2005 Annual Workplan

AMAP FINANCIAL SERVICES
KNOWLEDGE GENERATION PROJECT

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DAI
Development *Alternatives,* Inc.

AMAP Financial Services Knowledge Generation

Year Two Work Plan for DAI

A. OVERVIEW

This is the second 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 first year work plan was approved on January 22, 2004 and work has been underway since then. This work plan is expected to be approved in mid-December 2004. It describes the new research activities and deliverables that DAI expects to manage and produce between December 2004 and December 2005. It also provides updates for ongoing activities that began in year one of the project.

This work plan elaborates on the activities described in the year one work plan 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, the workplan briefly lays out the overall structure of the FSKG project. Section C identifies planned year two tasks under Component One: Core Knowledge Generation.

B. PROJECT COMPONENTS

B.1. Project Management

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 two, 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 quarterly 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 replaced Ira Singh in 2004 as 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.

Andrew Iappini will continue in his 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 replaced Amy Harrington as DAI's Contracts Administrator, responsible for any contracting actions that may be required, and for interactions with USAID's Office of Procurement.

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 have since been grouped under six themes, as described in an October 6, 2003 memorandum from Barry Lennon. During year one, the Microenterprise Division approved 11 projects. The thematic organization of the 4 additional DAI topics planned for launch during Year Two and the continuation of the 11 ongoing DAI topics 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.

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. During Year One of the Project, the DAI consortium was issued two technical instructions, one that allowed AMAP staff to contribute, review and provide insight into the development of a one-day rural finance training course developed by the BASIS project, and the second, that provided an additional 15 days to Till Bruett of Alternative Credit Technologies for completion of the *Measuring Performance of Microfinance Institutions: A Framework for Reporting, Analysis and Monitoring*.

Additionally, one other technical instruction is being discussed with AMAP Activity managers that would allow for the creation of a community of practice around the topic of money transfers and remittances.

C. YEAR TWO ACTIVITIES

C.1. Core Research Activities

The individual research activities planned for launch in year two and updates to existing activities from year one of the FSKG project are detailed in Annex One.

C.2. Management Activities

C.2.A. Project Planning Activities

The development of the work plans attached in Annex One 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:

Research Topic	Labor	New LOE	ODCs/G&A	Total
State-owned Retail Banks	$87,852	105.25	$22,221	$110,073
Commercial Banks in MF	$87,430	78	$17,130	$104,560
Housing Products- **NEW!**	$42,390	50	$24,982	$67,372
HIV/AIDS Responsive Products	$53,434	80	$24,568	$78,001
MFI Guide to Technology- **NEW!**	$49,343	68	$27,372	$76,715
Dissemination of Defining Options	$37,260	58	$37,783	$75,043
Performance Indicators for Savings- **NEW!**	$45,333	72	$1,656	$46,989
Money Transfers and Remittances	$59,370	84	$59	$59,429
Financial Standards Promotion *Options*		TBD: See Annex One		
Standardized Accounting and Disclosure Regimes- **NEW!**	$44,737	40	$15,050	$59,787

Please note: Annex One also contains the updated work plans for research that is underway and requires no additional approval of level of effort.

C.2.B. Management Reporting Deliverables, Year Two

Outputs and deliverables from the individual research activities will be produced and delivered as described in the work plans in Annex One.

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, 2004
- Quarter 2: January 1 – March 31, 2005
- Quarter 3: April 1 – June 30, 2005
- Quarter 4: July 1 – September 30, 2005

Quarterly reports will provide updates on the progress under each of the research topics underway as well as budget and level of effort expended per research topic.

C.2.C. Knowledge Sharing: Seminar/Brown Bag Series

With the year one research activities well underway and many nearing completion, we believe it is time to proactively share new knowledge with the broader microenterprise community. While the actual written research deliverables will be available on the microLINKS website and in other fora, we believe that it would be worthwhile to launch a seminar series on the research generated by our consortium. These seminars would be scheduled every other month and might take the form of a brown bag held over the lunch time hour, a half or full day seminar or late afternoon debate. This seminar/brown bag series will encourage greater buy in from other donors and practitioners in the Washington area. Possible topics for the Year Two seminar/brown bag series could be:

- An all day seminar on banks in micro and rural finance, focused on research looking at commercial bank profitability in microfinance, MFI/commercial bank linkages, and state owned retail banks.
- A brown bag on Proving Microfinance Matters, sharing one of the new case studies that provide evidence for the positive economic impact of microfinance.
- A late afternoon discussion on the case study Hortifruti in Central America: The Development of Creditworthiness for Small and Medium Agricultural Producers through Financial and Non-financial Linkages
- A half or full day seminar on current trends in housing microfinance
- A debate on developing client-focused products and services for HIV/AIDS affected populations
- A discussion about a non-MIS technology being used in microfinance

With the approval of this work plan, the seminar/brown bag series could begin in January 2005 and be held every other month thereafter throughout Year Two.

C.2.D Communication with Consortium

DAI will hold annual or semi-annual (as needed) meetings with our consortium members. The objective of these meetings is to streamline project management, identify and further all potential synergies across the research topics, and to maximize knowledge dissemination and share dissemination strategies.

DAI will also initiate a quarterly newsletter for our consortium members, which will be provided to USAID staff. The first issue will be published in December 2004. This newsletter will provide an update on current research, descriptions of subcontractors capabilities, and news from USAID. It will furnish DAI with a streamlined communication medium, particularly as a forum for sharing information on upcoming USAID initiatives that may impact the consortium or the FSKG research agendas. Similar to the semi-annual meetings, it will also encourage the sharing of skills and knowledge across the consortium in order to take best advantage of each member's strengths, and to maximize knowledge dissemination. The newsletter will also facilitate project management by delivering consistent communication on all consortium-wide issues.

D. Year Three Activities

Ten research topics awarded to DAI are planned for launch in year three. These include:

- Partnering with Commercial Banks for Housing Finance
- Non-Financial Retail Strategies
- Non-Traditional Models of Microfinance
- The Missing Middle: Training for Middle Managers
- Credit Scoring
- Risk Management Series
- Developing Private Credit Bureaus to Serve an MFI Client Base
- Bank Secrecy Laws and Credit Bureau Formation
- Specialized Microfinance Laws: Successes and Failures
- Risk-based Supervision

The work plan for year three will be produced and discussed with USAID in the second half of 2005.

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
HIV/AIDS Responsive Products and Services	Colleen Green/CG
Money Transfers and Remittances	Cerstin Sander/CJ
Theme 3: Rural and Agricultural Finance	
Rural and Agricultural Finance research	Catherine Johnston/CJ
Theme 4: Improving Microfinance Management	
MFI Guide to Technology	John Cann/CG
Dissemination of Defining Options	Colleen Green/CG
Performance Indicators for Savings/Back Office	Lynne Curran/CJ
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	
Proving Microfinance Matters	Zan Northrip/CG
The Role of Microfinance Networks	Sharyn Tenn/CJ
Standardized Accounting and Disclosure Regimes	Robert Vogel/CJ

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

ANNEX ONE
WORK PLANS FOR INDIVIDUAL RESEARCH ACTIVITIES

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THEME 1—INSTITUTIONAL AND INNOVATIVE MODELS FOR OUTREACH{ TC "THEME 1—INSTITUTIONAL AND INNOVATIVE MODELS FOR OUTREACH" \F C \L "1" }

Research Topic: Constraints and Potential of State-Owned Retail Banks{ TC "Research Topic: Constraints and Potential of State-Owned Retail Banks" \f C \l "2" }

Hypothesis:
Under the right circumstances, the branch networks of state-owned retail banks can be used to sustainably reach large numbers of customers with a broad range of micro and rural finance services.

Introduction
In many countries, SORBs are the only existing financial institutions in rural areas and have a wealth of assets in terms of branch infrastructure and institutional knowledge that can, under the right circumstances, strategies, and leadership, be leveraged and oriented toward sustainable financial services for microentrepreneurs and small farmers. Poorly planned SORB closures and privatizations have left the rural areas where they operated with no institutional financial service providers, but well-designed and implemented restructuring programs have produced dramatic positive results. Nonetheless, given the poor performance, high cost, and political baggage of countless SORBs, many donors and other experts prefer to ignore or avoid considering these institutions as worthy players in development finance. More needs to be understood and disseminated about how to take advantage of SORBs' assets to develop successful rural and microfinance institutions.

There are four key reasons that SORBs are important for USAID's development finance agenda and FSKG project.

- First, there are a few examples of restructured SORBs that have worked. Strategies to leverage their advantages in micro and rural finance have had dramatic positive impacts.
- Second, preserving the access of low-income firms, farmers, and consumers to financial services, particularly in rural areas, requires that the role of SORBs be addressed.
- Third, increased interest in diverse strategies for restructuring SORBs and refocusing their activities on sustainable micro and rural finance has emerged in recent years.
- Finally, expansion of market-oriented rural and microfinance services in regions where SORBs have a presence necessitates a better understanding of the effect these institutions have on client behavior and competitive performance.

Research Methodology and Results to Date

The team began this research by selecting the following criteria for including institutions in the SORB population for the census.

State-owned: Currently or in the past the institution must have been completely or primarily owned by the state, including national or local governments.

Retail: Currently or in the past the institution must have had retail operations, that is, lending and/or deposit services for individuals and businesses. Institutions that always served as second-tier institutions are not included.

Banks: This category is broad to include postal banks (which usually only take savings), agricultural banks, and other development banks, as well as commercial banks as long as they operate as retail institutions. In some instances, state-owned finance companies or microfinance institutions that have extensive branch networks and have focused on micro or rural finance also have been included in the review.

Second, the team, made up of firms with expertise in different parts of the world and relationships with a variety of institutions, began identifying and collecting data on all state-owned, or formerly state-owned, banks worldwide. The census was completed, cataloging more than 234 SORBs in 68 countries.

Third, the team conducted a literature review that identified existing case studies of SORB restructuring. This literature review was used for the interim report (see below) to refine key issues and trends, and to fill historical gaps (e.g., liquidated SORBs) that may appear in the census.

Based on the results of the census and literature review, an interim report was written presenting the census and typology, highlighting key findings from the interviews and literature review, and identifying a short list of particular SORBs that warrant further research. The following key themes emerged:

- A consensus is building that SORBs may play an important potential role in rural finance.
- Despite advances and successes of SORBs, access to financial services in rural areas remains limited.
- While some SORBs remain low-performing with little positive impact, various strategies including privatization and restructuring have enjoyed more success.
- Diverse strategies are being employed in different regions:
  - Although the trend is toward privatization in most of Latin America, a wide variety of strategies have been employed, and a significant number of SORBs continue to operate with varying degrees of success.
  - The countries of Central Asia, emerging from centrally planned economies and public banking sectors, have chosen different paths for dealing with SORBs, including privatization, restructuring and liquidation of most state banks.
  - In South Asia, SORBs made a major expansion of bank branches and directed credit to agriculture, but the trend has slowed in recent years.
  - Southeast Asian SORBs continue to play a large role in rural banking.
  - The African experience with SORBs is similar to the experience in other regions, though there are few examples of successful transformations and reforms.

The report presents a framework for organizing the types of SORBs included in the census, which is summarized in the following box.

Framework for Categorizing SORBs

A. Collapse and Closure

No alternatives established

Not needed (private sector service providers where SORBs were present)
Not addressed (a void is created when the SORB is shut down)

Alternatives established

Auction of branches to other financial intermediaries
New SORB created for a fresh start
New specialized public financial institution created (e.g. lending agency or second tier entity)

B. Status Quo Government Involvement

C. Continued Government Involvement with Restructuring

Ownership Strategies

Objective is privatization
Objective is continued government ownership

Business Strategies

Exclusive focus on rural and/or microfinance
Create special unit for rural and/or microfinance
Consumer or corporate with no particular focus on rural and/or microfinance

D. Privatization

Sold to private investors as a stand-alone bank

Employee ownership
Initial private offering
Strategic investors

Acquired by another bank and operations merged

An additional category, to be added to the original framework, is the creation of new SORBs or some form of state-owned financial intermediaries focused on rural and microfinance.

Accompanying the interim report were four case studies prepared using secondary published data. The four cases included: Khan Bank (the Agricultural Bank of Mongolia), Banco do Nordeste of Brazil, Banrural of Guatemala and Banco Agrario del Peru. Although these case studies were not among our original deliverables list (and were developed at no expense to the project with the research assistance of interns and junior staff), we believe their inclusion was important to support and more fully illustrate the key findings of the report.

Research Activities During Year Two and Beyond

The interim report provided suggestions for case studies that could be developed in years Two and Three. These included:

- Ethiopia – Amhara Credit and Savings Institutions (ACSI)
- Tanzania – National Microfinance Bank (after its planned privatization in 2005)
- A comparative analysis of microfinance units in state banks such as Egypt - Banque du Caire, Sri Lanka – People's Bank of Sri Lanka, Indonesia BRI and Brazil – Banco do Nordeste
- A comparative analysis of state banks in Central America
- A comparative analysis of different SORB strategies and outcomes in Brazil
- Malaysia – Bank Pertanian Malaysia Agricultural Development
- Kyrgyzstan – Kyrgyz Agricultural Finance Cooperation (KAFC)
- Philippines – Land Bank, Development Bank and Philippine National Bank
- Angola – Banco Paupanca Credito – Credit and Savings Bank
- Senegal – Senegalese Post Bank
- Swaziland – Swazi Bank
- Nigeria – Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB)
- Bulgaria – DKS Bank
- Romania – Romanian Development Bank

From this list, the research team recommends completing the following studies. Each of these cases indicates high learning potential and they cover a variety of geographic and strategic options. Presented together, they help to paint a fuller picture of the diverse experiences and strategies of SORBs in rural and microfinance.

Ethiopia—Amhara Credit & Savings Institution (ACSI). This legally registered microfinance institution is not a formal bank, although it is supervised by the Central Bank. ASCI is permitted to lend and to mobilize deposits, and is effectively controlled and partly owned by the state. ACSI transformed from an NGO in 1995 into one of the largest microfinance institutions in Ethiopia, currently serving more than 300,000 clients. Its outstanding loan portfolio is more than $20 million. The institution makes predominantly agricultural loans using a group lending methodology through its regional network of 10 branches and 162 sub-branches. One of its main sources of funding is client savings (May 2003: $12 million). The balance comes from donors, equity, and the state-owned Commercial Bank of Ethiopia. MicroRate completed an evaluation of the institution in July 2003, noting its remarkably low operating expense ratio (7.5 percent), its good portfolio quality (3.6 percent portfolio at risk over 30 days), and strong state government support. However, MicroRate also noted a key weakness: the state continues to have firm control of the institution, which carries the risk that political considerations will substantively influence management decision making. Already ACSI is used to disburse ineffective agricultural input loans (at no direct risk to ACSI). ACSI's loan prices are considered to be still well below any others MicroRate has documented in more than 100 African and Latin American microfinance institutions. ACSI offers an excellent learning opportunity with respect to state and private partnerships in the delivery of financial services to the poor with a particular rural focus.

Philippines—Land Bank, Development Bank, and Philippine National Bank. This case study will focus on the role and performance of the Land Bank as compared to the Development Bank and the Philippine National Bank, three public banks in this country. The Land Bank of the

Philippines has never required any rehabilitation. The Development Bank of the Philippines (DBP) and the Philippine National Bank (PNB) each has required at least one very costly rehabilitation although their assigned tasks are less challenging than those facing the Land Bank. The major roles of the Land Bank include being an implementing agency involved in land valuation, compensating owners of confiscated private agricultural lands, collecting amortizations from agrarian reform beneficiaries, providing credit assistance to small farmers and fisherfolk, and being an official depository of government funds and a government bank with a social mandate to spur countryside development. It has a network of 350 branches and bank units,and 301 ATMs. The DBP is classified as a development bank and may perform all functions of a thrift bank. Its primary objective is to provide credit services, principally for the medium- and long-term needs of agricultural and industrial enterprises, with emphasis on small- and medium-scale firms. The DBP also supports the growth of domestic capital markets and is the country's major conduit of funds from multilateral and bilateral donor institutions for official development assistance programs and grants. The DBP's developmental thrust also includes program-type lending to strategic sectors including infrastructure, transportation, telecommunications, power and energy, small and medium enterprises, agriculture and food security, education, health care, housing, microfinance, and environment. The PNB began a privatization program in 1989 when 30 percent of its outstanding stock was offered to the public and it was listed on the stock exchange. In 1992, a second public offering of its shares was made to continue its privatization. The PNB remains one of the largest banks in the country, with a wide array of banking products to respond to the diverse needs of its huge clientele, including more than two million depositors.

