
<b>Timetable for Research</b>	Completion December 2006 (contingent upon approval of one-year no-cost extension.
<b>Personnel and Firms involved in Research</b>	Mary Miller, DAI Tillman Bruett, ACT Carlos Abreu, DAI Andrew Iappini, DAI

**Background:**

This research topic was initially intended to explore private debt placements for MFIs. However, since the issues surrounding access to capital for MFIs evolved from the time of the original technical proposal, the Microenterprise Development office requested that DAI utilize approved funds under this topic to examine credit guarantees for MFI capitalization. Specifically, the MD office instructed the DAI team to contribute LOE to an on-going research effort undertaken by CGAP. Thus, support to the CGAP research and production of the CGAP Focus Note (anticipated completion date March 2006) is Phase I of the research under this topic. Phase II, described below, will build upon and complement the research supported under Phase I.

**Past research completed under this topic area and relevance to current work:**

DAI is contributing to CGAP's research and production of a Focus Note on credit guarantees for MFI capitalization. DAI has assisted with the gathering and analysis of financial and other data on 97 transactions by 8 guarantors. DAI will also review and comment on the draft CGAP Focus Note that will contain a number of observations regarding the data set and highlight areas that could benefit from further investigation. The Focus Note is expected to be completed in March 2006.

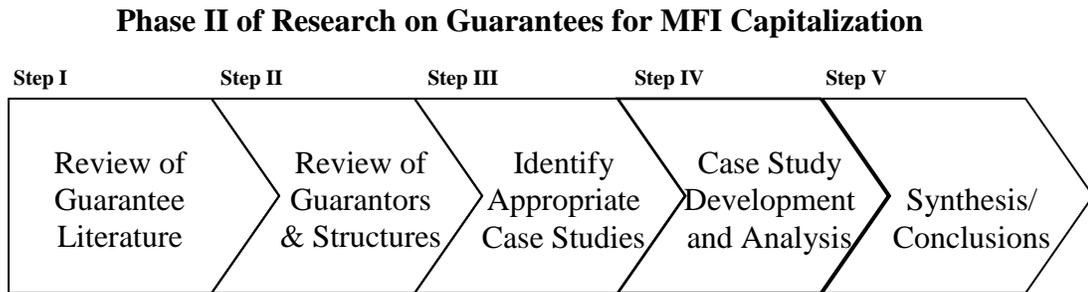
**Research objectives and limitations:**

While additional details regarding the specific guarantees and MFI examples will be added to the scope of work upon completion of Phase I, Phase II will focus on the following:

- Providing a more robust overview of credit guarantees/structures and the universe of guarantors involved with MFI capitalization
- Building upon Phase I and other FSKG research (DCA Enhancements and Transitions to Private Capital) to further explore/discuss the role of guarantees in MFIs' transition to private capital
- Identifying appropriate/representative non-DCA guarantee transactions for MFI capitalization for more detailed research and case study development. The objective is to select and focus on cases that can shed light on how guarantees can play a positive role in an MFI's transition to private capital in different environments (e.g. degree of microfinance market sophistication) and under different guarantee structures.

**Research methodology:**

The graphic below depicts the proposed methodology for Phase II of research, which would begin after Phase I is complete and specific research scope of work is defined and approved. The exception is Step I, Review of Guarantee Literature, which can begin beforehand.



**Deliverables and Audience:**

Deliverables are:

- 3 Case studies
- Synthesis report containing:
  - An overview of guarantees/structures and guarantors
  - Observations and lessons learned from case studies
  - Recommendations for best practice design and implementation of guarantee programs
- microNOTE summarizing synthesis report

The audience for these deliverables is USAID staff, commercial bank and MFI managers, and other development professionals that are interested in the use of guarantees for MFI capitalization.

**Personnel and LOE:**

It is assumed that at least three site visit will be required for case study development. ODCs for these site visits are estimated at approximately \$30,000. Total labor for research under this topic is estimated at approximately \$70,000.

<b>Name</b>	<b>Position</b>	<b>LOE</b>
Till Bruett	Level I, Financial Analyst	15
Carlos Abreu/John Jepsen	Level II, Financial Analyst	45
Andrew Iappini	Level III, ME Research Specialist	20

Additionally, OMD should consider potential CGAP and/or Grameen Foundation involvement with this research in order to leverage additional resources and expertise, as well as to broaden the potential audience for and impact of the research.

**New Funding Request**  
**Topic 152: DCA Credit Enhancements**  
**Year Three Work Plan**

TBD. Additional funding will be requested to continue examining DCA guarantees identified during the course of this research, including:

- Ecuador
- Kenya
- Nicaragua
- Peru
- Deutsche Bank and Oiko credit global guarantees

Total LOE approximately 40.

Total labor and ODCs approximately \$50,000.

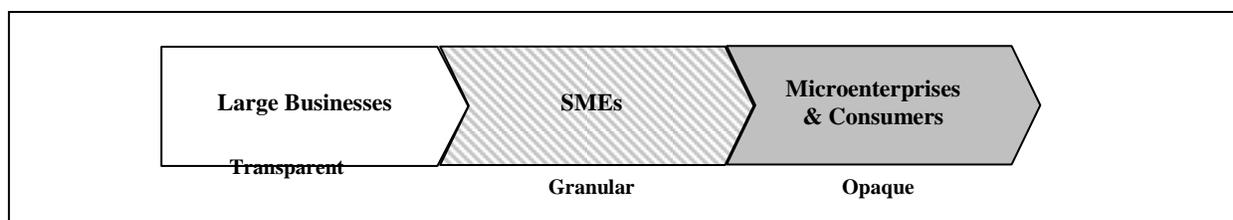
**New Funding Request**  
**Topic 161: Developing Private Credit Bureaus to Serve an MFI Client Base**  
**Topic 163: Bank Secrecy Laws and Credit Bureau Formation**  
**Year Three Work Plan**

<b>Theme:</b>	Theme 6: Enabling Environment for Microfinance and the Market Infrastructure
<b>Topic:</b>	Topic 161: Developing Private Credit Bureaus to Serve an MFI Client Base Topic 163: Bank Secrecy Laws and Credit Bureau Formation
<b>Objective:</b>	1) Document practical models for the integration of microfinance portfolio information into credit information systems 2) Design an approach to assessing market dynamics that can guide appropriate selection among models.
<b>Deliverables:</b>	Technical guide for implementing microfinance related credit information systems
<b>Level of Effort:</b>	97 LOE Days
<b>Total Labor and ODC Costs:</b>	\$87,552
<b>Timetable for Research</b>	March 2006 – December 2006
<b>Personnel and Firms Involved</b>	Andrew Iappini, DAI Miguel Llenas, DAI Reese Moyers, JE Austin Marcos Arocha, J.E. Austin

**Background:**

Financial institutions in developing countries perceive domestic lending as unacceptably risky for multiple reasons. Chief among these reasons is the opaque nature of borrower information. Excessive credit information asymmetry, which means borrowers know more than lenders about their ability to repay, is common in countries where micro-entrepreneurs have limited financing options. The core value of historical credit information is its ability to provide lenders with a predictive basis on which to assess risk and effectively reduce asymmetries.<sup>3</sup> A growing body of literature indicates that the availability of credit information leads to lower risk/interest rates, faster loan approvals, improved collateral terms, increased financial market stability and a higher share of bank financing for small businesses.<sup>4</sup> Researchers also hypothesize that credit reporting spreads best business practices and may even have a democratizing effect by devaluing information non-critical to creditworthiness, such as social status or religious affiliation.

**Figure : Information Asymmetry across Credit Markets**



<sup>3</sup> Miller, Margaret (2003)

<sup>4</sup> Love, Inessa and Mylenko, Nataliya, (2003)

Small firms, especially women-owned, in poor countries where information is scarce or of poor quality can gain the most from developing a credit history that can be accessed by lenders..<sup>5</sup> MFIs can also benefit from integration into effective credit information systems. Objective credit data can reduce the marginal transaction costs of high volume lending and enhance risk management for MFIs. Micro loan officers can use scoring methods based on historical credit information to improve portfolio quality and outreach as well as overall sustainability.<sup>6</sup>

The challenge faced by international donors has been to develop replicable models for credit reporting agencies that can sustainably service MFIs, as well as a wide range of other creditors and credit-like providers (e.g. utility companies). Private credit bureaus that provide comprehensive information are generally more able to serve the needs of various lenders, including MFIs. Unfortunately, certain dynamics (legal & regulatory regimes, economic conditions, technological constraints, social attitudes towards privacy) commonly preclude MFIs from participating in such general credit information systems. Alternative credit bureau structures, though less efficient, may be more effective at servicing MFIs under certain conditions.

Based on initial research, current models of credit information systems serving MFIs include:

- Comprehensive private credit bureaus serving commercial lenders, utilities, telecoms, trade creditors, equipment suppliers, MFIs, and non-intermediating credit lenders.
- MFI-specialized credit bureaus exclusively serving the microfinance market.
- Public registries, common in countries with French civil legal code origin, serving MFIs as well as others.

An assessment of specific market conditions can help to determine which model would be most feasible and appropriate for a given country. This can help donors determine what type of intervention will have greatest potential for positive impact.

### **Research objectives and limitations:**

Research will be undertaken to:

1. document practical models for the integration of microfinance into credit information systems, and;
2. design an approach to assessing market dynamics that can assist donors to evaluate which model may be most effective in a given country environment. Specific steps include:
  - Document and compare various credit reporting system models that serve MFIs, identifying legal, economic, technological and social dynamics that facilitate the successful inclusion of MFIs into these systems. With a microfinance lens, researchers will specifically analyze:
    - Supply and demand factors including size, mobility and the make up of the credit market.
    - Legal regimes such as bank secrecy, data protection, national identifiers, specific credit bureau laws, financial disclosure.
    - Regulation regarding credit bureau operations, including “Codes of Conduct.”
    - IT and human technology capacity issues.
    - Religious and cultural attitudes towards privacy.

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<sup>5</sup> World Bank “Doing Business in 2004 Report” and World Bank “Doing Business in 2005 Report”

<sup>6</sup> Dellien, Hans and Schreiner, Mark (2005)

- Identify a range of country specific indicators that affect the ultimate success of the various models to serve MFIs and develop an assessment process that guides the selection of potential models, based on such indicators. A discussion in the report should outline what practitioners need to consider and how they should analyze country specific conditions before supporting a particular model.

### **Research methodology:**

The research team will begin by reviewing available literature on MFI participation in credit bureaus. This process will allow the team to identify credit reporting agencies serving MFI clients. Once the credit reporting agencies are identified, the team will conduct initial phone interviews with credit bureau managers, and other key players in the country’s credit reporting system.

Afterwards, three credit reporting agencies will be selected. The team will travel to the countries they operate in to conduct more in-depth research, focusing on dynamics that facilitated (or hindered) the development of the system.