Brazil, Egypt and Indonesia – Comparative Analysis of Microfinance within SORBs. Successful SORB cases that focus on rural and microfinance, such as BRI and Banco do Nordeste have been documented but merit additional, focused research under FSKG. Specifically, in the case of these two SORBs, combined with one or two other less well known examples, a comparative analysis highlighting the lessons of how a microfinance unit can function and perform well in terms of outreach and sustainability within a SORB that continues to be state owned (and itself might show poor financial and operational results) would provide useful lessons on the conditions required for success of such programs. State-owned **Banco do Nordeste's** new business focus on market-oriented financing for micro and small businesses in the impoverished northeast region, made possible by technical and financial assistance from the World Bank and other donors, is expanding rural outreach for some of Brazil's poorest citizens while maintaining financial viability. Despite the challenges presented by Brazil's current left-leaning political leadership, Banco do Nordeste proves that state-owned banks can fill the gap left by commercial banks and microfinance institutions on a sustainable basis. The program is one of the largest in Latin America in terms of number of clients (138,497). It has an average outstanding loan size of $185, and 49 percent women borrowers. There are more than 265 branches located in 195 municipalities of the northeast region. Banco do Nordeste is sustainable, covering its costs through operational revenues. Other less-known examples that are being considered in this category include **Banque du Caire**. This is one of four state-owned banks that dominate the Egyptian market. Established in 1952, it is the third largest bank in Egypt by asset size. The bank operates a retail network consisting of 224 branches and other units, giving it a strong position in the domestic retail market. It was the first Egyptian bank to turn its attention to microlending. In 2003, it made loans to about 100,000 families, and the experience reportedly showed remarkable success. Currently, it reports serving more than 60,000 such clients, but the overall financial performance of the bank is problematic.

If additional funds were to become available, the team suggests the comparative analysis of diverse strategies and experiences of Central American SORBs. More details on this study are included in the interim report.

In collaboration with the CTO, we may wish to expand the number of in-depth cases by seeking co-financing for the study of agricultural development banks through the Rural Finance task order issued under USAID's RAISE IQC.

Limitations of Research

Institutional access and budgets limit the case study research. To mitigate the institutional access issue, we have selected researchers that have some type of established relationship with almost all of the institutions selected. Additional follow up with each institution will be required to ensure openness and access to required information and people before embarking of field work. It is also suggested that representatives from the selected institutions be invited to participate in the seminar as an incentive for more open information sharing and analysis. The budget limitations have been overcome in part by placing a heavy emphasis on the literature review and the development of the SORB census. For the field research, we will take advantage of experts with knowledge of the selected institutions and incorporate local researchers into the teams in the Philippines and Brazil.

Given the limited LOE, the development of the additional deliverables defined for this topic will have to be postponed until the remaining level of effort is approved and allocated for this topic. These deliverables include a synthesis report that combines the findings from case studies and highlights factors leading to success and failure; a tool useable by donor staff needing to make an initial assessment of the feasibility of restructuring a particular SORB around a commercial microfinance mandate; and the brief guide for donors looking to assemble the multiple resources that a successful restructuring may require.

Audience for Research and Deliverables

The primary audience for the research is the staff of USAID missions and other donor institutions. We expect the research will also generate considerable interest on the part of governments, private sector banks and MFIs. Additionally, with growing interest by donors, policymakers and practitioners in rural and agricultural finance, we have seen interest in the potential of using the extensive branch networks for state banks as a way to undertake rural finance. Thus, the lessons learned about SORBs will have their greatest implications for those interested in expanding and undertaking sustainable rural finance.

Intended or Possible Venues/Channels for Dissemination

The research team proposes a seminar to present and discuss the findings of the case studies and to invite speakers that could present other relevant initiatives and cases related to SORBs in rural and microfinance.

The interim report, resource guide, census and summary cases should be posted on the microLINKS website. Once completed, the case studies, seminar presentations and a summary of the seminar discussions should be posted as well. A synthesis report should be emailed directly to all USAID project officers responsible for financial sector development, microfinance, and rural and agricultural finance. We also believe that the SORBs studies may be a good addition to a higher profile event focused on banks in micro and rural finance. Ideally, such a workshop should be timed to coincide with the annual meetings of the World Bank and IMF.

Timetable for Year Two

Final confirmation and scheduling field visits with each bank selected should take place no later than January 31, 2005. Then the lead researcher for each case should present a research guide that outlines the key questions, data required and interviews requested for each study. This should be vetted with the research leader for this topic and USAID as appropriate. It is expected that field research will be completed by mid April, presenting an outline of the case study to be vetted with the research leader and USAID by the end of April and the draft case studies presented by the end of May. The seminar could then be organized for June 2005.

LOE and Selection of Firms and Personnel

The following is a preliminary distribution of LOE for the case studies and overall coordination of this topic. The final allocation will be made once the bank participation and visits are confirmed and local researchers are finalized.

Additional LOE that is already allocated for this topic in this year will be used for the seminar preparation and participation.

Name	Key Task	Level	Firm	New LOE 2005
Robin Young, Research Manager	Research Manager and Banco do Nordeste Case Study	I	DAI	23
Local researcher in Brazil	Banco do Nordeste Case Study	TCN	DAI	10
Zan Northrip	Banque du Caire	I	DAI	12.5
Local researcher Egypt	Banque du Caire	TCN	DAI	10
Don Johnston	BRI	I	DAI	10
Robert Vogel	Land Bank case study, review and comment on all cases	I	IMCC	10
Local researcher in Philippines	Land Bank case study	TCN	IMCC	5
Gerhard Coetzee	ACSI	TCN	ECI	0
Gerda Piprek	ACSI	TCN	ECI	0
Phetsile Dlamini	ACSI	TCN	ECI	11.75
Neil Brislin	ACSI	TCN	ECI	13
TOTAL				105.25

Research Topic: Commercial Banks and MFI-Commercial Bank Linkages{ TC "Research Topic: Commercial Banks and MFI-Commercial Bank Linkages" \f C \l "2" }

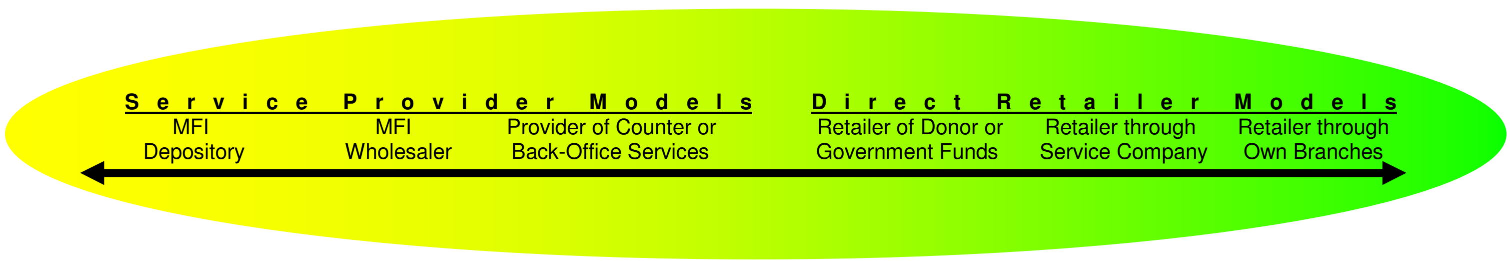
Hypothesis

Commercial banks—as partners of MFIs and as direct retailers to microenterprises and low-income households—can expand the breadth and depth of microfinance markets.

Introduction

Commercial bank participation in microfinance markets can be analyzed along a continuum. At the left, commercial banks act as service providers to MFIs—holding deposits for non-regulated institutions, providing wholesale credit, or, at a more intimate level, providing treasury, counter, or back-office services to one or more microfinance retailers. Near the center of the continuum, commercial banks begin to act as microfinance retailers themselves, but use subsidized funds to build their loan books. At the right, commercial banks put their own funds at risk in microfinance retail operations delivered through a subsidiary service company or through the bank's own fully integrated branch network.

Continuum of Commercial Bank Participation in Microfinance Markets



The point along the continuum at which a commercial bank operates will be influenced by external and internal factors. External factors include the competitiveness of local and national financial markets, macroeconomic stability and regulatory policies, the presence of government or donor programs that encourage or subsidize market entry, and the size of the microenterprise sector itself. Internal factors include market strategy, bank leadership, branch infrastructure, liquidity, and the bank's historical participation in similar client segments, such as consumer and small enterprise.

Research into this topic began under the Microenterprise Best Practices project and has continued and expanded in response to growing interest in the field. However, key questions and gaps in our understanding of the potential for commercial banks in microfinance remain. The broad array of linkages requires a more refined typology and analysis. The impact of donor subsidies designed to encourage banks to enter the microfinance market should be evaluated. The profitability of commercial banks as direct microfinance retailers should be documented, and the range of strategic and operational options for commercial banks launching microfinance services should be explored and presented in a pragmatic, user-friendly format.

With the continuum as a framework, AMAP FSKG research on commercial banks and will consist of two sub-topics:

1. MFI-Commercial Bank Linkages
2. Commercial Banks as Microfinance Retailers.

The two subtopics complement one another, as well as other investigations underway. In addition to expanding the knowledge base of the industry, they will create valuable tools for donor programmers and for MFIs and commercial banks looking to launch or expand microfinance services.

Subtopic 1: MFI-Commercial Bank Linkages{ TC "Subtopic 1: MFI-Commercial Bank Linkages" \f C \l "3" }

Hypothesis

Linkages with MFIs can create profit opportunities for banks. MFIs that can quantify the value of the linkages they offer will be able to attract greater bank interest and obtain lower cost, higher quality services for themselves and their clients.

Introduction

The potential benefits of MFI-bank linkages have been of interest to donors and practitioners for some time. Some examples of highly formalized strategic alliances between banks and MFIs were recently documented by ACCION—Sogesol with Sogebank in Haiti and Credife with Banco del Pichincha in Ecuador.

The above mentioned alliances are between banks and the service companies they established to commercialize microfinance. There are, however, far more MFI-bank linkages created out of necessity by a nonbank MFI, typically because of legal restrictions or because the MFI lacked the capacity to perform a service. A simple example of this type of institutional linkage is a village bank keeping its mandatory group savings in a commercial bank and making payments on its loan to the MFI by depositing funds into the MFI's account with the same bank. The bank typically notifies the MFI the loan payment has been received, but otherwise provides no more service than it provides to any other depositor.

The type of relationship described in the example above probably was not developed as part of a strategic plan, but more likely evolved as the MFI required additional services to support growing, day-to-day operations. The MFI may have wanted its clients to obtain access to some bank services (such as safe savings) and may have needed some services itself (such as safe tellers and deposit management). However, the MFI may not have considered fully which bank or banks would offer the best services, or whether some services might be better provided by the MFI itself. It is unlikely management undertook a quantitative and qualitative cost/benefit analysis as part of its decision-making process. Finally, the MFI likely does not utilize its leverage with the bank—generated as the anchor for significant deposit and new customer relationships—to negotiate better terms and service levels.

MFIs would be better served if they could speak to bankers in banking terms. Banks are in business to generate a profit and that a portion of those profits should be attributable directly (e.g., fees for the processing of MFI loan repayments) or indirectly (e.g., lowered cost of funds from increased savings by MFI clients) to a bank's relationship with an MFI. If an MFI could present a comprehensive analysis of the potential customer relationship it is offering to a bank, it could negotiate from a position of greater strength, gaining important benefits for itself and its clients.

Research Objectives

The objective of this activity is to create useful tools for MFIs developing linkages with banks. As a starting point, the research team will document the range of bank-MFI linkages, including lending and deposit relationships, loan windows, service company relationships and purchase of operational services such as loan processing and treasury functions. Next, drawing on cases documented in the first step, the research team will create tools—including cost/benefit analysis sheets and tips for negotiating and working with banks—that can be used both as templates for MFIs structuring bank relationships or as analytical inputs in assessing the feasibility of developing in-house capacities.

CGAP currently is planning a survey of bank-MFI relationships, and activities conducted under the first step will be coordinated closely with CGAP. However, the AMAP work will go beyond anecdotal examples of bank-MFI cooperation to develop better documentation of costs, profit margins, volume, transaction sizes, and risk mitigants that make the bank-MFI linkage advantageous for both sides.

Research Methodology and Results to Date

During 2004, the DAI team developed and documented a list of bank-MFI linkages from among its projects, from information provided by USAID staffers, from the CGAP study, and from other sources. This list was discussed and vetted with CGAP, which has been undertaking similar research to that of AMAP. In an effort to reduce redundancy with CGAP's work, a few early cases were selected that would be more fully documented, particularly with costing and profitability information. These first case suggestions included the linkage between FIE and Promujer in Bolivia, and the linkage with Afriland bank and the MC2 network in Cameroon. The FIE/Promujer cases was selected to be the first linkage case that the team would research and document.

Field research was undertaken in Bolivia in conjunction with John Berry from the Microenterprise Division. The field research included an in-depth review of the agreement between the two institutions, interviews with management, focus group discussions with clients and other interviews with industry practitioners and donors involved with the linkage. Additionally, significant financial analysis was done of the linkage to understand the cost and profitability issues involved. A draft of the case is currently being reviewed by USAID.

In additional to the Afriland case (which is not likely to be considered since it is not a USAID presence country), three potential cases are being drafted by DAI and will be submitted to USAID for consideration. These are: Cashpor and its linkage with ICICI Bank, UTI Bank and Birla un Life Insurance in India and AMEEN partnership with Jamal Trust Bank and two other banks in Lebanon. The cases will be selected based on different types of linkages, different MFI sizes/legal status/competitive environments, geographic distribution, data accessibility, and regional diversity.

Research Activities During Year Two and Beyond

During year two of the research activity, DAI will begin work on three additional case studies (one using remaining LOE from days approved for 2004) and two case studies with new LOE.

Additionally, we plan to complete a summary paper that looks at the aggregate data and lessons learned from a variety of different linkages. Finally, we will also develop templates (financial analysis formats and non-financial checklists) for specific types of linkages.

Limitations of Research

This type of analysis will require site visits and an unusual level of disclosure from both the bank and the MFI. In the end, the case studies developed as a part of the task will likely be fictionalized. The templates should be universally applicable and adjustable.

Audience for Research:

The principal audience for the template products will be the MFIs themselves, to be used in a capacity building and professionalizing process. The case studies and summaries of bank-MFI linkages will be broadly useful to all microfinance stakeholders, and may be specifically useful as information to provide to banks with whom MFIs are seeking to develop linkages. The tools will also be useful for USAID staff involved in designing and supporting MFI-bank linkages in diverse environments.

Intended or Possible Venues/Channels for Dissemination

Dissemination of the typology, cases, and tools will take place through microLINKS and through USAID-supported microfinance projects. Much of this work could usefully be adapted as a training course, an initiative on which we would be pleased to collaborate with the AMAP Knowledge Management Contractor. Such a course could be distributed through the CGAP and SEEP learning networks. Finally, the research could be presented at a conference specifically focused on banks (commercial and state) in microfinance that would showcase much of the bank related research undertaken by DAI.

Timetable for Research

The following products will be delivered on the estimated schedule below:

Case studies of selected linkages (end of Q4) → MFI-bank summary report (end of Q1 2006) → Development of Tools (end of Q4)

LOE and Selection of Firms and Personnel

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

Name	Level	Firm	2005 LOE
Mary Miller	I	DAI	15
Hillary Miller Wise	II	DAI	12
TBD	II	DAI	8
Robin Bell	I	Bannock	10
TBD	I	TBD	10
		Total	55

Subtopic 3: Commercial Banks as Microfinance Retailers{ TC "Subtopic 3: Commercial Banks as Microfinance Retailers" \f C \l "3" }

Hypothesis

Commercial banks acting as direct microfinance retailers can play a significant role in expanding the breadth and depth of microfinance markets.

Introduction

Private commercial banks continue to provide the vast majority of financial services in terms of loan and deposit value in developing countries. Most of their services are aimed at the middle market and above, but a few private banks have expanded their market presence and now provide large volumes of financial services to microentrepreneurs and other low-income populations. Market forces, regulations, leadership and donor assistance have all helped encourage banks to enter this market. However, many of the commercial bank microfinance programs fail to reach significant scale despite the institutions' existing infrastructure and other resources. The reasons for such disappointing outreach results are many, but three factors stand out:

- Bankers do not clearly understand or accept, and therefore resist, the operational changes that need to be made to succeed in the microfinance marketplace;
- Bankers are not convinced of the profitability of the product (in terms of net operating margin); or
- Bankers are convinced of the margin but become impatient with slow growth in volume (in terms of total portfolio and hence absolute net income) compared to other lines of business and therefore do not make the investments required to scale up.[1]

In some cases, these factors lead bankers to cut microfinance product lines completely. In other cases, microfinance product lines are permitted to continue—perhaps for political reasons—but languish from the neglect of senior management.