Ideally, the team will examine and analyze in detail at least one initiative fitting each of the three broad models discussed:

- 1) A universal credit bureau serving MFIs; such as the credit bureaus in the Dominican Republic;
- 2) An MFI-specialized credit bureau, such as the ones functioning in South Africa and in El Salvador; and
- 3) A public registry with a low minimum loan size threshold that serves MFIs, such as in Brazil.

The team will analyze each experience in light of previously acquired knowledge and compare the experiences to each other. Additionally, the team will attempt to measure each initiative’s relative success in serving MFIs, by identifying quantitative and qualitative indicators that can facilitate a comparison among models and cases.

### **Past research completed under this topic area and relevance to current work (if necessary):**

This will be the first research conducted under these topic areas.

### **Deliverables and Audience:**

The research will result in a technical guide that provides an overview of current models serving MFIs. This guide for donors and regulators will outline the legal frameworks, policies, and other relevant factors that favor the emergence of sustainable credit reporting agencies that serve MFIs. The document will outline an approach to assessing country specific indicators that affect the success of the various models to serve MFIs, helping to guide appropriate policies and interventions.

### **Personnel and LOE:**

<b>Name</b>	<b>Level</b>	<b>Firm</b>	<b>LOE (in days)</b>
Reese Moyers (Lead Technical)	I	J.E. Austin	20
Marcos Arocha	III	J.E. Austin	30
Saul Abreu	TCN	J.E. Austin	12
Miguel Llenas	I	DAI	5

Andrew Ippini	III	DAI	30
		Total	97

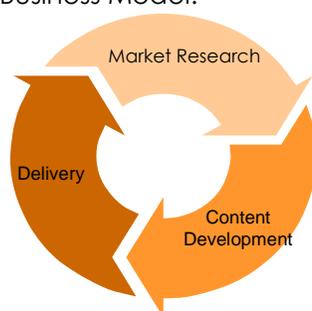
**New Funding Request**  
**New Topic: Financial Literacy**  
**Year Three Work Plan**

<b>Theme:</b>	Financial Literacy
<b>Topic:</b>	Financial Literacy Delivery Channels
<b>Objective:</b>	To incorporate the innovative content that has been developed by leading financial literacy experts into microfinance institutions for broader dissemination.
<b>Deliverables:</b>	Documentation of lessons learned from pilots to date
<b>Level of Effort:</b>	40 days
<b>Total Labor &amp; ODC Costs (estimates)</b>	\$54,954
<b>Timetable for Research</b>	2 <sup>nd</sup> quarter 2006
<b>Personnel and Firms involved in Research</b>	Monica Brand, Vice President ACCION International Monisha Kapila, Director, ACCION International

**1. BACKGROUND**

Financial literacy is the ability to make informed decisions and take appropriate actions regarding the use and management of money. In countries like the US, financial literacy has become integrated into the general financial services that institutions offer clients. For example, Citigroup offers a number of financial education programs, including the Citibank Seminar Series and *Citipro*, a financial planning service available at no cost to current and potential customers in bank branches around the US<sup>7</sup>. Visa International also provides its *Money Skills* program for free around the world<sup>8</sup>.

Although there have been many resources directed to financial literacy in mainstream markets, there has been minimal focus on financial literacy targeted at the poor in developing countries. Financial literacy is significant in microfinance because low-income people have little resources and mismanagement of those resources can prevent them from moving out of poverty. ACCION believes that financial literacy is critical in microfinance and has developed a three-phased Financial Literacy Business Model:



ACCION has analyzed each of these segments to identify gaps that must be addressed to provide financial literacy at scale, and has found that the weakest link is in the **delivery**.

While Microfinance Opportunities and ACCION have experience in market research and content development for financial literacy, there are no organizations working to

<sup>7</sup> <http://www.citigroup.com/citigroup/citizen/financialeducation/workingpaper.htm>

<sup>8</sup> [http://www.corporate.visa.com/ip/money\\_man.jsp](http://www.corporate.visa.com/ip/money_man.jsp)

develop a successful model for the delivery of financial literacy. Currently, financial education is primarily delivered through training sessions conducted by non-profit organizations. In order to reach scale, financial literacy must become integrated into the general services that financial institutions offer microfinance clients, as has occurred in the mainstream market. Delivery of financial literacy is challenging for sustainable microfinance institutions (MFIs) because they view financial literacy as a charitable activity that does not help their business. There may be some experimentation in the delivery of financial literacy as *an integrated part of microfinance services*, but these experiences have not been documented or systematized.

## 2. Objectives

ACCION's goal is to develop a scaleable model for the delivery of financial literacy. This will be accomplished via the following objectives:

- Development of a business case (WHY) for financial institutions to offer financial literacy
- Understanding of HOW sustainable microfinance institutions can incorporate financial literacy into their business model
- Creation of tools for institutions to offer personalized financial literacy and financial planning for microfinance clients
- Validation of a successful delivery model for financial literacy

## 3. Research Methodology:

ACCION will undertake case studies from both the NGO sector and the corporate sector to understand how client education has been delivered. Using the successful approach undertaken in the field of product development over the last 10 years, ACCION will attempt to integrate best practices from the corporate financial sector (using Visa International and Citibank as prime examples) with the innovation and creativity of the NGO sector (both in the US and abroad) to come up with recommendations for the microfinance industry. The research will take the form of case studies of financial literacy programs that have innovatively integrated delivery with financial services. The researchers will use secondary sources where possible (internet, existing articles and case studies) complemented by primary market research, both on the phone and in person, to manage costs.

## 4. Past research completed under this topic area and relevance to current work:

Based on decades of experience with microfinance institutions and clients and a successful track record of developing and implementing business education modules via *Dialogo de Gestiones*<sup>9</sup>, ACCION has developed hypotheses for why and how to deliver financial literacy.

### ***Why financial institutions should offer financial literacy:***

- Improve client performance: clients who understand products and services will make better use of them (e.g. on time repayment, less hand holding needed)
- Sell products: clients need to be educated on products such as insurance and remittances before they will buy them
- Maintain loyalty: extra services such as financial education makes clients feel more loyal to the institution

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<sup>9</sup> *Dialogo* has developed a comprehensive set of 54 modules for educating microentrepreneurs on running a business. Based on its experience working in 15 countries and 1,000 trained facilitators, Dialogo has developed pedagogy on adult learning adapted to microfinance.

- Image: the institution is seen as caring and customer responsive, which helps in customer acquisition and retention
- Consumer protection and social responsibility: institutions have a responsibility to consumers and society; members of the ACCION Network have signed a Pro-Consumer Pledge agreeing to efforts such as financial education for customers as part of their pro-consumer orientation

**How financial institutions can deliver financial literacy:**

ACCION has identified four channels for financial institutions to deliver financial literacy, each of which reaches customers in a different way:

Channel	Mechanism	What	Benefit	Challenge
Front Office	Financial Planning Tools	Diagnostic tool and information about the institution's financial services to help families develop a financial plan (like CitiPro)	enables clients to receive financial literacy information tailored to their needs	Limited technological literacy of clients
	Branch-based Events	Events where clients are brought together for special trainings; these trainings could utilize modules such as budgeting skills, accumulating savings, managing debt, effective use of bank services, and financial negotiation skills.	Allows for additional economies of scale	Logistics & space to accommodate all who are interested
	Loan Officers	Incorporating financial literacy into regular credit operations; most applicable in group lending settings	Leverages relationship & client trust	Negative impact on productivity.
PR/ Marketing	Public service announcements	Utilize broadcast media (like TV or radio) to build awareness around certain topics (like savings)	Greatest bang for the buck; build awareness	Limited impact if lost in general advertising "noise"
Partnerships	NGOs	Community based organizations to deliver	Specialized hand holding	Separates literacy from financial service

**Deliverables and Audience:**

- Summary of research findings, illustrating benefits and costs of varying approaches to integrated financial literacy into the delivery of microfinance services
- Recommendations for the microfinance industry, based on analysis of experience

**Personnel and LOE:**

<b>Consultant</b>	<b>ACCION</b>	<b>Period</b>	<b>1 may 2006 – 31 October 2006</b>			
<b>Candidates</b>	<b>Position</b>	<b># of</b>	<b>Level of Effort (in field &amp; office)</b>			
	<b>trips</b>					
<b>Mónica Brand</b>	<b>Financial Analyst – Level 1</b>	<b>2</b>	<b>22</b>	10	12	
<b>Monisha Kapila</b>	<b>Financial Analyst – Level 1</b>	<b>2</b>	<b>18</b>	9	9	

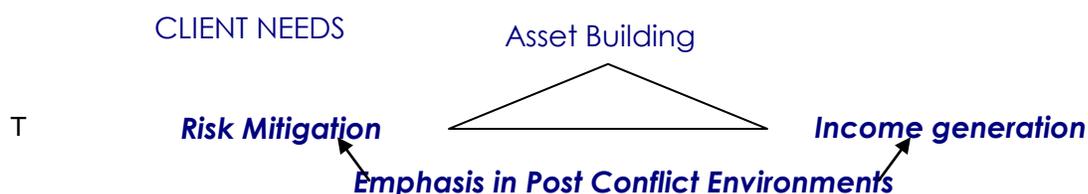
**New Funding Request**  
**New Topic: Post-Conflict Microfinance**  
**Year Three Work Plan**

<b>Theme:</b>	Post-conflict microfinance
<b>Topic:</b>	Rebuilding the financial sector in Rwanda
<b>Objective:</b>	To help formalize the microfinance efforts in Rwanda and expand the range of financial services to help mitigate risk as well as generate income.
<b>Deliverables:</b>	Implementation plan for integrated financial service delivery, including both credit and savings, from the start, in Rwanda
<b>Level of Effort:</b>	90 days
<b>Total Labor and ODC Costs:</b>	\$74,417
<b>Timetable for Research</b>	September 2006 – March 2007
<b>Personnel and Firms involved in Research</b>	Nino Mesarina, Vice President Accion International Rosalind Copisarow, Senior VP, ACCION Int'l Resident advisor, Rwanda –TBD

**Background:**

Although Rwanda has made notable progress in reconstructing its economy and financial system since the devastating conflicts of the past decade, the economy as a whole is still weak and survivors of the genocide are still very vulnerable to shocks.<sup>10</sup> According to a recent IMF study assessing the stability of Rwanda’s financial system, “the domestic financial sector still faces a poor environment with economic activity concentrated in a few sectors and a weak credit culture... The domestic financial system remains shallow, especially outside the banking system, and access to credit remains limited...”<sup>11</sup> While the need for credit is evident, the unique circumstances of this post-conflict environment also stress the importance of risk mitigation mechanisms as well.