Several papers have been written on examples of commercial banks that offer microfinance, either directly or through subsidiary operations, and additional research is underway (i.e. a book to be released in December edited by Malcolm Harper and CGAP documents best practices and bank profiles). These papers tend to focus on why commercial banks are potential partners, best practices of commercial bank downscalers, remaining challenges, and general case studies. However, explicit analysis of the profitability of microfinance in a commercial bank and

[1] While most bankers quickly see the net financial margin on microenterprise loans is very high, they often are skeptical that the product is profitable based on the significant transaction costs involved. Moreover, even if they acknowledge the microfinance portfolio generates a net profit, the total net income may not be sufficient to attract significant attention within the bank in comparison to other product lines with larger volume and larger net profits.

short, practical, technical notes written by and for bankers to evaluate their options in microfinance do not exist and are of great interest to bankers and donors alike.[2]

To address the challenges of commercial bank downscaling into the microfinance market and add to the knowledge of commercial bank microfinance, the DAI AMAP consortium will prepare a technical note that will serve as a decision-making tool for senior management and directors and will conduct two case studies focusing on the profitability of microfinance operations in commercial banks.

The management brief will lead bankers through the strategic and operational options they have in designing and implementing a successful microfinance program, with success defined as profitability and growth.

The profitability analysis case studies will examine one bank that has implemented microfinance within its existing operational structure (as a department or operating unit) and another will examine a subsidiary service company.

Research Objectives

The objective of these papers is to assist bankers and those advising banks on microfinance programs to evaluate their options in the design and implementation of a successful microfinance program and to understand the profitability of microfinance in commercial banks.

Through this research activity, the research team will develop practical tools to help bankers realistically determine if microfinance is an appropriate business line for their institutions. If their decision is affirmative, the papers will walk them through their options – drawing on examples from real banks, providing quantitative benchmarks where available, and explaining the pros and cons of different decisions. The papers will assist bankers to identify problems that arise in design and implementation as well as possible preventative measures and solutions for such situations. Furthermore, we expect these papers will help staff at USAID Missions understand what it requires for banks to succeed at microfinance. Finally, although it has been said that microfinance can be profitable, we hope to demonstrate with real data how profitable microfinance can be in different environments and within different organizational structures. The ultimate objective is to further the understanding and success of commercial microfinance, so as to improve the access, terms and conditions of financial services for microentrepreneurs.

Research Methodology and Results to Date

In 2004, the DAI team began work on four deliverables. First, the team developed a technical primer on banks in microfinance, drawing heavily on their own experience advising commercial banks with downscaling, and interviews with commercial bankers on their experience deciding if and how to offer microfinance as well as their experiences during implementation. This primary research included a review of the existing literature on product development and commercial banks in microfinance (see MBP and CGAP papers on these topics). It examined legal and organizational models, product offerings and design, staff selection and development, compensation packages including incentive systems, marketing, promotional and collection techniques, credit technologies, costing, pricing and profitability, technology and information

[2] See Liza Valenzuela's paper "Getting the Recipe Right" which cites the concern of commercial bankers to determine profitability and lack of clarity on how they have determined whether microfinance is profitable.

systems, etc. The draft paper and an accompanying microNOTE on observations for USAID missions were submitted to the Microenterprise Development office and reviewed. Edits, additions, graphics and new examples are currently being incorporated into the primer and microNOTE. We hope to circulate the next version of the draft to a broader audience of practitioners and donors to get further input on the content of the paper. This will also ensure greater richness of examples.

In additional to the Primer, the DAI/ACCION team identified two banks which were interested and willing to participate in a study that looked at cost and pricing data of their micro loan product. The team secured the participation of Credife/Banco del Pinchincha in Ecuador and Hatton National Bank in Sri Lanka. The research team visited the banks during the summer of 2004, conducting interviews with staff and management, collecting the required data for analysis and presenting preliminary findings to each bank. The research team prepared an interim report on each bank including preliminary results and challenging issues (including growth/volume, methodologies for cost allocation, etc.). These drafts were then vetted with the management of each bank before they were finalized and submitted to USAID in November 2004. We are currently awaiting comments from the Microenterprise Development Office.

Research Activities During Year Two

During 2005, the research team will visit each bank a second time to understand how far each institution has advanced with respect to tracking specific cost and revenue information associated with its loan product. In the case of Hatton Bank, the team will look at how the institution has moved, they will look at how their management information systems have advanced in tracking more closely revenue and expenses associated with the its microfinance loan product, *Gami Pubuduwa* product, as well as how if it has attributed other revenue from deposits and the cross selling of other products and services. The intent is to measure if and how Hatton have made operational changes to improve the loan officers' productivity and compare performance one year later.

In the case of Credife/Pinchincha, the focus will be to see how far the bank has moved in tracking revenue from the micro loan product and its relationship to deposit mobilization, graduating clients, cross selling etc. Overall the aim is to see if the bank has resolved issued related to full profitability analysis of the microfinance operations, as well as to compare performance one year later.

Limitations of Research

The key limitation will be banks' willingness and ability to share cost, income, and profitability data. Securing access to the data will require that the researchers exploit existing technical assistance or affiliate relationships. Another limitation is that commercial banks are still experimenting and refining different models and approaches to microfinance in terms of organization, technology, and a variety of other variables. While a cogent analysis of the current situation is urgently required, the paper's recommendations will need to be revisited as the industry evolves.

Audience for Research and Deliverables

The primary audience for this technical note and the profitability case studies will be bankers, particularly senior management and directors responsible for strategic and operational decision-making as well as for middle level managers responsible for program implementation. A secondary audience will be USAID staff and contractors responsible for designing, implementing and evaluating microfinance programs with commercial banks.

Intended or Possible Venues/Channels for Dissemination

The papers can be sent directly to USAID professionals (mission staff and project contractors) working with commercial banks or considering microfinance projects with commercial banks. The papers will also be sent to CGAP MBA programs for integration into course work, and the project will seek out relevant conferences and training programs at which to present the findings. Another possible venue would be a seminar in Washington, perhaps conducted jointly with CGAP, to present current commercial bank research. Finally, all the publications will be available on microLINKS.

Timetable for Research

Activities will be completed according to the schedule estimated below:

Case studies follow-up report (end of Q3 2005)

LOE and Selection of Firms and Personnel

A total LOE of 23 days has been allocated to complete this research, which will be managed by Robin Young of DAI. Our proposed allocation of LOE appears below.

Name	Level	Firm	2005 LOE
Nancy Natilson	I	DAI	6
Lynne Curran	I	ACCION	6
Deborah Drake	I	ACCION	1
Robin Young	I	DAI	10
		Total:	23

THEME 2—MARKET RESEARCH AND NEW PRODUCT DEVELOPMENT{ TC "THEME 2—MARKET RESEARCH AND NEW PRODUCT DEVELOPMENT" \F C \L "1" }

Research Topic: Housing Products{ TC "Research Topic: Housing Products" \f C \l "2" }

Hypothesis

Although an MFI market in long-term mortgage lending is still some years away, the industry may now be poised for a significant evolutionary advance: the ability to bundle simple housing plans and a medium-term loan (three to five years) into a package that will be affordable without subsidy for a significant segment of microfinance customers. Analysis and knowledge-sharing of current innovations in housing microfinance can catalyze adaptation and replication of these technologies across the microfinance industry. In addition, action research with MFIs experienced in housing microfinance can provide valuable lessons in the transition from incremental housing microfinance to whole-house lending.

Introduction

Homes are the primary asset of the poor, but conventional microfinance loan terms are generally ill-suited to all but the most minor home improvements. In response to clearly articulated client demand for progressive-build financing, a number of MFIs have, over the past 10 years, begun offering loans for more extensive home improvements as part of their overall lending portfolios, without offering formal mortgages. Often these loans include construction advisory services that provide information about housing designs and appropriate housing materials. Although an MFI market in long-term mortgage lending is still some years away, the industry may now be poised for a significant evolutionary advance: the ability to bundle simple housing plans and a medium-term loan (three to five years) into a package that will be affordable without subsidy for a significant segment of microfinance customers. Achieving this objective will require experimentation with loan size, loan term, security, and other factors.

Research Objectives

The purpose of this project is twofold: 1) to deepen knowledge of successful MFI housing microfinance programs in markets where there is also demand for whole-house finance; 2) to conduct action research which will advance the development of whole-house finance technologies.

Research Methodology and Country Selection

As a topic of interest to both the microfinance and urban development communities, we propose case studies in two pilot sites, El Salvador and South Africa, where MFIs are already competent in housing improvement microfinance and where there is demand for whole-house finance. This research will look at the innovations that these institutions have developed, the market constraints to housing and home improvement finance, and the loans being made (by term, amount, conditions, and interest rate).

As a follow-on activity to this research, an action research study will be undertaken in El Salvador with an ACCION affiliate, Integral, which is already engaged in home improvement lending and is interesting in moving into providing whole-house loans. This action research will entail standard market research, product design, pilot, assessment, and roll-out stages.

Audience for Research and Deliverables

The audience for the project will be the microfinance field at large, where interest is increasing and demand is high for additional research and knowledge sharing. There will be a special emphasis towards MFIs that are moving into the housing finance and particularly the whole-house finance market. In addition to the microfinance industry, the research will address the housing finance industry at large, including public sector programs that wish to increase their outreach and private sector financers that seek to expand their housing finance portfolio. The research will also assist USAID missions and staff to both design and evaluate programs with a housing finance component.

Intended or Possible Venues/Channels for Dissemination

In addition to delivery through microLINKS, we will make the research available on the ACCION website and distribute it directly to affiliates in 22 countries. It will also be available through the Urban Institute's research distribution forums. We will also ensure delivery to the Microfinance Network, an association of 30 leading microfinance institutions, which has recently organized a housing working group. ACCION's on-going work with Cities Alliance and DFID will provide yet another channel for dissemination to a wide audience of practitioners and donors in the housing microfinance field.

Timetable for Research
LOE and Selection of Firms and Personnel

The Housing Products research topic has a proposed LOE funding of 300 days. Changes in staffing with our subconsultants has required a higher utilization of Level I and II labor, which has reduced the total LOE to 266 days for a similar dollar value (original budget of $184,763 compared to this revised budget of $180,799).The allocation for the current year is proposed at 50 days. Discussions are on-going among USAID, DAI, and our subcontractors to determine which activities will provide the most value towards the achievement of the overall research goals, with this initial allocation of 50 days.

The overall research agenda will be led by Sally Merrill, Urban Institute's housing expert. Urban Institute's Harold Katsura and Douglas Diamond will undertake the two-country study, in conjunction with ACCION. In South Africa, Urban Institute will also collaborate with Roland Pearson and Dominique Bouwer from ECI, who bring direct experience in the field and established relationships with the MFIs. The ACCION team (including Monica Brand, Richard Schumann, Mery Valenzuela, and Ever Cortez) will then lead the action research in El Salvador. These two activities will build on existing housing microfinance efforts funded by DFID and Cities Alliance, reducing the overall cost of the action research.

Name	Level	Firm	LOE
Sally Merrill, Research Leader	I	Urban Institute	15
TBD	II	Urban Institute	48
Douglas Diamond	III	Urban Institute	18
Monica Brand	I	ACCION	4
Richard Schumann	II	ACCION	63
Mery Valenzuela	CCN	ACCION	30
Ever Cortez	CCN	ACCION	20
TBD	CCN	ACCION	33
Dominique Bouwer	CCN	ECI	17
Roland Pearson	I	ECI	18
		Total:	266

Research Topic: HIV/AIDS-Responsive Products and Services{ TC "Research Topic:HIV/AIDS-Responsive Products and Services" \f C \l "2" }

Hypothesis

Products and services can be geared toward the unique needs of HIV/AIDS-affected clients, expanding access to financial services for disadvantaged populations and improving portfolio quality for MFIs.

Introduction

Product flexibility is essential to maintain access to financial services by AIDS-affected or HIV-infected clients. Some MFIs are beginning to innovate in order to serve this clientele, but the pace remains slow. For many MFIs, innovation for serving this clientele stops at the development of insurance products. In addition, capturing and sharing product innovations is difficult, and quantitative evidence of the impact of such innovations is non-existent. Finally, many MFIs also lack adequate risk management strategies and other back office operations to monitor and maintain portfolio quality while serving this clientele.

Through the leadership of its permanently staffed HIV/AIDS Response Team (HART), DAI has worked to address the impact of HIV/AIDS on clients and institutions. Under MBP, DAI and its partners developed a number of tools specifically tailored to MFIs. The information and tools were well received, and a few institutions made product modifications. Many other MFIs, however, hesitated to adjust their products, primarily for lack of technical guidance, fear of repayment problems associated with HIV/AIDS-affected clients, and uncertainty as to the impact of product adjustments on existing product lines. Still other MFIs have resisted making any institutional changes, ignoring the devastating impact of HIV/AIDS that surrounds them.

Through this activity, MFIs that are already innovating around HIV/AIDS—or those that are poised to innovate—will work with FSKG to improve their products, services, and delivery mechanisms, and to establish a monitoring component to capture the impact of modifications on front and back office operations, as well as clients (including such issues as attendance, repayment, and retention rates). Possible innovations include:

- Emergency deposit services
- Children's trust funds
- Differentiated interest payments on individual loans
- Short term emergency (consumer) loans
- More flexible group loans that permit skipping loan cycles
- Youth income generation loans (for youths over 14 in age)

MFIs will be selected from heavily HIV-affected countries, short-listed through an invitation process, and selected based on the clarity of their innovation concept and capacity to implement the planned innovation. AMAP's contribution will primarily be in the form of technical advice at the design, pilot launch, testing, and end-of-pilot stages, as well as financial support for data collection and analysis. Results from the new product activities will be documented and shared broadly with USAID missions in the region and with other MFIs.

Research Objectives

The objectives with respect to the dissemination of HIV/AIDS Responsive Products and Services are:

1. Design, test and launch new or modified products, services and/or delivery mechanisms that respond to clients affected by HIV/AIDS.

2. Disseminate to the microfinance community research on tested products, services and/or delivery mechanisms that help MFIs respond to clients affected by HIV/AIDS.

3. Assist MFI leadership to manage risk and maintain portfolio quality while serving clients affected by HIV/AIDS

Research Methodology and Country Selection

The principal goal of this project is to support and document the development of products, services and/or delivery mechanisms that respond to the special needs of microfinance clients living with or directly affected by HIV/AIDS. A first priority will be to further the work begun under the *Defining Options* activity, through which MFIs will generate specific ideas for product and service innovation around HIV/AIDS. MFIs requiring assistance in operationalizing their innovations will be able to request it under this activity.

The activity can also be used to support innovations among MFIs not attending a *Defining Options* training. DAI will issue an open invitation to MFIs in HIV/AIDS-affected areas to submit proposals for product or service innovation. A short list of MFIs will be selected based on the clarity of their innovation concept and capacity to implement the planned innovation

For new or modified products and services, DAI will support the collection of quantitative and qualitative data regarding demand. This data will provide the foundation for the design of the product/service. DAI can also provide technical advice on pilot testing and product rollout. For back office operations, DAI will provide technical advice on reengineering policies and procedures in order to lower risk and maintain portfolio quality while serving HIV/AIDS-affected clients.

DAI will document the product development process and/or reengineering of policies and procedures with an eye toward sharing best practices with the microfinance community.

Limitations of Research

The level of effort allocated to this topic is likely to be smaller than the demand from MFIs. Innovations around HIV/AIDS present an excellent opportunity, however, to link MFIs with the small grants mechanism managed under AMAP Support Services.

Audience for Research and Deliverables

The primary audience is made up of MFIs. USAID staff responsible for microfinance programming—especially for disadvantaged populations—will also find the research valuable. The final report will:

- Document the product innovations around HIV/AIDS made by MFIs with support from FSKG (or the AMAP small grants program);
- Synthesize the innovations and make recommendations as to those most likely to be replicated successfully in other MFIs; and
- Provide recommendations on the implications of the research for programming by USAID and other donors.

Intended or Possible Venues/Channels for Dissemination

The research team will disseminate the results of this activity through a variety of channels in order to reach a large swath of the microfinance community.

Timetable for Research

This activity will begin in the second quarter of 2005 after at least two additional deliveries of the *Defining Options* training have been completed. It is expected to be finalized by mid 2006.

LOE and Selection of Firms and Personnel

A total LOE of 85 days has been allocated to this research topic, which will be managed by Colleen Green of DAI. 28 days were approved in year one, leaving a remainder of 57 days for year two. However, by utilizing TCN labor we were able to obtain 39 days LOE in year one, and anticipate providing 80 days LOE in year two, for a lower total dollar value ($79,512 as compared to the original approved labor total of $79,642). This topic is part of ongoing discussions with Activity Manager Evelyn Stark

Name	Level	Firm	LOE approved 2004	LOE 2005
Colleen Green	I	DAI	10	13
Frances Fraser	TCN	ECI	13	22
Petronella Chigara	TCN	ECI	14	20
Anita Fiori	III	DAI	2	5
TBD	TCN	DAI	0	20
		Total	39	80

Research Topic: Remittances{ TC "Research Topic: Remittances" \f C \l "2" }

Hypothesis:

Having a one-stop source for information on remittances can aid development practitioners and donors in making new programming decisions that lower the cost of transactions to the end client, improve regulations and foster new service alliances, particularly at "the last mile".