As it considered entering the post-conflict environment represented by Rwanda, ACCION placed additional emphasis on balancing client need for risk mitigation with that of income generation. Extrapolating in general to how ACCION views microfinance in post-conflict environments, the MFI must consider both these critical needs in order to realize the ultimate goal of microfinance: asset building to critical to poverty alleviation.



**Research objectives and implications.**

The objectives of this research are to develop a microfinance model that from its design and inception balances the needs of clients in post-conflict environments to both mitigate risks and generate income. Specifically, the project aims to adapt traditional microfinance methodology to incorporate risk mitigating tools like savings and/or insurance in the design from inception.

<sup>10</sup> Conclusions excerpted from the Bernard Laurens & Amadou Sy's Country Report, *Rwanda Financial System Stability Assessment* undertaken by the International Monetary Fund in September, 2005. IMF Country Report No. 05/309, Washington, DC

<sup>11</sup> Ibid., p 3.

**Research methodology:**

The field-oriented proposal would revolve around trying to design and pilot a microfinance methodology that incorporates credit and savings from the outset. The research would begin with a review of existing microfinance programs in Rwanda – including NGOs, cooperatives, and banks trying to move down market – to understand the client needs and service gaps. The project would then propose a strategy to fill these gaps via an integrated service-delivery model, including description of product characteristics and delivery channels.

**Deliverables and Audience:**

The audience for this research would be financial institutions working in post-conflict environments, policy makers and donors. The deliverables would include:

1. survey of client needs and service gaps in Rwanda
2. guidelines for developing a strategy that incorporates credit and savings in post-conflict environments.

**Personnel and LOE:** table identifying research leader, individual researchers and their organizations, and LOE for each person

<b>Consultant</b>	<b>ACCION</b>	<b>Period</b>	<b>1 September 2006 – 31 March 2006</b>		
<b>Candidates</b>	<b>Position</b>	<b># de trips</b>	<b>Level of Effort (in field &amp; office)</b>		
Nino Mesarina	Financial Analyst – Level 1	<b>3</b>	<b>25</b>	18	17
Rosalind Copisarow	Financial Analyst – Level 1	<b>1</b>	<b>15</b>	6	9
TBD	Third Country National	<b>0</b>	<b>50</b>	50	0

**New Funding Request**  
**New Topic: Micro-Savings**  
**Year Three Work Plan**

<b>Theme:</b>	Savings
<b>Topic:</b>	Sustainability of micro-accounts
<b>Objective:</b>	To develop business models that make micro-savings a more attractive financial proposition for MFIs
<b>Deliverables:</b>	Business model based on lifetime customer value, cost efficiencies in product design and delivery and other strategies to improve the sustainability of microsavings
<b>Level of Effort:</b>	80 days
<b>Total Labor and ODC Costs:</b>	\$82,496
<b>Timetable for Research</b>	2 <sup>nd</sup> & 3 <sup>rd</sup> quarters 2006
<b>Personnel and Firms involved in Research</b>	Nino Mesarina, Director of Savings, ACCION Monica Brand, Vice President, ACCION Petronella Chigara OR other Resident Advisor, ACCION

**Background:**

Two recently published works -- Savings Services for the Poor: An Operational Guide, Edited by Madeline Hirschland and the IDB research report on savings (edited by Westley & Portocarrero) -- present the mobilization of micro-savings as a daunting, though critical challenge for the microfinance industry. Both publications exhaustively illustrate the challenges MFI face – including back office operations, service delivery, work force productivity, branch infrastructure, liquidity management, internal control, image and communications – in incorporating savings products into their operations in a sustainable way. The purpose of this research is to explore strategies that allow MFIs to address these obstacles and make mobilizing deposits from the lower income segments (hereafter termed “micro-savings”) more attractive.

**Research objectives and limitations:**

The goal of this research project is to develop a business model that allows microfinance institutions to massify savings services for low income clients in a sustainable way. The research will focus on the following specific aspects (as well as others yet to be defined) that have not been as thoroughly addressed in the existing literature on micro-savings:

1. customer life time value – monitoring client behavior over time to determine the transition from cost center to break even, looking specifically at financial literacy strategies aimed at building sounder savings habits (ability to make these calculations depend on availability of quality data & willingness of participants to share. Information monitoring could extend term of research.)
2. cost efficiencies – rigorously examining different product and service bundles, exploring new delivery systems and providing incentives for using these alternative channels as a way of rationalizing high costs of micro-savings
3. cross selling – strategies that treat savings as a platform from which to more effectively commercialize other financial services, like credit, insurance, and remittances
4. Marketing strategies to successfully design the right product mix, develop the appropriate image and communications strategy, and tailor the channels for a successful savings mobilization

**Research methodology:**

The research for this proposal will be field-based, working with microfinance institutions trying to develop a deposit mobilization strategy which includes “micro-savers”. The MFIs will include one African example and one Latin American to explore a variety of contextual settings. Tools utilized by commercial banks to

reach lower market segments – such as customer lifetime value models, segmentation, and product bundling – will be employed to determine the relative effectiveness of different strategies.

**Past research completed under this topic area and relevance to current work**

ACCION has formed a strategic alliance with the World Council of Credit Unions to exchange lessons learned, respectively, in sustainably providing credit and savings services to low income segments. This two year alliance has helped each institution build capacity to offer a complementary suite of credit and savings products, mainly via cross subsidizing larger account holders with smaller ones. ACCION has applied its learning in a variety of savings pilots it has underway, including Ecuador, Mexico, and Tanzania. This research project will build on the savings capacity ACCION has developed via this alliance to explore ways to make micro-savings more sustainable on its own, exploring the three strategies outlined in the objectives.

**Deliverables and Audience:**

The findings of this research would be of interest to microfinance institutions with the potential to mobilize deposits, as well as banks interested in moving down market. The audience would also include policy makers and donors. The deliverables are:

- Summary of research findings, illustrating benefits and costs of different “micro savings” strategies
- Recommendations for the microfinance industry, based on analysis of experience

**Personnel and LOE:**

<b>Consultant</b>	<b>ACCION</b>	<b>Period</b>		<b>15 may 2006 – 30 November 2006</b>		
<b>Candidates</b>	<b>Position</b>	<b># de trips</b>	<b>Level of Effort (in field &amp; office)</b>			
Nino Mesarina	Financial Analyst – Level 1	<b>3</b>	<b>35</b>	18	17	
Monica Brand	Financial Analyst – Level 1	<b>1</b>	<b>15</b>	6	9	
Petronella Chigara	Third Country National	<b>0</b>	<b>30</b>	30	0	

### **B.3. Component Two: Short Term Technical Services**

Under Component Two of the FSKG project, the DAI consortium can be called upon by USAID to provide a variety of short term technical services, such as sector assessments and trainings for USAID missions. To date, no technical instructions have been issued under Component Two. Component Two has a budget of \$300,000 to be tapped for these services.

### **B. 4. Component Three: Knowledge Management**

Under Component Three of the FSKG project, the DAI consortium can fulfill the FSKG mandate for active collaboration with other FSKG contractors and contribute to the knowledge dissemination activities led by the Knowledge Management contractor, QED. In Year Two, a significant effort was made under Component 3, Knowledge Dissemination, to develop a coordinated strategy among USAID, QED, DAI and Chemonics for disseminating the FSKG research completed to date, and a long-term strategy for ongoing dissemination. The temporary lack of access to MicroLinks during this year limited the project's main dissemination channel, creating a more urgent need to develop alternative dissemination strategies. In general, however, the diversification and improved targeting of knowledge sharing with the broad USAID audience and external stakeholders is a key component for increasing the impact of the FSKG research. Of primary concern is defining and targeting the audience, presenting information in a coordinated way given the crossover between topics and consortia, and facilitating the application of knowledge in the field.

#### **B.4.A. Knowledge Management results to date**

DAI and Chemonics maintain an updated, consolidated list of FSKG publications, and a comprehensive list of our respective firm's projects with microenterprise components with the names of foreign service national (FSNs) and CTOs that manage them. The hope is that this list can provide a targeted contact list for dissemination to the USAID personnel who work on microenterprise projects or projects with a microfinance component.

#### *Financial Services After Hours Seminar Series*

The seminar series provides a venue to share research and state-of-the-art tools developed under the AMAP FSKG and disseminate knowledge and best practices in the field. Seminars are organized on a monthly basis through joint collaboration among the AMAP FSKG prime contractors, Chemonics, DAI and IBM, in conjunction with QED, the prime contractor under AMAP Training and Support Services. In Year Three, the After Hours series will include participation from a wider range of organizations who work with the MD office, including the participants in the FIELD LWA and the Practitioner Learning Program.

The After Hours series has been successful and well attended, with an average of 70 participants per event. The series has stimulated lively discussion during the formal presentation and enjoyable informal networking afterwards. A variety of formats have maintained the fun and engaging atmosphere. Creative formats included "speed presentations", a book launch and author reading, and a movie night. To date, the topics of the After Hours series have included:

- Transitions to Private Capital and MFI-Commercial Bank Linkages
- Microfinance in Eastern Europe
- Microfinance in post disaster, to youth and to AIDS-affected communities.

- Launch of Madeline Hirschland's new book on savings mobilization
- MD at the Movies featuring several films on women microentrepreneurs

#### *SEEP Annual General Meeting*

The research from the DAI AMAP FSKG Consortium was highlighted in a number of workshops and break out sessions. First, Till Bruett, the SEEP Financial Services Working Group facilitator and primary author of *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring*, led a one-day work shop on the new guide and accompanying framework tool. DAI also organized and led panels on the profitability of microfinance for commercial banks. Mary Miller, Deborah Drake and Lynne Curran presented the Hatton and Credife cases, the guidelines for banks interested in down market operations and some work DAI completed for DFID on bank models. DAI also organized a panel on linkages between commercial banks and MFIs. Deborah Burand moderated this panel, which included Robin Bell presenting the Cashpor/ICICI case, Elissa McCarter on CHF's bank partnerships and Sanjeev Singh from World Education in South Africa.

#### *microNOTES*

The intent of the microNOTES is to broaden the number of products available that are suitable for different types of audiences. In 2006 DAI will complete a set of 12 microNOTES on already completed research, and will continue to include the publication of a microNOTE in each future research scope of work.

#### **B.4.B. Knowledge Management Activities Proposed for 2006**

DAI and Chemonics have jointly submitted a knowledge management work plan to the FSKG CTO, which is currently under review. This workplan includes the following activities to be funded with currently approved funds:

- The creation of a CD of all the AMAP FSKG, BDS and EE research with an accompanying marketing flyer. The CD would be designed by QED in conjunction with the MD office. DAI and Chemonics would provide input to the design process, in order to ensure the best possible presentation of AMAP FSKG research and the most effective strategies for creating connections among the three AMAP research agendas. In addition, DAI and Chemonics would gather data and provide analysis on reaching key audiences. This would include developing effective distribution lists, as well as an online marketing campaign designed to meet the needs of diverse audiences including USAID missions and economic growth projects in the field.
- The continuation of the Financial Services After Hours series. This initiative would continue to broaden to include other financial service contractors and grantees. We anticipate 8-9 seminars in year three of the project.
- Holding microLINKS online education and dissemination forums, including Speaker's Corners, Notes from the Field, e-Conferences and Virtual Brown Bags.
- Monitoring financial service events in which AMAP FSKG research can be further disseminated. We anticipate making presentations at approximately eight conferences during year three. This is a continuation of what has been done to date under FSKG.
- Contributing to the USAID learning conference in June 2006.