Introduction:

Since the mid-1990s when remittance flows surpassed the volumes of official development assistance, the topic of remittances has been increasingly important for international donors and practitioners. Now it has gained a solid place in development finance discussions.

Against this background, USAID has an interest in bringing together and learning from previously often disjointed and isolated work on remittances around the globe. Among the many facets of remittances, the greatest interest is in remittances sent and received by un- or under-banked populations, with a particular focus in contributing to a better understanding of how to improve the bottlenecks in conventional financial systems and infrastructures which affect remittances. Key topics include:

- Lowering transaction costs through the improvement of access through nearer, faster, cheaper, more transparent service markets, particularly at 'the last mile';
- Fostering service alliances between remittance receivers and other financial institutions to improve or expand linked product and service offering; and
- Removing policy and regulatory barriers that improve service and lower cost to the end user.

Research Objectives and Results to Date:

The research objective is to provide a virtual newsletter on remittances to USAID staff and relevant project partners, and available to the entire development finance industry, so as to improve remittance related programming. This activity highlights current information being circulated about remittances, and provides opportunities for updates, exchange, good practice highlights, and debate among USAID staff and projects. The newsletter provides a mixture of short articles, abstracts of recent or key studies, and highlights of new initiatives and innovative approaches.

The quarterly newsletter is distributed through an extensive distribution list and posted on the microLINKS website. Data is gathered from a diverse set of sources, building primarily on professional networks. Information for the newsletters is generated primarily but not exclusively through:

- Existing networks of remittance contacts which we have established and will continue to grow among donors, researchers, commercial financial and money transfer services, NGOs, and others;
- Contacts with USAID staff around the world; and
- Internet searches.

The DAI team has developed an extensive subscriber list of over 230 members through promotion of the remittances newsletter. The first quarterly newsletter was released in August 2004. It was distributed to the subscriber list and posted on the microLINKS website, where it has been viewed 728 times as of November 2004. The topics covered in the introductory newsletter included:

- Migrant Remittances: Overview and Issues
- Data on Global and Regional Flows of Remittances
- Intra-Regional and Domestic Remittances
- Remittance Transfer Channels
- Trends in Money Transfer Services
- Initiatives
- Information/Links
- New Publications or References

DAI subcontractor Bannock Consulting also circulated a *Migrant Remittances Newsmail*, which announced the topic for the second newsletter, asked for contributions, and provided a list of upcoming events and recent publications.

The second newsletter is currently in production, and will be finalized in November 2004. This issue will focus on domestic and intra-regional remittances. Potential topics include:

- Argentina - Paraguay remittance streams, based on a study by Patricia Weiss-Fagen on intra-regional remittances
- Remittances between Costa Rica and Nicaragua by Manuel Orozco
- Overview of remittances to Guatemala from the IOM
- Internal migration and the development nexus: the case of Bangladesh
- Updates on initiatives from CGAP, DFID/IATF, ILO and others

Audience for Research and Deliverables:

The target audience for this research is a broad group of microfinance and enterprise practitioners, with a special emphasis on USAID missions and staff. A large effort has been made to distribute the newsletter as widely as possible, in order to support the hypothesis that having a one-stop source for information on remittances can aid development practitioners and donors in making new programming decisions that lower the cost of transactions to the end client, improve regulations and foster new service alliances.

Research Activities and Timetable for Year Two:

Four quarterly newsletters will be produced during Year Two. Anticipated release dates would be February, May, August, and November 2005. There will also be four Newsmails released in between each of the newsletter publication dates.

Level of Effort and Selection of Firms and Personnel:

100 days were allocated for work on this topic. In year one, 35 days were approved, leaving 65 days for work in years two and three. However, utilizing additional Level II and TCN researchers, we will provide 84 days in years two and three for a similar total dollar value (original $83,787 vs. revised $83,847). The Migrant Remittances Newsletter is edited by Cerstin Sander of Bannock Consulting, an internationally recognized and published researcher on the topic, assisted by Enrique Mendizabal. Maria Jaramillo, ACCION International's point person on remittances, provides expert consultation and guidance on content. Catherine Johnston of DAI provides editing and oversight. The remaining LOE shown is programmed for continuing through year three of the project, if there is no change in scope of work.

Name	Level	Firm	2005 LOE
Cerstin Sander	I	Bannock Consulting	40
Enrique Mendizabel	II	Bannock Consulting	16
Maria Jaramillo	I	ACCION	20
Catherine Johnston	II	DAI	8
		Total	84

THEME 3—RURAL AND AGRICULTURAL FINANCE{ TC "THEME 3—RURAL AND AGRICULTURAL FINANCE" \F C \L "1" }

Research Topic: Rural and Agricultural Finance{ TC "Research Topic: Rural and Agricultural Finance" \f C \l "2" }

Hypothesis

Innovations in credit methodologies can overcome obstacles to the growth of sustainable rural and agricultural lending. Specifically:

- Financial deepening through increased access to financial services for rural households and enterprises can be achieved through the development of innovative approaches that go beyond traditional financial institution models to non-institutional linkages and channels that may involve a variety of actors, including producers, traders, exporters, and banks.
- Greater outreach to rural households and enterprises can be achieved through the use of innovative lending methodologies, delivery technologies, linkage systems and channels of distribution.
- The provision of financial services to rural households and enterprises must be based upon terms and conditions that promote and lead to efficiency in order to create long-term sustainability.
- An enabling environment is a necessary precondition for the efficient expansion of appropriate financial services, methodologies, technologies, and channels into rural areas.

Introduction

Rural and agricultural finance has increasingly become a focus of concern for governments and donor agencies and has been at the heart of recent calls for action. These calls have been motivated by an interest in a) revitalizing agriculture, b) alleviating rural poverty, and c) completing the process of financial deepening by expanding services and diversifying portfolios into rural areas. In turn, revitalized agriculture is seen as an integral part of accelerating economic growth and creating competitiveness in international trade. Alleviating poverty – a large part of which has its roots in rural and agricultural environments - is central to broad-based economic development. The stability of the overall financial system depends on adequate portfolio diversification, and social outreach goals require bringing previously excluded clients into the fold of institutional finance.

The Rural and Agricultural Finance (RAF) research agenda will focus on challenges and opportunities for the supply of financial services that are tailored to the circumstances of households and enterprises in rural areas that are engaged in both farm and off-farm activities, including savings mobilization. Among the providers to be studied are both financial institutions and non-institutional channels and linkages, including but not limited to supplier credit, interlinked transactions with purchasing agents, and warehouse receipt systems. The purpose is to reduce the lag in rural financing that has characterized financial development to date.

Research Objectives and Results to Date

The guiding vision of the AMAP RAF research initiative is to contribute to an increased flow of sustainable resources, services and products to an expanding rural customer base through improved products, management, delivery channels and policy environments. The main objective of the RAF research, therefore, is to identify innovative strategies which lead to the expansion of rural and agricultural financial services to households and enterprises in at least one of the three key areas – financial deepening, outreach and efficiency/sustainability. This primary objective is built upon two intermediate objectives as described below:

- Examine the strengths, weaknesses and environmental factors of various financial institutions and non-institutional strategies and interventions in expanding rural and agricultural finance.
- Produce and disseminate knowledge gained through the RAF research via focus notes, case studies, a decision making guide, and workshops/trainings, which emphasize emerging lessons learned in an effort to move the industry forward in responding to the unmet needs of rural households and enterprises.

The RAF team will analyze how various financial institutions and non-institution based financial service delivery systems in diverse geographic regions have been used to expand access to financial services in rural areas. The RAF team will use a financial systems approach to answering these questions with a focus on commodity value chains. The financial systems approach considers micro, small, and medium enterprise (MSME) finance as part of a country's general financial services market, focuses on the development of sustainable (subsidy-free) financial institutions, and recognizes that MSME clients are willing to pay the full cost of these services, if they are designed and delivered consistent with clients' specific needs. A commodity value chain focus requires assessment of the market-linked system which is in place to move agricultural commodities from the farm where they are produced into the marketplace and the demand and supply of a range of financial services and business development services along the chain.

The specific research agenda to obtain these objectives was finalized with the joint research plan submitted by DAI and Chemonics to USAID on April 15, 2004. DAI also produced two- and three-page summaries of the research plan for distribution to other stakeholders and interested parties. In addition, DAI and Chemonics jointly developed a database of RAF case studies and information on current models/channels, strategies and innovations being used in delivering RAF. This database served as a basis for analyzing what research has been done already and what gaps exist that should be focused on in the RAF research. DAI updated this database with information compiled from the Rural Finance Donors Working Group meeting in July 2004, and presented it at the follow-on working group meeting in October 2004.

The research plan specifies an ambitious set of deliverables for DAI:

- Two case studies on Agricultural Finance
    - Hortifruti in Latin America
    - Uganda sector-wide study of rural finance innovations
- One case study on non-farm finance
- One case study on rural savings

- A comprehensive analysis of rural financial service providers demonstrating successful approaches to expanding rural, non-farm microfinance (savings and lending) in a comparative framework
- A series of Technical Notes
    - ZATAC Investment Fund
    - Three Technical Notes (part of the joint BASIS/AMAP Technical Notes Series) (assigned in September 2004)
- Participation in the development and presentation of a knowledge sharing workshop
- Market Assessment Tool
- Decision Making Guide

Audience for Research and Deliverables

The primary audience for the research will be the staff of USAID and other donor agencies, especially those responsible for rural and financial services programming. By identifying the specific innovations required to overcome each barrier to agricultural credit, the research will also receive a high level of interest from MFIs considering rural expansions.

Intended Or Possible Venues/Channels For Dissemination

Results from the case studies, focus notes, technical notes, workshops and tools will be amply disseminated through several channels: (a) postings or links on microLINKS, the Rural Finance Program at OSU, CGAP, and other relevant institutions, (b) use in training exercises, potentially including the Microfinance Training Program in Boulder and specialized training activities the research team could develop in collaboration with contractors under AMAP Support Services, and (c) workshops in Washington, D.C. and elsewhere, to present key results to the donor and industry communities.

Research Activities During Year Two
DAI will complete the following research during Year Two:

- Technical Notes:
    - ZATAC Investment Fund
    - Three joint BASIS/AMAP series notes:
        - Outreach and Sustainability for Financial Institutions in Rural Areas
        - Role of the State in Rural and Agricultural Finance
        - Legal and Regulatory Framework for Rural and Agricultural Finance

- Case Studies: DAI will complete two case studies on agricultural finance. There are currently two proposed studies:
    - Hortifruti in Costa Rica will examine the provision of direct credit and other non-financial services (technical assistance) by a private sector company, and the role these interventions played in increasing future access to a full range of financial services provided by a formal financial intermediary.
    - An examination of a variety of financial innovations in Uganda, with potential examinations of expanding access to rural and agricultural finance through linkage development between non-financial organizations along the value chain and financial institutions; the leasing company DFCU; Centenary Bank; and the use of DCA to expand rural and agricultural finance lending.

DAI will also complete one case study on non-farm finance, for which the topic is undecided.

Timetable for Year Two Research Activities
Technical Note, ZATAC Investment Fund
Completed by December 31, 2004

Technical Note, Outreach and Sustainability for Financial Institutions in Rural Areas
Completed by February 1, 2005

Technical Note, Role of the State in Rural and Agricultural Finance
Completed by 2nd Quarter 2005

Technical Note, Legal and Regulatory Framework for Rural and Agricultural Finance
Completed by 3rd Quarter 2005

Case Study #1, Hortifruti
Completed by February 1, 2005

Case Study #2, Uganda
Completed by March 1, 2005

Case Study #3, TBD (non-farm finance)
Completed by September 1, 2005

Year 3 Deliverables

Case Study #4, TBD (rural savings)
Comprehensive Survey of Rural, Non-Farm Finance
Market Assessment Tool, TBD
Decision Making Guide, TBD
Knowledge Sharing Workshop

LOE and Selection of Firms and Personnel

A total LOE of 360 days has been approved for work under this topic. However, there has been an expansion of the LOE required for both the Hortifruti and the Uganda Rural Financial Sector case studies. The Hortifruti case requires primary field research, and the Uganda Sector wide study will require significant additional time compared to a single-topic case study. In addition, the re-tooling of the technical notes series now requires that the notes be developed on topics not associated with the research done for the case studies, as was originally envisioned. Therefore, we currently estimate a need for an additional 73 days of LOE in order to complete all required deliverables. This represents an additional dollar value of $54,578. This topic will be managed by Catherine Johnston with a team that includes significant contributions from Ohio State University researchers including Claudio Gonzalez-Vega and Dick Meyer. Our proposed allocation of total required LOE appears below. It may be adjusted as the needs of the topic evolve.

NOTE: The attached budget reflects budget totals without any additional allocation of LOE. No additional LOE is requested for year two.

Name	Level	Firm	Approved LOE*	Estimated Total Required LOE
Catherine Johnston, Research Leader	II	DAI	57	57
Claudio Gonzalez-Vega	I	OSU	27	27
Jorge Rodriguez-Meza	II	OSU	25	25
Rodolfo Quiros	TCN	OSU	25	25
Richard Meyer	I	DAI	21	21
Sarah Lowder	III	OSU	5	5
Alejandro Canadas	III	OSU	6	6
Colleen Green	I	DAI	14.5	14.5
Jenny Pan	II	DAI	8	8
Anita Fiori	III	DAI	5	5
Hillary Miller	I	DAI	2	2
Ira Singh	III	DAI	6.5	6.5
TBD	I	TBD	67	4
TBD	II	TBD	39	88
TBD	III	TBD	35	55
		Total	343	416

*LOE has been re-allocated from Year One Workplan to adjust for changes in staffing. This has resulted in a reduction of LOE from 360 days to 343 days. Contract LOE dollar value is $309,590. The re-allocation of approved LOE shown above represents a dollar value of $309,347.

THEME 4—IMPROVING MICROFINANCE MANAGEMENT{ TC "THEME 4—IMPROVING MICROFINANCE MANAGEMENT" \F C \L "1" }

Research Topic: MFI Guide to Technology{ TC "Research Topic: MFI Guide to Technology" \f C \l "2" }

Hypothesis

Properly managed, some non-MIS information/communication technologies can improve MFI management and outreach.

Introduction

In today's rapidly changing and competitive microfinance industry, most institutions are looking hard at the potential benefits to be 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. With so much money spent on ICT for microfinance, why has the industry been largely unable to demonstrate significant results? The answer lies in a few very practical themes that repeat across institutions and countries. These themes include:

- 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. Drawing on experiences in Bolivia, Ecuador, Venezuela, and Columbia, we will compile a substantial knowledge base of observations, lessons learned, and approaches that enable us to provide insight and perspective on the role of ICT in microfinance. Linking the above themes in our examination of some current solutions will further illustrate the challenges most MFIs face when it comes to technology investments. Below is a list of solutions to be addressed during this research:

- Hand held devices (a.k.a., PDA)
- Smart cards, and

- ATM

Hand Held Devices

It is commonly understood that going out and meeting clients face to face, i.e. taking the MFI to the customer, is an excellent idea. The benefits offered with hand held devices can be realized if implemented properly in the right environment. Until recently, most PDAs were little more than self-contained electronic record keepers. Developing applications for the PDA required specialized tools and skills. Additional software was required to synchronize the PDA with the home office systems. In the end, little time was saved or efficiency was gained since loan officers still needed to physically return to the office and upload data. Despite these limitations, many MFIs and donors have committed significant capital in pursuit of this technology.

The good news is that the technology itself has evolved substantially. New models are now available with cellular phone features and new operating systems making it easier to build applications. There is a new line of Pocket PCs that are beginning to show some promise. Further contributing to this trend is that most PDAs are improving memory and storage. Unfortunately not much research has been devoted to understanding whether or not an investment in PDAs can produce any measurable benefit for the MFIs or their customers. This research seeks to go beyond anecdotal evidence and provide clarity with rigorous analysis of where PDAs have been used and in what circumstances has the technology produced impact for the institutions.

Smart Cards

This is another ICT that has a lot of practitioners talking. Smart cards possess some valuable uses for microfinance in terms of tracking loan balance and payment information, but when it comes to storing value on the cards; the complexity of the system gets much greater without substantially higher benefit. Certainly in countries where the physical transport of money is difficult and dangerous, smart cards have some theoretical benefit, but even in these countries, smart cards can represent an expensive solution for MFIs.

To fully deploy a stored value solution, the MFI must have the capacity to store the value on the card, implying more equipment and software, and a place for clients to use the card, i.e. point of sale terminals. This solution becomes extremely expensive for most MFIs; cost savings and increased profits are rarely realized. Additionally, most microfinance customers operate in a cash culture. This is a significant barrier to overcome in some countries. In many instances, smart cards have been the victim of a negative cost/benefit analysis. This research seeks to examine more deeply the use of smart cards in terms of how these cards are used, when they are appropriate for an MFI, and whether or not this technology holds true value for the industry.

ATMs

ATMs are another excellent channel that has proven to be of real value to the financial services industry around the world. Clearly their application in the MFI world also warrants consideration. While the up front cost of installing ATMs is expensive, the ongoing cost of maintaining the sites and accessing the clearinghouse networks are relatively low. MFIs can also conceivably join with existing bank systems and leverage bank ATM sites for a fee. Additionally, ATMs are a good method for introducing customers to cards that could eventually evolve into more sophisticated means of delivering value.

While clearly worth considering as a value added benefit for customers, there are few examples of ATMs being used in purely microfinance institutions. The majority of institutions using ATMs are formal financial entities; either savings and loans or banks who also are in the microfinance business. This research will examine which institutions are using ATMs, the benefits derived from this investment, and propose some possible scenarios where ATMs may be appropriate for MFIs on a larger scale.

Research Objectives

Under this topic of Innovations in Technology and Credit Processes we will conduct two lines of research that will address the important remaining gaps in knowledge outlined above, paving the way for an improvement on the return of MFI technology investments. First, we will conduct a census of non-MIS technologies, focusing on three technologies in particular – PDAs, smart cards and ATMs. We will 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. Second, following the completion of the census/desk research, the team will produce a case study for each technology (with MFI examples) and suggest the likely degree of applicability of the findings to installations of the same technologies in other institution types.

The third research activity will produce an *MFI Guide to Technology Management* that will include tools for assessing organizational readiness and internal capacity for managing information technology. Drawing on the case studies, the Guide will also focus on strategic management and decision making on investments, the capabilities of the ICT unit personnel, and the determination of user and customer receptivity to new technologies. The guide is intended to be used in conjunction with the selection tools developed by MBP and CGAP.

In addition to the above, 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 and Country Selection

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

- Literature reviews
- Interviews
- Surveys
- 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 studies, 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.

For the Guide, the team will take much of the lessons learned and observations gathered during the case studies and incorporate other industry experience, as well as corporate experience, into a comprehensive document that covers strategic management and decision making on investments. The Guide will be developed and then reviewed by internal project team members and selected other industry experts to ensure technical rigor and relevance to the subject.

Some potential subjects in the research sample include: BanGente (Venezuela), Banco Solidario (Ecuador), BancoSol (Bolivia), FINAMERICA (Colombia), and the Uganda Microfinance Union

Limitations of Research

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 above technologies have played against a series of performance metrics.

The focus of this research is the case studies where the team will provide a detailed and in depth analysis of each 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 that can be incorporated into the *MFI Guide to Technology Management.*

Audience for Research and Deliverables

The deliverables will be:

- A census/desk study of the three technologies – PDAs, smart cards and ATMs
- The case studies on each technology
- The MFI Guide to Technology Management

Audiences are intended to 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.

Intended or Possible Venues/Channels for Dissemination

The Guide, the case studies, and a summary of the synthesis should be sent directly to all USAID project officers responsible for financial sector development or microfinance portfolios. Simultaneously, the Guide and full cases and the synthesis will be distributed through the AMAP website. We anticipate that the work products may also be published and could be made available through third party industry advocates such as the CGAP Microfinance Gateway. Depending on USAID's interests and resources, the study can also be presented at higher-profile dissemination events.

Timetable for Research: 2005 and Beyond

Given the limited level of effort available for research on this topic 2005, the team will focus on completing two activities:

1. the census
2. one of the three case studies. The topic of the case study will be determined based on available data and perceived interest in new cost and operational data on implementing the technology,

Should additional funding become available, the team would be able to begin a second case study in 2005. Otherwise, all other deliverables will be completed in subsequent years of the project.

Research will begin in the first quarter of fiscal year 2005.

LOE and Selection of Firms and Personnel

A total LOE of 250 days has been allocated to this research topic, which will be managed by John Cann of DAI, with a team that includes researchers from DAI and ACCION. 50 days were discussed with the Microenterprise Office for approval in 2005. We have realigned the budget adding in Level III and TCN time to spread the budget further. Our proposed allocation of LOE appears below. It may be adjusted as the needs of the topic evolve.

Name	Level	Firm	LOE 2005
John Cann	I	DAI	11
Gabor Simon	I	DAI	6
Anita Fiori	III	DAI	9
Carlos de Busto	TCN	ACCION	6
Billy Vera	TCN	ACCION	4
Juan Carlos Proano	TCN	ACCION	5
Raul Gomez Velasquez	TCN	ACCION	10
Susana Barton	I	ACCION	8
Beth Rhyne	I	ACCION	3
Deborah Drake	I	ACCION	2
Rekha Reddy	II	ACCION	4
		Total	68

Research Topic: Dissemination of the Defining Options Curriculum{ TC "Research Topic: Dissemination of the Defining Options Curriculum" \f C \l "2" }

Hypothesis

If provided with targeted training and limited technical assistance, microfinance institutions (MFIs) and SACCOs/credit unions can take more significant steps towards mitigating the impact of HIV/AIDS on their clients and improve their institutional performance.

Introduction

In the final year of MBP, DAI developed a number of research products analyzing the impact of HIV/AIDS on MFIs and SACCOs and on the clients they serve. Among the tools created under MBP was *Microfinance and HIV/AIDS: Defining Options for Strategic and Operational Change*, a three-day training program developed to help MFI managers, board members, and staff assess the impact of HIV/AIDS on their financial institution – specifically, on their clients, on the competitive environment, and on internal operations of the MFI. Core areas of focus include products and services, human resource management and planning, financial monitoring, and risk management.

Since the pilot test of the training course in Harare, Zimbabwe in October 2001, anecdotal evidence suggests that *Defining Options* has been used successfully by a small number of MFIs but that knowledge of and use of the tool is not widespread. A presentation of the tool at the Microcredit Summit +5 in November 2002 revealed that most MFIs in the HIV/AIDS sessions had not yet heard of *Defining Options*. However, five MFIs immediately requested that *Defining Options* be sent to them via e-mail. To gauge further interest in the tool, DAI informally canvassed a number of international network organizations about their interest in training on this tool. The results have been hopeful. Opportunity International, CARE, World Vision, Catholic Relief Services, World Education and Mercy Corps have all expressed an interest in using *Defining Options*, and some have been in contact with DAI about undertaking a specialized training for their affiliates.

Because the microfinance community's response to AIDS remains limited (the most frequent MFI response has been to integrate HIV prevention messages into borrower group meetings or to initiate a loan insurance product), further dissemination of *Defining Options* would provide an opening for MFIs to make additional, and perhaps more significant steps towards mitigating the impact of HIV/AIDS, such as creating an AIDS-responsive human resources plan; keeping standard products within reach of AIDS-affected clients (i.e., increasing product flexibility); and more closely monitoring the impact of AIDS on the growth and performance of the portfolio. One of the main challenges facing the MFIs appears to be the actual implementation of the materials presented in the course. Without staff with specialized skills and interest, or without a local resource to fall back on for advice, MFIs often encounter barriers to implement the possible activities, requiring someone to help facilitate the activities for them.

Under FSKG, DAI, and ECI/Africa will carry out an action research activity that will include the dissemination of the previously developed research tool and the generation of new knowledge around mitigating the impact of HIV/AIDS on economic development. The FSKG project will undertake a two-part approach to expand the use of *Defining Options* and ensure that the information gets integrated into day-to-day operations of MFIs and SACCOs operating in eastern and southern Africa. The first part will train microfinance specialists in Africa through a training–of-trainers (TOT) event with the goal of expanding their skill set to include an HIV/AIDS response, and to use *Defining Options*. Microfinance specialists will be both experienced trainers and providers of technical assistance. By using local and regional trainers, regional capacity to help MFIs will be improved. The second part will be to undertake a series of *Defining Options* courses in different countries and provide some limited 'aftercare' to MFIs interested in addressing HIV/AIDS within their institutions. Aftercare (limited technical assistance) will be focused on three key areas, namely new product development, impact monitoring, and human resources planning to a select group of MFIs who participate in a *Defining Options* course. This aftercare will provide hands on experience with the specific issues encountered by MFIs during the implementation process and will allow the team to adjust some of the training materials, if needed. Where possible, we hope to leverage additional funding for technical assistance around HIV/AIDS.

The lateral learning networks supported by SEEP and others provide a natural opportunity for engaging groups of MFIs/SACCOs to participate in the *Defining Options* training. Additionally, through WOCCU's participation the team will be able to engage savings and credit associations/SACCOs/credit unions from selected southern African countries. Finally, given ECI/Africa's extensive work with HIV/AIDS in southern Africa, its strong relationships with USAID and other microfinance organizations and its experience in microfinance in the region, we will be able to identify appropriate local consultants and trainers to carry out the activities under this research plan.

The training program will be rolled out in four countries. In addition to the training, DAI/ECI trainers will provide limited aftercare to a select number of institutions to assist them in creating action plans to address HIV/AIDS. Six months and one year after completing the training and aftercare, DAI and ECI/Africa will survey the participating institutions and document the impact of the training and limited aftercare on participating MFIs/SACCOs, disseminating the report to USAID missions in the region and in high-prevalence HIV/AIDS countries.

By activity's end we hope to have generated interest with a number of local training institutes and universities who could use the curriculum and benefit from a cadre of trainers to continue to provide the training and TA going forward. Through the course of the project, we will work to gauge the interest of training institutes in eventually housing the materials.

Research Objectives

The objectives with respect to the dissemination of *Defining Options* are:

1. Educate and sensitize MFI/SACCO leadership on the social and economic impacts of HIV/AIDS;
2. Expose a larger number of MFIs/SACCOs to the concepts and tools in *Defining Options*, so that they might proactively make internal changes that will positively respond to the changes in the market and the internal financial, human resource, and systemic pressures;
3. Provide limited aftercare in three areas (new product development, human resource planning, and financial impact monitoring) to selected MFIs/SACCOs to assist them in making internal changes to responding to the growing HIV/AIDS pandemic in their countries, and
4. Provide local training institutes and trainers with the materials and knowledge for further dissemination.

Research Methodology and Research to Date

In October 2003, DAI and SEEP jointly undertook a one-day sampler training workshop on the *Defining Options* curriculum in conjunction with the SEEP Annual General Meeting (AGM). (The workshop took place prior to the preparation of this work plan and was approved by the CTO, Barry Lennon, in a Technical Instruction issued on October 7, 2003.) The workshop promoted the planned training courses by allowing many different institutions the opportunity to examine and understand the training tool.

Starting in early 2004, DAI and ECI/Africa began updating the training materials to include new data and research since 2001, new practices on workplace program development and product refinement, and new financial monitoring indicators and tools for MFIs that also intermediate savings. In August 2004, the first training course was given in Addis Ababa, Ethiopia to 21 participants representing 19 institutions. Aftercare was provided to an additional four institutions which have developed action plans to address HIV/AIDS.

In September, a training of trainers was held in Johannesburg, South Africa that trained both four AMAP trainers and five additional trainers from different countries in sub-Saharan Africa. The participant trainers represented seven different countries in Africa.

In addition to updating the training and delivering one training and a TOT, the team developed a series of tools and templates to assist institutions in making changes to mitigate the impact of HIV/AIDS. The tools focus on how to develop an action plan, how to monitor financial performance, how to refine products and how to develop a workplace program for staff. These templates and tools will be used as part of the aftercare provided to select MFIs/SACCOs and will be a useful guide for institutions to the planning and decision making needed to implement changes around HIV/AIDS.

Finally, Petronella Chigara began the design of the training impact monitoring tool. This tool will compile data from the action plans as well as information from participants collected post training, 6 months after training and one year after training. The data will be used to complete the final report for the project.

Research Activities in Year Two:

In year two, three to four additional trainings will be offered. The first training is scheduled to be given in mid January 2005 in Kenya in conjunction with AMFI and the Kenyan Chapter of Women Advancing Microfinance (WAM). The USAID-funded KEMCAP project has agreed to provide some limited technical assistance post training to help implement HIV/AIDS programming in select MFIs. The locations for the remaining trainings have yet to be selected.

Limitations of Research

Given the limited level of effort, it will not be possible to provide training in all high prevalence countries in southern and eastern Africa. DAI and ECI/Africa will identify current and emerging high-prevalence countries and regions where MFIs/SACCOs are more greatly impacted by the disease, and where USAID missions are supportive of a multi-sectoral response to HIV/AIDS. To spread the budget further, the activity will also try to include as many local consultants in the process as possible, reducing travel costs and building greater regional capacity.

Additionally, given the level of effort, it will not be possible to provide aftercare to all institutions participating in the training. Instead, the team will develop selection criteria to identify eligible MFIs/SACCOs as discussed above.

Audience for Research and Deliverables

The primary audience for these training courses is microfinance practitioners, specifically managers and board members. USAID mission staff form the second most important audience.

Deliverables will include:

- Updated training materials based on the *Defining Options* curriculum
- Aftercare tools that focus on workplace program development around HIV/AIDS, financial impact monitoring and product refinement;
- A final research report on the overall impact of the training and aftercare on institutions and any resulting internal and product changes made. This report will be shared with USAID missions and practitioners.

Intended or Possible Venues/Channels for Dissemination

The trainings will be offered primarily in conjunction with the local microfinance networks. AMAP will attempt to reach other interested local MFIs/SACCOs in high HIV/AIDS prevalent countries, where possible. Ultimately, we would like to identify local training institutes or universities that might be willing and able to offer the course and related technical assistance going forward.

Timetable for Research and Training in 2005

Kenya Training (beginning of Q2 2005)→ Next training (Q3 2005) → One to two additional trainings (Q3 and Q4 2005) → Follow-ups with training participants (through 2005) → Final Report based on follow ups of all trainings (end of Q3 2006)

LOE and Selection of Firms and Personnel

Colleen Green will be the research leader for this effort. She will be responsible for planning and coordinating the work under this topic. Ms. Frances Fraser of ECI/Africa will be responsible for coordinating with country networks and organizations, as well as for identifying and recruiting local trainers, providing input into the training materials and the templates to be developed in the various aftercare areas. Four Africa-based trainers have been selected to deliver the materials. They are: Grace Sabageni, David Musona, Olive Kabatalya and Edward Kiyaga.

A local HIV/AIDS educator will be hired in each country where a training course takes place to help modify and conduct Module 2 related to the local HIV/AIDS content. These local educators will be local HIV/AIDS specialists with experience in prevention training and education, and will need to be able to communicate about both the epidemiology of the disease as well as the local facts and myths that surround its transmission, prevalence and treatment.

A total LOE of 99 days were approved for year one. The remaining LOE, 26 days, will be used to complete the research activity. Through our collaboration with third country nationals who are experts in this subject area, we will be able to provide 58 days of LOE for the same dollar value estimated for the original allocation of 26 days.

Name	Level	Firm	2005 LOE
Colleen Green, Research Leader	I	DAI	12
Petronella Chigara	TCN	ECI/Africa	15
Paolo Craviolatti	TCN	ECI/Africa	1
Mary Miller	I	DAI	5
Anita Fiori	III	DAI	5
Frances Fraser	TCN	ECI/Africa	20
		Total	58

Research Topic: Performance Indicators for Savings Efficiency and Productivity{ TC "Research Topic: Performance Indicators for Savings Efficiency and Productivity" \f C \l "2" }

Hypothesis

The development of MFI performance indicators for savings efficiency and productivity will improve institutional monitoring, encourage efficiency and foster best practices regarding measurement of savings performance which should ultimately improve the quality and quantity of financial services delivered to the low-income market segment.

Introduction

The microfinance industry has gained greatly from the standardization of indicators regarding financial performance, loan officer productivity, and overall operational efficiency. This process has not advanced very far, however, in the area of savings. The need is for a broadly-agreed upon means of measuring performance in savings operations, similar to the credit-side indicators now widely used in the MicroBanking Bulletin and other industry literature.

As traditionally credit-led microfinance institutions take up the challenge of savings mobilization, it has become increasingly important to be able to measure and compare the performance of savings programs. But this topic is only beginning to engage the microfinance field. The microfinance field has made progress incorporating savings into the overall measurement of financial condition and performance of MFIs. We know how to gauge the *general health* of a financial institution, even a savings-based one, using indicators that measure capital adequacy, returns, asset quality, and liquidity. ACCION's CAMEL, WOCCU's PEARLS and the Micro-Banking Bulletin (MBB) all center around such indicators. When it comes to analyzing the mobilization of savings itself, however, (i.e. asking whether an institution is a successful savings mobilizer) we come up short. On such questions we barely get beyond total number and volume of accounts.