The workplan is currently under review by the FSKG CTO.

#### *USAID Learning Conference-June 2006*

DAI has submitted 10 proposals to USAID for breakout sessions, tool workshops, and a marketplace exhibit at the Learning Conference scheduled for June 2006. DAI has also collaborated with Chemonics on three additional proposals. Component Three funds may be used to develop and present the sessions approved by USAID.

### **C. Budget**





## C.1. Summary Budget

AMAP - Microfinance Financial Services Knowledge Generation Summary for Year 2 Workplan For all Topics, Themes, and Subtopics Development Alternatives, Inc.									
Description	Approved Years 1 and 2			Requested Year 3			Total Contract Budget		
	Labor	ODCs + G&A	Total	Labor	ODCs + G&A	Total	Labor	ODCs + G&A	Total
Project Management	\$313,276	\$25,352	\$338,628	\$154,793	\$56,326	\$211,119	\$468,041	\$81,706	\$549,747
<b>Subtotal Project Management</b>	<b>\$313,276</b>	<b>\$25,352</b>	<b>\$338,628</b>	<b>\$154,793</b>	<b>\$56,326</b>	<b>\$211,119</b>	<b>\$468,041</b>	<b>\$81,706</b>	<b>\$549,747</b>
<b>Component 1</b>									
<b>Theme 1: Institutional and Innovative Models for Outreach</b>									
Subtopic: 112- Constraints and Potential of State-Owned Retail Banks	\$132,980	\$26,930	\$159,909	\$122,811	\$9,548	\$132,359	\$268,720	\$69,830	\$338,550
Subtopic: 113 - Commercial Banks and MFI-Commercial Bank Linkages	\$209,190	\$62,272	\$271,462	\$35,204	\$0	\$35,204	\$317,854	\$73,217	\$391,071
Subtopic: 114 - Partnering with Commercial Banks to Finance Housing for Microentrepreneurs	\$0	\$0	\$0	\$0	\$0	\$0	\$95,231	\$5,052	\$100,283
Subtopic: 115 - Non-Financial Retail Strategies	\$0	\$0	\$0	\$0	\$0	\$0	\$73,761	\$25,768	\$99,529
<b>Theme 1: Institutional and Innovative Models for Outreach</b>	<b>\$342,170</b>	<b>\$89,201</b>	<b>\$431,371</b>	<b>\$158,015</b>	<b>\$9,548</b>	<b>\$167,563</b>	<b>\$755,566</b>	<b>\$173,867</b>	<b>\$929,433</b>
<b>Theme 2: Market Research and New Product Development</b>									
Subtopic: 121 - Housing Products	\$35,376	\$24,576	\$59,952	\$0	\$0	\$0	\$184,763	\$29,002	\$213,765
Subtopic: 122 - Other Non-Traditional Models	\$0	\$0	\$0	\$0	\$0	\$0	\$162,645	\$31,888	\$194,533
Subtopic: 123 - HIV/AIDS Responsive Products and Services	\$84,094	\$31,690	\$115,784	\$0	\$0	\$0	\$85,574	\$30,210	\$115,784
Subtopic: 144 - Money Transfers and Remittances	\$83,847	\$32,979	\$116,825	\$63,645	\$12,452	\$76,097	\$83,787	\$33,861	\$117,648
<b>Theme 2: Market Research and New Product Development</b>	<b>\$203,317</b>	<b>\$89,244</b>	<b>\$292,561</b>	<b>\$63,645</b>	<b>\$12,452</b>	<b>\$76,097</b>	<b>\$516,769</b>	<b>\$124,961</b>	<b>\$641,730</b>
<b>Theme 3: Pushing the Frontier - Rural/Agricultural Finance and Value Chains</b>									
Subtopic: 131 - Agricultural Lending	\$309,347	\$91,166	\$400,512	\$0	\$0	\$0	\$309,347	\$91,166	\$400,513
<b>Theme 3: Pushing the Frontier - Rural/Agricultural Finance and Value Chains</b>	<b>\$309,347</b>	<b>\$91,166</b>	<b>\$400,512</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$309,347</b>	<b>\$91,166</b>	<b>\$400,513</b>

**AMAP - Microfinance**  
**Financial Services Knowledge Generation**  
**Summary for Year 2 Workplan**  
**For all Topics, Themes, and Subtopics**  
 Development Alternatives, Inc.