Measuring the efficiency of savings mobilization requires separating the costs of providing savings from the costs of credit administration. Such information requires detailed costs studies involving a range of methodologies such as cost allocation or activity-based costing. Measures of staff productivity are also important in order to ensure that the institution has the capacity to provide good customer service for savings-only transactions. To date, there have not been serious attempts to disaggregate and analyze the factors affecting operational efficiency of savings so as to develop additional indicators.

Research Objectives

The purpose of this project is to develop and test indicators for measuring savings performance. For savings, the research activity will (1) investigate indicators currently in use by major MFI depositories; (2) review the cost and other savings-related data gathered by the (MBB) and ACCION affiliates; (3) identify one or two institutions on which cost analyses will be performed; and (4) develop, test, and disseminate a small set of indicators that could become the foundation of future savings benchmarks used to compare performance across institutions.

The development and adoption of these standards will permit MFIs, their funders, and regulators to determine whether an institution's deposit services and the back office functions which support them are operating efficiently in comparison with the operations of similar institutions, including commercial banks. Deliverables will include the standards themselves, a synthesis of cost analyses from each institution, a feature article in MBB, and a consensus-building meeting of practitioners.

Research Methodology and Country Selection

The project would first investigate the indicators now in use by major savings mobilizers, as well as by MFIs whose savings operations are relatively new. We would draw on the data available from a) MBB and b) ACCION's affiliates, among other sources. Through consultations with practitioners, we would examine which of these indicators are most important to measure, as well as the data availability issues associated with them. . The researchers will also investigate financial industry resources such as the American Bankers Association to determine if there are appropriate industry benchmarks. During 2005, the researchers will travel to Latin America and/or Africa to conduct a costing analysis of savings product of at least two institutions. Possible candidates include Mibanco (Peru), Banco Solidario (Ecuador), and Akiba Bank (Tanzania). Based on the analyses, a set of indicators will be developed that will be tested at those institutions (and potentially others in the ACCION network). The researchers will return to the same institutions in 2006 to evaluate findings, evaluate the relevance of the indicators and their potential for consistent application across other institutions.

Limitations of Research

Nearly all of the indicators already proposed to measure savings are problematic at present. For example, even as simple an indicator as number of active savings clients contains numerous hidden issues. Can institutions eliminate inactive accounts from their reporting? Can they report by number of clients or only by number of accounts? A more severe difficulty involves trying to measure the administrative costs of savings (as distinct from credit), which requires detailed cost studies.

The key limitation to the savings efficiency research is the institutions' willingness and ability to share cost data (as well as staff resources that will be necessary for the researchers to design process flow diagrams and analyze processes). To overcome these challenges, the researchers will rely on strong existing relationships with the studied institutions.

Audience for Research and Deliverables

Although the audience for the project would be the microfinance field at large, the indicators would be most beneficial to practitioners themselves. MFIs already capturing savings would be able to measure the performance of their own activities, and MFIs considering expanding services to include savings would have access to more information and analysis that would feed into the decision. In addition, this research on savings efficiency will provide valuable information to MFIs that are striving to understand the factors that affect their operational efficiency and will provide them a way to measure their efforts to improve efficiency. These indicators can also provide information to donors, including USAID mission staff and USAID funded project staff, in making funding decisions to MFIs and assessing technical assistance needs. In general, they will also be of great interest to lenders and other providers of capital to MFIs.

Intended or Possible Venues/Channels for Dissemination

In addition to delivery through microLINKS, we propose to reach a broad industry audience through feature articles in MBB that display the results of the analysis and propose recommended indicators for both savings and back office operations that support the savings line of business. The project will also seek out relevant conferences and training programs for dissemination, including SEEP's Annual General Meeting, and the periodic conferences of ACCION's and other affiliate networks.

Timetable for Research

The project for performance indicators for savings efficiency and productivity is expected to last through calendar year 2006. Currently, 50 days LOE have been approved to begin work on this topic. In order to leverage ACCION's presence in the field, we will be requesting an allocation of 72 days of LOE, with a different distribution of US nationals and TCN/CCN LOE. This re-allocation will result in reduced total labor expenditure.

With this funding allocation, research will begin in January 2005 based on savings information the MBB has already begun to collect. In the first quarter of 2005, ACCION will revise the format of the quarterly financial report received from its partners to include savings-related data. The researchers will travel to Latin America and Africa to conduct the cost analyses beginning in the second quarter of 2005. A draft paper synthesizing the cost analyses at each institution, with recommended indicators, will be completed by December 2005.

With the second allocation of LOE, testing will begin at the latest by the 1st quarter of 2006 and return visits to the institutions will take place in the second half of 2006. A final paper evaluating the results of the pilot testing will be completed in the second semester of 2006 and will be used as the basis for an article in the MBB. The consensus-building meeting of practitioners will take place in 2006.

LOE and Selection of Firms and Personnel

A total LOE of 175 days has been approved for this research topic, which will be managed by Lynne Curran of ACCION. To date, 50 days have been allocated. As described above, we will be requesting a re-allocation of 72 days. Our proposed assignment of this LOE appears below. It may be adjusted as the needs of the topic evolve.

Name	Level	Firm	LOE (in days)
Lynne Curran, Research Leader	II	ACCION	12
Deborah Drake	I	ACCION	2
Elisabeth Rhyne	I	ACCION	1
Monica Brand	I	ACCION	10
Juan Carlos Gomez	TCN	ACCION	20
Raul Gomez	TCN	ACCION	10
Catalina Sicard	TCN	ACCION	5
Victoria White	II	ACCION	12
		Total	72

Research Topic: Promotion of Financial Performance Standards{ TC "Research Topic:Promotion of Financial Performance Standards" \f C \l "2" }

Hypothesis

The standardization, dissemination and use of MFI performance standards encourages efficiency and transparency, ultimately improving the quantity and quality of financial services delivered to microentrepreneurs.

Introduction

In 2001, a roundtable of donor agencies and rating agencies determined to draft a glossary that would address the problem of developing standard financial terms, indicators and adjustments. After significant consultation, this effort resulted in a draft document that was presented to the SEEP Network and numerous MFIs for comment. Through its Financial Services Working Group (FSWG), the SEEP Network provided a unified response highlighting their enthusiasm for the project and their concern over some aspects of the draft document. The roundtable invited SEEP to manage the revision of the document, which resulted in the paper *Microfinance Consensus Guidelines: Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance (DSFRTA).* This document represents a consensus on several definitions of key items, many of which are used differently throughout the industry.

While the *DSFRTA* constitutes a significant step forward, a number of issues were not resolved during the consultation process. The document does not provide sufficient guidance to MFIs that are looking for a satisfactory format for financial reporting nor does it include a number of definitions and ratios that are common in the industry. In addition, it does not provide examples of how to calculate ratios or adjustments. SEEP will improve and expand the definitions paper, create a regular process to keep this effort current, and provide training and promotion to achieve a broad, effective application of this knowledge throughout the industry. Work will be completed in collaboration with Alternative Credit Technologies (ACT), which will act as the primary drafter and facilitator for this effort.

Research Objectives

The primary objective is to increase the accuracy and transparency of financial reporting and analysis. This will by done by promoting standard financial terms, indicators and adjustments that reflect the best and current practices in the microfinance industry. Practitioners will lead this effort by developing a *Guide for Standard Financial Terms, Indicators, and Adjustments*, as well as training curriculum built around the standards that can be replicated throughout microfinance training centers and local microfinance networks. In addition, SEEP will develop a Microfinance Financial Standards Committee that is broadly representative of the industry creating a permanent forum to monitor changes and issues in industry practices and recommend changes to the guide and curriculum.

Research and Results to Date

SEEP has developed a multi-year project to develop a guide and a curriculum on standard financial terms, indicators, and adjustments. The progress made to date includes:

1. With ACT's assistance, SEEP has completed the final draft of the *Guide for Standard Financial Terms, Indicators, and Adjustments.* The guide consists of four sections and two annexes, including:
   a. Definitions of financial terms
   b. Definitions and formulas for indicators
   c. Definitions, methods and formulas for adjustments
   d. Financial reporting templates
   e. Sample financial reports with indicator and adjustment calculations
   f. The *Definitions* paper

2. SEEP has developed a consensus amongst the microfinance community, including practitioners, donors, and rating agencies, regarding the membership and management of the Standards Committee. The initial members of the Standards Committee have been selected, and the first meeting was held during the SEEP Annual General Meeting in October 2004.

Audience for Research and Deliverables

The audience of the Guide will be MFI practitioners, networks and associations, donor organizations, investors, ratings agencies, and others who aggregate or disseminate financial data for MFIs.

Intended or Possible Venues/Channels for Dissemination

The dissemination strategy is integrated in the research methodology. It includes developing a Trainer's Guide and sponsoring several trainings of trainers in three different regions. The trainings will be co-sponsored by either regional or local microfinance networks or the microfinance centers. SEEP will use its contacts with regional and national networks of MFIs to promote the dissemination of the manual as well as the training of practitioners. SEEP held a workshop for MFI network organizations and others as part of its 2004 Annual General Meeting.

Research Activities During Year Two

The scope of work approved for this topic has allowed the research team to successfully develop the guide, convene the Standards Committee, and begin planning for the training and testing phase of the research. Through the course of this work, the research team has identified several important areas which would deliver significant added value to these activities with a limited investment of additional LOE and funding for tool development and other travel and administrative costs. The ultimate test of the success of this research is the breadth of its dissemination and application throughout the microfinance industry. This success will be more firmly assured with the addition of the following activities:

- Develop a Training and Management Tool
- Support the Microfinance Standards Committee
- Support Additional Standards Promotion Activities

The options suggested below will leverage current funding to greatly increase the adoption and proper use of the standards, as well as the continued support of the Standards Committee through a demonstration period (after which its costs will be absorbed by the industry). In this narrative, and in the accompanying budget, each option is presented as a stand-alone activity. They may be approved individually, or all three activities may be approved. If these activities are funded, LOE would need to be allocated or moved from another research activity.

Approved Activities: The following activities will go forward in year two, utilizing LOE approved in year one.

Finalize Guide: The final draft guide will be circulated to the broad microfinance community, beginning at the SEEP Annual General Meeting in October 2004. The draft will then be finalized and published. The final version will be translated into at least four different languages.

Develop training courses: SEEP will develop a Trainer's Manual and course materials for the Guide. The trainer's manual and course materials will be the basis of the training curriculum. These materials will be developed and tested by SEEP and provided to microfinance training centers and local networks.

Test and implement training courses: SEEP will test the training courses in different countries and different languages, leveraging its relationships with the microfinance centers and local networks.

Administer a standards committee: SEEP will act as the secretariat for the Microfinance Standards Committee that serves as a permanent forum for discussing current issues in financial reporting and potential revisions to the standards. The committee will convene annually and be available for consultation on an as-needed basis.

Option 1: Training and Management Tool

The creation and analysis of financial statements and ratios is a skill set that must be mastered through direct experience and practice. While theoretical understanding is important, it is through the hands-on application of the knowledge that MFI financial managers will achieve the capacity to correctly and consistently apply this knowledge throughout the industry. Current funding for training on the Guide allows for the development of illustrative training materials, but is inadequate for the creation of a simple spreadsheet based tool that can incorporate the creation of financial statements, application of adjustments, and generation of ratios into the training.

The tool would be designed as follows: Several sheets would be developed for data entry. These worksheets would generate financial statements, adjustment calculations, and ratios. All sheets would be protected to avoid accidental or improper entries. Cells would have the "pop-up" definitions of terms. Ideally the tool would have multi-language capability, allowing the user to switch between English, Spanish, French, and Russian. An additional option would be to add multi-year input to generate trends, adding some graphs for trend interpretation. This would also include links to benchmarking data from the MiX.

This tool would be invaluable in ensuring that trainees acquire a practical level of competence with the material and that knowledge is correctly transmitted from trainees to their home institutions. More importantly, the tool could be taken and used by participating MFIs, thus increasing their capacity to implement the best practices that have been developed through this AMAP-funded research to date. SEEP and ACT will manage the production of this tool and incorporate it into the funded trainings, as well as making it widely available through postings on microLINKS and dissemination through the SEEP network.

Option 2: Microfinance Standards Committee Support

The standards committee convened for the first time in October 2005. The seven member committee includes representatives from two MFIs, a rating agency, a donor agency, a service provider, an investor, and SEEP. The members are drawn from Latin America, Africa, Asia, and Europe. The mandate for this committee is to convene annually and to be available for consultation on an as-needed basis. This truly global committee will require support for travel expenses for the initial meetings, while the process of disseminating and institutionalizing this set of industry standards and the standards setting body takes hold. Effective functioning of the committee also requires that there is regular and timely communication and information exchange from the broad microfinance community to the committee members, and efficient communication and decision-making support for the committee members themselves. SEEP and ACT will provide both technical and administrative personnel who can serve as conduits for information and facilitators of committee action.

Option 3: Standards Promotion

The power of the AMAP-funded financial standards to encourage efficiency and transparency, and ultimately improve the quantity and quality of financial services for microentrepreneurs, will only be realized through their wide dissemination, adoption, and use over time. USAID holds a special interest in providing the resources for the standards to be adopted by missions and all EGAT personnel. USAID's leadership in this area, initiated through producing the financial standards, can be augmented by providing leadership in the field as well. SEEP will provide presentations, trainings, and materials geared specifically to USAID missions and staff, and attend critical industry meetings to continuously promote standards adoption. This also requires translating the Guide and the training materials.

Timetable for Research

On-going approved research:

1. The first meeting of the Standards Committee will be at the SEEP Annual General Meeting in October 2004.
2. The Guide will be published in January 2005.
3. The Trainer's Guide and Training of Trainers will be completed in the third quarter of 2005, including a workshop at the SEEP Annual General Meeting in October 2005.

Option 1: If approved, the training and management tool will be completed by March 2005, for integration into the Trainer's Guide and Training of Trainers.

Option 2: If approved, support for the Microfinance Standards Committee will be provided throughout the year, as needed. The next annual meeting of the Committee will be held in the fourth quarter of 2005.

Option 3: If approved, standards promotion materials will be developed in the first and second quarter of 2005, in collaboration with the development of the training tool and materials. SEEP, ACT, and the Microfinance Standards Committee will provide personnel throughout the year to represent the standards at key industry events, and to provide trainings for EGAT and USAID mission staff.

LOE and Selection of Firms and Personnel

A total LOE of 75 days has been approved for this research activity. 60 days (as shown below) is funded through Component One. Technical Instruction #2, issued by the Microenterprise Development office on August 17, 2004, provided an additional 15 days of LOE to be funded by Component Three, for additional work by Till Bruett of ACT for building concensus around the standards. This topic is managed by Sharyn Tenn of SEEP Network and ACT's Till Bruett, the Facilitator of SEEP's Financial Services Working Group. Other SEEP members will participate in testing and training activities.

As described above, there are three optional activities suggested by the research team which will add significant value to the currently funded tasks. The charts below outline the LOE required for each of these three activities. Supporting information regarding ODC costs can be found in the complete budget in Annex Two.

APPROVED ACTIVITIES

Name	Level	Firm	LOE (in days)
Till Bruett	I	ACT	25*
Sharyn Tenn	II	SEEP	15
TBD Trainers and Testers	I	SEEP	20
		Total	60*

*This chart reflects funding under Component One only. Additional funding through Component Three has added 15 days for Till Bruett, for a total of 40 days and a total for the topic of 75 days.

LOE requested for Option 1: Training and Management Tool

Name	Level	Firm	LOE (in days)
Till Bruett	I	ACT	4
Sharyn Tenn	II	SEEP	1
		Total	5

LOE requested for Option 2: Microfinance Standards Committee Support

Name	Level	Firm	LOE (in days)
Till Bruett	I	ACT	20
TBD Administrative Support	II	SEEP	20
		Total	40

LOE requested for Option 3: Standards Promotion

Name	Level	Firm	LOE (in days)
Till Bruett	I	ACT	5
TBD Training Expert	I	SEEP	7
		Total	12

THEME 5—ACCESS TO CAPITAL{ TC "THEME 5—ACCESS TO CAPITAL" \F C \L "1" }

Research Topic: Private Debt Placements{ TC "Research Topic: Private Debt Placements" \f C \l "2" }

Hypothesis

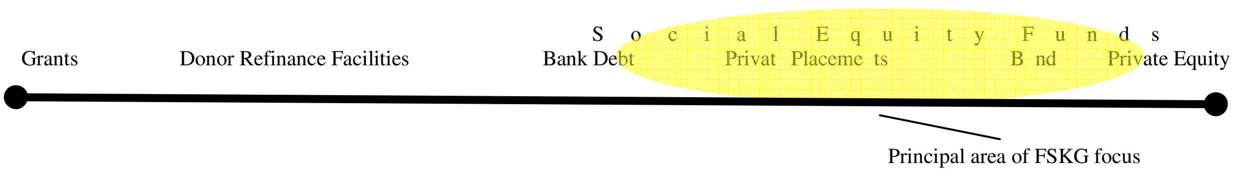
For the bulk of MFIs, private debt placements are a more promising source of capital than international equity.

Introduction

In an industry that seeks sustainability, rather than profits, it is no surprise that MFI growth from retained earnings has been slow in coming. External finance continues to dominate MFI financial strategies, and while there has been much anticipation of a coming wave of private capital, relatively few MFIs have graduated from dependence on donor funding to fuel their expansion. Equity placements remain largely confined to the international financial institutions (IFIs) and funds controlled by networks of MFI affiliates with less-than-commercial requirements for rates of return, dividend policies, and exit strategies. For private international investors, equity placements in MFIs are generally seen as too small and too exotic to justify their due diligence costs and country risks.

For the bulk of MFIs, interim steps to private equity are more promising. These steps might be seen as a continuum, on which commercial bank borrowing would appear near the center, with increasingly sophisticated investment vehicles extending toward the right. The type of investment with greatest untapped potential over the next five years may be private debt placements, especially medium- and long-term financing that could permit more MFIs to meet minimum regulatory requirements and provide a liability structure appropriate to the origination of longer-term loans and larger portfolios. Although few private investors are prepared to tolerate the lack of exit strategies from MFI equity, many may be prepared to take on the lesser risks required to earn an attractive return on debt that amortizes fully over a 5 to 10-year period. Credit enhancements, such as those offered through DCA, could jumpstart a number of such deals. Secured or unsecured, debt placements would also enforce greater discipline on MFI management than would the investments of most socially oriented equity funds.

Potential Sources of MFI Capital



The pool of potential lenders to MFIs is significantly larger than the pool of potential owners. The pool includes important domestic sources of funding, such as pension funds, insurance firms, and other local institutional investors seeking medium-term vehicles, most of which will not be troubled by the currency and country risks that investments in MFIs tend to pose for outsiders. Even outsiders, however, will be more open to placing debt than they are to placing equity. Exit strategies are inherent in contractually guaranteed amortization schedules, and it is far easier to quantify and accept repayment risk when the term of that risk is known.

Research Objectives

Our assumption is that the Chemonics-led Access to Capital activity will have adequately addressed issues related to international investors. On the domestic side, we propose to develop a typology of potential domestic investors, and a technical note, based on country cases, that documents the investment parameters of those domestic funders with the greatest potential to place debt in MFIs. These intermediate products will be supplemented by an assessment tool that USAID mission staff (or STTA they engage) can use to assess the potential for private placements by domestic investors, such as insurance and pension funds, in their own microfinance markets. Depending on the availability of resources, a final activity could be to assist a pilot MFI in approaching potential domestic funders.

Research Methodology and Country Selection

While the typology will be developed as a desk study, the technical note covering the investment parameters of different potential investors would be enriched by targeted interviews in the field. Country selection will be determined as the project evolves. Given budget limitations, selection will be partially driven by the presence and availability of one of the members of the research team in a country possessing both strong MFIs and a reasonably developed non-bank financial sector. By tacking one day of interviews on to each of several unrelated trips, a reasonable sample of pension and insurance firms could be accumulated.

A prototype of the market-assessment tool will be used to guide the in-field interviews and analysis of the members of the research team. The tool will be designed to produce results that highlight the salient characteristics of specific local investment markets, including:

- Number and size-ranking of potential institutional investors;
- Investment characteristics sought by potential investors (i.e., tenor, rate of return, credit enhancements, time-structure of repayments);
- Regulatory restrictions imposed on potential investors, with regard to investment sector or size; and
- Current profile of potential investors' portfolios.

The prototype will be refined after each usage, producing a user-friendly tool by the end of the activity. We propose to vet the tool within the access-to-capital community of practice hosted on the AMAP website and to expand that forum to include selected mission-based project officers to ensure that the tool is both cost effective and relevant to their programming needs. We will host a workshop to present the tool and our research findings to an audience of key USAID staff, to train personnel in its use and to disseminate knowledge generated to date.

Limitations of Research

Aside from compiling informal reactions by users through email, the LOE will be insufficient to evaluate fully the effectiveness of the assessment tool, once its use expands beyond the membership of the research team.

Audience for Research and Deliverables

The primary audience is USAID mission staff, though the deliverables should also be of interest to MFIs seeking outside investors.

Intended or possible venues/channels for dissemination

We hope to use a community of practice hosted on microLINKS as a primary forum for communicating the development of the assessment tool. When complete, the tool (as well as its component parts—the typology and the technical note) can be disseminated electronically as well as through a physical forum. The October 2005 SEEP AGM would offer a good venue for presentation of the topic's results, and SEEP's Financial Sector Working Group would also provide a valuable source of practitioner feedback.

Timetable for Research:

The following products will be delivered on the estimated schedule below:

Report on international investors (end of Q2) → Development of domestic investor typology (end of Q1) → Technical Note based on interviews in field (end of Q3) → Development and Presentation of Assessment Tool (end of Q4)

LOE and Selection of Firms and Personnel

A total LOE of 55 days has been allocated to this research topic, which will be managed by Mary Miller of DAI. Our proposed allocation of LOE appears below. It may be adjusted as the needs of the topic evolve.

Name	Level	Firm	LOE (in days)
Zan Northrip	I	DAI	10
Carlos Abreu	II	DAI	17
Mary Miller	I	DAI	20
Till Bruett	I	ACT	5
TBD	I	TBD	3
		Total	55

Research Topic: DCA and Other Credit Enhancements{ TC "Research Topic: DCA and Other Credit Enhancements" \f C \l "2" }

Hypothesis

Credit enhancements from DCA and other sources can be used to expand access to capital by MFIs, and to establish MFI relationships with formal financial sector funders that will eventually continue without a guarantee mechanism. DCA and comparable guarantees can speed the availability of credit to small and micro businesses.

Introduction

USAID's Development Credit Authority has been used to enhance MFI and bank operations, both by partially guaranteeing loans granted by MFIs and banks and by guaranteeing loans to MFIs so that they have more funds for on-lending. MFI-related DCA guarantees have been put in place for several institutions and in several countries.

In placing these guarantees USAID has strived to achieve one or both of the following objectives:

- Expand the type of lending being done by MFIs and banks, either by product type or customer, to reach more small scale and micro businesses
- Establish bank-MFI financial links that will provide liquidity for the MFI and a profitable asset for the bank.

In both cases the expectation is that the MFI and/or the bank will eventually continue its lending without a guarantee.

In many respects a DCA guarantee can be thought of as a way to assume some of the risk that a financial institution bears during the "learning curve" period of establishing a new product or relationship. If the issues and problems that arise, and the ways in which they were handled, during this learning curve can be documented and publicized, more MFIs and banks might become interested in trying these types of products and lending relationships as they would be better able to anticipate and therefore mitigate risk.

To date over twenty DCA guarantees have been committed to support MFI operations and expansion as described above, and even more banks have been given DCA guarantees to enhance lending to small scale businesses. This research project will document the increase in credit available because of the guarantee, and will also investigate the instances of failure, i.e., those instances in which the facility has not been accessed.

Additionally, this project will research uses of other guarantees or financial leverage to support expansion of MFI operations as described above.

Research Objectives

The research objectives for this activity are:

- 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

Research Methodology and Country Selection

Initially, researchers will first review the approval documents and usage data of the DCA guarantees to compile information on the specific MFI and bank MSME lending DCA deals, as well as on the objective of the credit enhancement, utilization of the facility, and reporting information to date. Researchers will review usage of these and other facilities targeted at increasing small scale lending. Once this is completed researchers will meet with Office of Development Credit (ODC) staff and MD staff to strategize next steps. These are expected to include an e-mail inquiry with telephone follow-up to the Mission staff and/or technical assistance project staff responsible for implementation and monitoring of the usage, as well as one-on-one meetings in the field with banks and MFIs to discuss changes in lending policies and patterns.

Following the completion of the desk study and upon approval from USAID, researchers will also identify credit enhancement mechanisms that increase funding sources for MFIs, by sourcing information from USAID Washington and mission staffs, CGAP, IADB, MFI affiliate networks such as ACCION and FINCA, and others, and will follow the steps to create a desk study similar to the one described above. The study will particularly look for:

- Credit enhancement programs that have been established by national governments in countries where USAID operates (or has recently operated), which target MFIs and which are actively used. (Note that the study will not be documenting credit enhancement programs established to risk-share on loans to microentrepreneurs or SMEs, such as the U.S. Small Business Administration's 7a guarantee program.)
- Examples of progress in development of MFI–lender relationship. An example of this might be a bank willing to accept a lower level of collateral from an MFI in lending for on-lending, as the bank becomes more familiar with MFI operations.

The work is expected to be conducted as a series of desk studies, with selected in-depth reviews for particular institutions as described above. This study will be done in conjunction with a similar review being conducted for the ODC. To the extent that site visits are included it is expected that they would be piggy-backed onto other travel to the country/region, creating only small additional costs for per diem and local or regional travel.

Limitations of Research

The research on other non-DCA credit enhancements is not intended to be a statistical in nature, but more anecdotal.

Audience for Research and Deliverables

Initial deliverables will be:

- Desk Study on use of DCA to enhance MFI operations
- Desk Study on use of DCA to increase bank lending to small scale businesses

Secondary deliverables (if approved by USAID) would include:

- Desk Study on other credit enhancement vehicles used to enhance MFI operations

- Guide for mission staff, drawn from exemplary cases/best practices documented in both studies
- 2 years later – updates on original desk studies, to measure performance of DCA vehicles that have been in place for an extended period

Audiences are intended to be:
- USAID and other donors, to assist them in designing DCA guarantees and other credit enhancement mechanisms
- MFIs, in seeking additional funding sources and markets

Intended or Possible Venues/Channels for Dissemination:

The desk studies and the guide will be available through microLINKS, and disseminated electronically to all USAID missions with microfinance portfolios. Results will also be highlighted in (separately funded) DCA workshops presented for USAID staff and contractors. Additionally, results may be presented at broader microfinance conferences and workshops.

Timetable for Research

Products will be delivered on the estimated schedule below:

Desk study on DCA (beginning at the end of Year 1, Q4 and completed in early Q1 of Year 2) → Desk study on other credit enhancements (TBD upon USAID approval) → Development of Guide (TBD upon USAID approval)

LOE and Selection of Firms and Personnel

The LOE for the initial review and mining of data is as follows:

Name	Level	Firm	LOE (in days)
Mary Miller	I	DAI	3
John Jepsen	II	DAI	12
Andrew Iappini	III	DAI	12
		Total	27

Depending on the outcome of the desk studies additional LOE (a total of 48 days remain) will be designated for development of guide and desk studies on other credit enhancements. The following LOE remains:

Name	Level	Firm	LOE (in days)
Mary Miller	I	DAI	16
John Jepsen	II	DAI	16
Andrew Iappini	III	DAI	16
		Total	48

THEME 6—ENABLING ENVIRONMENT FOR MICROFINANCE{ TC "THEME 6—ENABLING ENVIRONMENT FOR MICROFINANCE" \F C \L "1" }

Research Topic: The Role of Networks{ TC "Research Topic: The Role of Networks" \f C \l "2" }

Hypothesis:

Networks' success in delivering services advocacy will emanate from a holistic approach to network development that places emphasis on developing sound network sustainability strategies. The understanding and implementation of these strategies will improve the institutional sustainability, professionalism, credibility and impact of country-level microfinance networks on the microfinance industry in the key areas of policy advocacy, information exchanges, and assisting individual institutional strengthening.

Introduction

MF networks represent a union of a diverse group of MFIs within a country that come together as an association for 3 principal reasons: (1) to have a venue to share information critical for the healthy development of the industry (2) to address the institutional weaknesses of their individual institutions and (3) to advocate for an enabling policy environment to facilitate healthy institutional growth and competition in the industry. A microfinance network serves as an "industry association" for the microfinance industry within a country, and thus represents the collective voice of its members to key external actors such as government entities, the private sector and the donor community. A particularly critical service expected from microfinance networks is in the area of policy advocacy. MFIs expect that microfinance networks will represent their interests and influence policymakers to legislate for an enabling environment for microfinance activities.

The services that networks provide can be categorized in two ways: as public goods, such as the above-mentioned policy advocacy activities; and as more discrete, fee-based services, such as training. These distinctions directly relate to the bigger issue of network sustainability. Networks' success in delivering services such as policy advocacy will emanate from a holistic approach to network development that places emphasis on developing sound network sustainability strategies.

At present, however, the anecdotal evidence collected by the SEEP Network suggests that most microfinance networks fall in the nascent or emerging stages of institutional development. These findings point out that networks must focus on strengthening themselves as a prerequisite for delivering demand-driven, value-added services to their constituents. Therefore, with the ultimate goal of strengthening and professionalizing country-level MF networks, SEEP proposes a research agenda that will critically examine network experiences and extract from these experiences lessons learned, promising practices and factors for success.

Research Objectives and Research Activities to Date:

The primary objective of this research activity is to determine areas of institutional strengthening needed for MF networks to effectively deliver key services, such as policy advocacy, to their constituencies.

SEEP has developed the conceptual framework with which the data gathered through network assessment activities will be analyzed. This framework outlines a methodology for determining and prioritizing technical assistance needs that includes analysis of the networks' internal capacity (governance, management, human resources, financial sustainability) and their capacity to provide external service delivery (policy advocacy, information dissemination, capacity building, performance monitoring).

SEEP will conduct participatory consultations with networks, using the SEEP Network Capacity Assessment Tool, to determine their precise technical assistance needs. In Year One, SEEP completed two extensive consultations with regional networks ("networks of networks"): AFMIN in Africa and Red CAMIF in Central America. These consultations included meetings and assessment work sessions with the network, meetings with member networks, donors, MFI members of the national networks and relevant government representatives. SEEP has recruited an additional 15 networks that will participate in the research.

SEEP developed a structured working group data collection methodology that was used during the SEEP Annual General Meeting in October. SEEP conducted four structured working group discussions, which collected information from eleven country-level and three regional microfinance networks on internal management, operational and external service delivery experiences with an emphasis on policy advocacy, performance monitoring and sustainability.

SEEP also completed the desk study/literature review of published information on microfinance networks and internal network capacity assessment reports. This information will provide appropriate background and context for data analysis, as well as identifying existing gaps in the knowledge base. This review of published information complements the primary research being done, and will ensure a broad-based understanding of networks' technical assistance needs.

In addition, the research methodology will collect policy advocacy experiences from more mature industry associations beyond the microfinance industry. Insights from successful and influential industry associations will broaden the thinking on the role and potential of MF networks and provide ideas on how they can wield more influence.

Upon completion of data collection, SEEP will create a series of case studies of specific network experiences and perform comparative analyses. SEEP will then disseminate initial findings and case studies for feedback and inputs from networks. Following this participatory review, SEEP will use the conceptual framework to analyze data and deliver the technical guide on network institutional strengthening strategies that yield results. The technical guide will identify key lessons learned, promising practices and success factors for high performing networks.

SEEP will also complete a technical note that documents the roles and value-added services that microfinance networks provide to member MFIs, a country's formal/informal financial sector and the industry at large. The technical note will include a practical tool to assist donors in determining how best to support MF networks.

SEEP has also developed a strong working relationship with the Office of Private Volunteer Cooperation. The initial assessments described above were completed with funding under a separate project with PVC. PVC is quite active in supporting networks, and is interested in collaborating closely with SEEP in the creation of the technical note.

Audience for Research and Deliverables:

The principal audiences for the research are 1) USAID, particularly USAID missions, and other donors that support networks, and 2) the global community of microfinance networks and their member MFIs.

Intended or possible venues/channels for dissemination:

The dissemination strategy will incorporate SEEP's Network Development and Strengthening program methodology which is to strengthen networks through lateral learning activities. SEEP will facilitate the dissemination of the research findings by organizing global and regional networks summits; delivering network training courses and technical assistance; and facilitating information sharing through its specialized network-specific web-based communication technology.

Timetable for Research:

This research activity began in January 2004 and the final output, a reference guide for MF networks will completed no later than June 2005.