Description	Approved Years 1 and 2			Requested Year 3			Total Contract Budget			
	Labor	ODCs + G&A	Total	Labor	ODCs + G&A	Total	Labor	ODCs + G&A	Total	
<b>Theme 4: Improving MF Management</b>										
Subtopic: 141 - MFI Guide to Technology	\$49,343	\$27,372	\$76,715	\$47,152	\$11,045	\$58,196	\$252,051	\$66,454	\$318,505	
Subtopic: 142 - Dissemination of Defining Options	\$123,279	\$119,291	\$242,569	\$0	\$0	\$0	\$125,387	\$94,629	\$220,016	
Subtopic: 143 - Performance Indicators for Saving and Back Office Operations	\$0	\$0	\$0	\$0	\$0	\$0	\$106,499	\$9,517	\$116,016	
Subtopic: 145 - The Missing Middle- Technical Guidance for Middle Management	\$0	\$0	\$0	\$0	\$0	\$0	\$150,563	\$49,808	\$200,371	
Subtopic: 146 - Credit Scoring Models for Microfinance	\$50,503	\$12,930	\$63,433	\$0	\$0	\$0	\$87,452	\$24,032	\$111,484	
Subtopic: 147 - Financial Standards Promotion	\$66,813	\$43,378	\$110,190	\$0	\$0	\$0	\$66,813	\$43,378	\$110,191	
Subtopic: 148 - Risk Management Series	\$0	\$0	\$0	\$0	\$0	\$0	\$108,013	\$3,032	\$111,045	
Theme 4: Improving MF Management	<b>\$289,938</b>	<b>\$202,970</b>	<b>\$492,908</b>	<b>\$47,152</b>	<b>\$11,045</b>	<b>\$58,196</b>	<b>\$896,778</b>	<b>\$290,850</b>	<b>\$1,187,628</b>	
<b>Theme 5: Gaining Access To Capital</b>										
Subtopic: 151 - Private Debt Placements	\$62,326	\$7,038	\$69,364	\$36,953	\$12,415	\$49,368	\$67,944	\$2,166	\$70,110	
Subtopic: 152 - DCA Credit Enhancement	\$60,160	\$27,124	\$87,284	\$0	\$0	\$0	\$70,124	\$27,124	\$97,248	
Theme 5: Gaining Access To Capital	<b>\$122,486</b>	<b>\$34,162</b>	<b>\$156,648</b>	<b>\$36,953</b>	<b>\$12,415</b>	<b>\$49,368</b>	<b>\$138,068</b>	<b>\$29,290</b>	<b>\$167,358</b>	
<b>Theme 6: Enabling Environment for Microfinance and the Market Infrastructure</b>										
Subtopic: 161 - Developing Private Credit Bureaus to Serve an MFI Client Base	\$0	\$0	\$0	\$67,121	\$20,431	\$87,552	\$38,141	\$15,854	\$53,995	
Subtopic: 162 - Specialized Microfinance Laws and Frameworks; Successes and Failures	\$0	\$0	\$0	\$0	\$0	\$0	\$239,111	\$71,325	\$310,436	
Subtopic: 163 - Bank Secrecy Laws and Credit Bureau Formation	\$0	\$0	\$0	\$0	\$0	\$0	\$28,080	\$10,201	\$38,281	
Subtopic: 164 - Policy Advocacy by Country Level Microfinance Networks	\$62,486	\$26,944	\$89,430	\$0	\$0	\$0	\$63,071	\$1,574	\$64,645	
Subtopic: 165 - Proving Microfinance Matters	\$150,506	\$21,311	\$171,817	\$0	\$0	\$0	\$163,684	\$21,856	\$185,540	
Subtopic: 166 - Risk Based Supervision	\$0	\$0	\$0	\$0	\$0	\$0	\$169,231	\$32,893	\$202,124	
Subtopic: 167 - Standardized Accounting and Disclosure Regimes	\$0	\$0	\$0	\$0	\$0	\$0	\$48,052	\$12,418	\$60,470	
Theme 6: Enabling Environment for Microfinance and the Market Infrastructure	<b>\$212,992</b>	<b>\$48,255</b>	<b>\$261,247</b>	<b>\$67,121</b>	<b>\$20,431</b>	<b>\$87,552</b>	<b>\$749,370</b>	<b>\$166,121</b>	<b>\$915,491</b>	
Component 2	<b>Subtotal Component 2</b>	\$183,332	\$16,668	<b>\$200,000</b>	<b>\$91,666</b>	<b>\$8,334</b>	<b>\$100,000</b>	<b>\$274,998</b>	<b>\$25,002</b>	<b>\$300,000</b>
Component 3	<b>Subtotal Component 3</b>	\$183,332	\$16,668	<b>\$200,000</b>	<b>\$91,666</b>	<b>\$8,334</b>	<b>\$100,000</b>	<b>\$274,998</b>	<b>\$25,002</b>	<b>\$300,000</b>
<b>Grand Total</b>	<b>\$2,160,189</b>	<b>\$613,686</b>	<b>\$2,773,875</b>	<b>\$711,010</b>	<b>\$138,885</b>	<b>\$849,895</b>	<b>\$4,383,935</b>	<b>\$1,007,965</b>	<b>\$5,391,900</b>	

## **C.2 Individual research topic budgets**

TBD

## **Annex One**

Topics which have not previously received funding and for which we are not currently requesting new funding include:

### **Theme 1: Institutional and Innovative Models for Outreach**

Subtopic 114: Partnering with Commercial Banks to Finance Housing for Microentrepreneurs

Subtopic 115: Non-Financial Retail Strategies

### **Theme 4: Improving Microfinance Management**

Subtopic 143: Performance Indicators for Saving and Back Office Operations

Subtopic 145: The Missing Middle – Technical Guidance for Middle Management

Subtopic 148: Risk Management Series

### **Theme 6: Enabling Environment for Microfinance**

Subtopic 162: Specialized Microfinance Laws and Frameworks: Successes and Failures

Subtopic 166: Risk Based Supervision

Subtopic 167: Standardized Accounting and Disclosure Regimes