Activities	2004 3rd Qtr	2004 4th Qtr	2005 1st Qtr	2005 2nd Qtr	2005 3rd Qtr	2005 4th Qtr
Perform assessment of networks' precise technical assistance needs	X					
Review existing literature	X					
Recruit networks to participate in research agenda	X					
Develop a conceptual framework; design and pilot-test of research tools		X				
Collect data via questionnaires and structured on-site and off site interviews with networks		X	X	X	X	
Review and analyze data					X	
Draft initial guide.					X	
Disseminate initial findings and case studies for feedback and inputs from networks					X	X
Incorporate inputs and produce final guide						X
Develop short technical note on roles and value-added services that MF networks						X

provide						

LOE and Selection of Firms and Personnel

A total of 75 days were approved for this research activity, which will be managed by Sharyn Tenn of the SEEP Network with contributions from Patrick McAllister. The addition of the Level I researcher (Patrick McAllister) has reduced the total LOE to 53 days for a similar total dollar value (original budget of $63,071 compared to revised budget of $62,486). Sharyn Tenn has managed SEEP's NDS program since 1999, which provides institutional development services and technical assistance to country level networks. Our proposed allocation of LOE appears below:

Name	Level	Firm	TOTAL LOE
Sharyn Tenn, Research Leader	II	SEEP Network	15
Patrick McAllister	II	SEEP Network	38
		Total	53

Research Topic: Proving Microfinance Matters{ TC "Research Topic: Proving Microfinance Matters" \f C \l "2" }

Hypothesis

The development of strong microfinance markets produces positive externalities that include accelerated economic growth and increased economic resilience to shocks.

Introduction

Why promote microfinance, as opposed to other development interventions? A large part of the answer should be that microfinance makes a significant contribution to economic growth and financial sector development. But does it? Although significant resources have been—and continue to be—invested in the analysis of the direct impact of microfinance on the lives of the poor, the impact of the development of strong microfinance industries on broader economic issues has been largely ignored.

No longer. There is clear need for compelling case studies, as well as for generally applicable indicators that can be understood, cited, and disseminated by mission-based CTOs and decision makers in Washington. FSKG should support the emergence of new measures designed to capture the status, performance, and effect of the microfinance industry in a given economy. The critical questions are *what* to measure and *how*.

Objectives

The objectives of this research topic are two-fold. **First**, we propose to document the impact that strong microfinance sectors have had on economic performance in a handful of cases for which the anecdotal evidence is particularly promising.

We plan to document three types of impact:

- Reductions in benchmark interest rates through the financial sector deepening achieved by large microfinance depositories;
- Relief from credit crunches through the continued lending of large MFIs during general economic contractions; and
- Increased financial sector resilience to shocks, through the superior deposit stability of microfinance-oriented institutions.

> **What About GDP?**
>
> A fourth case could present the positive impact of consumption lending by microfinance-oriented institutions. Though often demonized in microenterprise circles, consumption lending is a significant stimulus of growth in developed economies, and appears to be playing a growing role in emerging markets. The rapid spread of consumer finance in developing countries may be accelerating growth in times of expansion. Further, in times of recession, consumption smoothing at the household level may translate into reduced business cycle volatility.

The cases will present specific evidence of strong microfinance industries that have measurably enhanced both resilience and growth.

Second, we propose to develop a set of cost-conscious, field-test-ready indicators of the level of development of local microfinance markets. Such indicators potentially include:

- MFIs as sources and uses of total financial sector funds;
- MFIs in flows of credit information;
- MFI market penetration;
- Contribution of MFIs to financial sector competition, outreach, and product ranges;
- MFI expansion capacity;
- Non-bank MFI linkages, alliances, and partnerships in the formal financial sector; and the
- Level of MFI financial and operational disclosures.

Such indicators could become long-term tools for assessing the effectiveness of USAID project funding.

Reductions in Benchmark Interest Rates through the Financial Sector Deepening Achieved by Large Microfinance Depositories

In Tanzania, growth in microdeposits has significantly outpaced growth in microcredit. As the largest depository in the country, Tanzania's National Microfinance Bank has become the biggest single source of liquidity in the local banking market, regularly supplying the likes of Citibank and Standard Chartered with short-term funds. More importantly, NMB's excess liquidity has led to its assumption of a dominant position in the T-bill market, where the bank's purchases appear to have had a direct effect on lowered yields for benchmark government bonds, and, by extension, on commercial borrowing rates for all firms seeking credit in Tanzania's financial sector. All other things equal, this reduced cost of credit—driven by an inflow of new deposits—should have a stimulative effect on economic growth. The Tanzanian case should be documented and examined for replicability in other markets.

Microfinance and Financial Sector Deepening in Brazil

Brazil may present a second ready example, where recent regulatory actions have loosened requirements for the opening and maintenance of deposit accounts at commercial banks, and a concession has been let to a private bank to launch savings and credit operations through the postal system. Through the postal system alone, over 580,000 current accounts were opened between June 2002 and June 2003, 80 percent of which are owned by customers with monthly incomes below $145. With points of service projected to grow to 4,000 (mainly in marginalized areas) by the end of the year, the mobilization of funds will be immense. What impact will these microsavings accounts have on borrowing rates in the well-developed but high-cost Brazilian financial sector, where consumer credit for the best customers runs at 5.5 percent per month?

Relief from Credit Crunches through the Continued Lending of Large MFIs During General Economic Contractions

Evidence suggests that institutions with substantial credit activities in the microfinance market segment are more resilient to economic shocks than are conventional institutions that focus on larger firms and wealthier individuals. In Indonesia, credit and profits continued to flow in BRI's microfinance operations throughout the financial crisis of the late 1990s. At the same time, many commercial banks went into receivership, and a general credit crunch shut down lending from conventional sources. How much farther might the Indonesian economy have spiraled down, had BRI not provided a safety valve by continuing to intermediate funds?

Increased Financial Sector Resilience To Shocks through the Superior Deposit Stability of Microfinance-Oriented Institutions.

In Bolivia, MFIs suffered a significant downturn early in the new millennium, but they continued to lend and perform at substantially higher levels than their upmarket counterparts. Less widely known is the behavior of Bolivian deposits. While conventional commercial banks lost up to 25 percent of their deposits in the third quarter of 2002, microfinance depositories suffered no run off and actually increased deposits valued at less than $500. It appears that strong microfinance institutions enhance systemic resilience to financial crises by injecting new, stickier deposits into the financial system.

Research Methodology and Research Activities to Date

For the first set of objectives, we are now proposing a set of technical notes focused on the specific cases described above. We have selected these cases and areas of impact based on several factors, including:

- Geographic and economic diversity—it is difficult to imagine a more disparate group than Tanzania, Bolivia, Indonesia. Their selection should attract a broad audience and countervail potential arguments that the positive externalities of strong microfinance markets are limited to a particular subset of countries.

- Likelihood of finding significant impact—there is already significant evidence of microfinance's impact on the economies in question.

- Ease of analysis—to a large extent, existing data sets (including statistics on total systemic deposits, T-bill market activity, and total flows of credit) can be used to document the impacts we are attempting to demonstrate.

However, we are open to considering alternative cases or areas of impact and propose to continue a dialogue with USAID in the closing weeks of 2004, as we finalize our case selection. Mongolia, for example, might provide an interesting case of a transitional economy. Final selection of cases will determine which cases can be documented through desk efforts, and which will require travel. The current budget envisions three international trips.

A succinct policy memorandum targeting donor and host-government audiences will synthesize the key findings of the cases.

For the second set of objectives, OSU has spent an estimated 20 days of LOE over a period of several months working on a desk review assessing which commonly available macroeconomic and financial data series would best shed light on the systemic impact of strong microfinance industries. A draft report has been submitted and revised, but it is not yet a compelling document that will generate the desired level of interest among USAID mission staff.

FSKG management now believes that it would be better to reverse the order in which research activities under this topic are pursued. It was originally planned to launch the topic with the desk review and its development of a new set of indicators targeting systemic impact, followed by the execution of a brief series of case studies that put the indicators to use. We now suggest putting the indicator development effort temporarily aside and proceeding directly to those cases in which systemic impact is clearest. We believe these cases will stimulate interest across a significant range of USAID staff concerned with general economic and financial sector development. By doing the cases first, we will create a more receptive atmosphere for the subsequent piloting of impact indicators aimed at showing how the growth of microfinance – on both the credit and savings side – can have positive externalities for the broader economy.

Following completion of the case studies, the team will produce a draft set of new metrics for discussion within a community of practice to be hosted on microLINKS, as well as in other industry forums. Since buy-in from missions and practitioners will be crucial to the successful adoption of these indicators, we suggest hosting a half-day workshop in Washington, as well as a one-week virtual conference to ensure that representative comments are heard and incorporated. All USAID mission staff managing microfinance portfolios will be invited to participate, as will mission and Washington staff working on other aspects of economic growth.

Following this round of commentary and revisions, we will produce a second draft of the indicators and seek two to three USAID missions willing to implement them on a pilot basis. We would target especially those missions with portfolios that combine microfinance industry building activities with more traditional economic growth projects. Some missions may be motivated enough to fund on-site assistance to establish or add to their monitoring and evaluation frameworks. Missions may also wish to delegate monitoring of the new metrics to their microfinance-industry building (i.e., umbrella) projects. As Chemonics and DAI are the prime contractors for nearly all such projects, this approach, too, could be easily accommodated through FSKG.

Research Activities During Year Two

First set of objectives

Selection of cases (by December 2004) → Completion of 3-4 case-based Technical Notes (by April 2005) → Completion of Policy Memorandum and Final Workshop (by September 2005)

Second set of objectives

Draft indicators (by June 2005) → Refined indicators (by September 2005) → Report on Pilot implementation (by June 2006)

Limitations of Research

For the first set of objectives, we have purposely chosen areas of impact for which existing national statistics can be used in documenting our cases. However, we may find that additional data would strengthen our cases, and the research topic lacks resources for significant primary research. Mitigating this limitation is the fact that we are attempting, in this topic, to document positive externalities of microfinance market development in which USAID may have played a significant role. Should the need for additional resources arise, missions may be willing to contribute their own funds toward an effort that will help document and publicize their good works.

For the second set of objectives, it will be difficult to gauge fully the usefulness and applicability of the indicators for the level of development of microfinance markets, within the term of this research activity. While the indicators can be developed, disseminated, and launched for field testing, alternative mechanisms will be required to follow (and likely refine) the indicators over the extended period of time required to monitor their relevance and ease of use.

Audience for Research and Deliverables

If successful, the audience for this topic should be among the broadest in the FSKG research agenda. While our research products target primarily a USAID mission audience, the policy memorandum is intended to hit policymakers within USAID/Washington, other donors, and host governments.

Intended or possible venues/channels for dissemination

In the first set of objectives, it may be appropriate to use one or more days of the virtual conference to communicate the case study findings. Technical notes documenting the specific cases will also be disseminated widely to mission and USAID/Washington audiences. The policy memorandum synthesizing the case experiences will be the subject of a physical workshop that we anticipate will attract a broad USAID and non-USAID audience. All documents will also be posted and disseminated electronically through the MicroLINKS website.

In the second set of objectives, we hope to use a community of practice hosted on the MicroLINKS website as a primary forum for communicating the research and development of our draft indicators. We will further broaden the audience through a half-day physical workshop in Washington, and a virtual conference designed to include mission staff and other non-Washington participants. The revised indicators—as well as the implementation and initial results of the pilot implementation of the revised indicators—will be reported on the MicroLINKS website, and pushed out to mission audiences through electronic dissemination.

LOE and Selection of Firms and Personnel

A total LOE of 150 days has been allocated to this research topic, which will be led by Zan Northrip of DAI, with critical inputs from OSU, financial sector economists, and the monitoring and evaluation expertise of QED. Our proposed allocation of LOE appears below. It may be adjusted as the needs of the topic evolve.

Name	Level	Firm	LOE (in days)
Zan Northrip (Mgr/Case Contributor)	I	DAI	25
Matt Macellaro (Tanzania Case)	I	DAI	10
Don Johnston (Indonesia Case)	I	DAI	10
Marcelo Villafani (Bolivia Case)	II	OSU	10
Franz Gomez (Bolivia Case)	II	OSU	10
Claudio Gonzalez Vega (Indicators)	I	OSU	8
Jorge Rodriguez Meza (Indicators)	II	OSU	12
Pat Vondal (Indicators)	I	QED	40
TBD (research assistant)	III	DAI	15
TBD (specialist/economist STTA)	I	TBD	10
		Total	150

Research Topic: Standardized Accounting and Disclosure Regimes{ TC "Research Topic: Standardized Accounting and Disclosure Regimes" \f C \l "2" }

Hypothesis

Standardized accounting and disclosure regimes can benefit non-depository MFIs and their supporters, without overburdening regulators or imposing unnecessary costs on the institutions themselves.

Introduction

In response to pressures to apply prudential regulation and supervision to non-depository MFIs, a handful of countries have responded with the alternative of transparency through standardized charts of accounts and performance indicators.

Pressures placed on bank regulatory agencies to take responsibility for microfinance institutions that do not take deposits from the general public but are receiving, or might receive, donor funding are readily understandable—this can substitute for donor due diligence while providing credibility to non-deposit-taking microfinance institutions. However, this runs contrary to the generally accepted mandate for prudential regulatory agencies to cover only deposit-taking institutions. Giving responsibility for due diligence over non-deposit-taking institutions to bank regulatory agencies is problematic because of the need to focus these regulatory resources fully on essential responsibilities for the soundness of the overall financial system and dealing with problem banks in particular. Extending prudential regulatory responsibilities to non-deposit-taking institutions involved in microfinance can also create potentially serious conflicts of interest between regulating and promoting, as bank regulatory agencies are often pressured to introduce specialized supervision for microfinance institutions that is meant to move these institutions along toward financial viability rather than focusing on the risks posed by their operations.

Recognizing that "just saying no" to pressures to extend prudential regulation to non-deposit-taking institutions may not provide an acceptable solution either for donors or microfinance institutions, an alternative approach based on the promotion of transparency has emerged in Guatemala, Honduras and the Philippines, the implementation of standardized accounting requirements and performance indicators for non-depository MFIs is fast becoming a prerequisite for donor support.

Using the chart of accounts required for banks in the country as the basis for standardized accounting has the advantage of facilitating comparisons across major types of financial institutions – a key element of transparency. Such standardization also facilitates the work of external auditors and rating agencies, with the potential further benefit that increased transparency may open doors to commercial sources of funding. Through this approach, moreover, microfinance institutions that do not take deposits avoid the (often substantial) costs of prudential regulation and supervision, while simultaneously easing the way to possible transformation to regulated deposit-taking institutions by having already implemented the required chart of accounts. In addition, donor agencies have in some cases promoted standardized accounting not only by requiring it but also by assisting with implementation (e.g., in conjunction with support for IT systems).

Research Objectives

The immediate objectives of this research are two-fold:

(1) to examine what has been accomplished in the three countries (Guatemala, Honduras and the Philippines) where greater transparency is being pursued by promoting standardized charts of accounts and performance indicators for non-deposit-taking microfinance institutions, rather than subjecting these institutions to costly prudential regulation and supervision; and

(2) to survey as wide a range as possible of other countries with significant microfinance sectors to ascertain what approaches to non-depository MFIs have been taken elsewhere, and the extent to which these other approaches have fostered a regulatory environment in which non-deposit-taking microfinance institutions can innovate and grow while avoiding both the potentially heavy costs of full-scale supervision and the excessive risk-taking that could damage the larger microfinance industry.

The ultimate objective of this research is to provide a satisfactory alternative to having prudential regulatory agencies go beyond their traditional bounds of dealing only with banks and other deposit-taking institutions in guarding the safety and soundness of the financial system, while simultaneously satisfying the demands of many donor agencies and non-deposit-taking microfinance institutions for due diligence and credibility. On one hand, examining what has been accomplished in Guatemala, Honduras and the Philippines can suggest whether promoting transparency through standardized charts of accounts and performance indicators is indeed a promising approach to balancing the obligations of regulatory agencies with the demands of donors and non-deposit-taking microfinance institutions for regulation. On the other hand, the surveys can suggest the extent of the costs to both regulatory agencies and microfinance institutions where prudential regulation and supervision has been extended to non-deposit-taking institutions, the costs and risks of not extending prudential regulation and supervision and, finally, other promising alternatives that are being pursued to balance these obligations and demands.

Research Methodology and Country Selection

Research would be initiated by surveying as systematically as possible approaches in different countries to the regulation of microfinance institutions that do not take deposits from the general public. Specifically, pending approval of this research activity, a tentative arrangement has been made with the Microfinance Information Exchange (MIX), publishers of *The MicroBanking Bulletin*, which surveys approximately 150 microfinance institutions on a regular basis, to add four questions to their next survey that would cover prudential regulation and required accounting standards for non-deposit-taking microfinance institutions. Based on the results of this survey, USAID Missions active in microfinance would then be asked to provide answers to an expanded survey of these regulatory practices and required accounting standards, including the involvement of USAID and other donors in promoting various regulatory practices and accounting standards for microfinance institutions that do not take deposits. Key multilateral and bilateral donor agencies (World Bank, IDB, ADB, GTZ, CIDA, DFID, etc.) would also be approached to participate in such a survey, with particular focus on countries in which USAID is not active. The results of these surveys would be written up and disseminated as described below, and further funding would be sought to pursue additional case studies (similar to those outlined below for Guatemala, Honduras and the Philippines) where survey responses indicate promising approaches.

The case studies will begin by examining the progress made in Guatemala, Honduras and the Philippines in implementing standardized accounting and performance indicators. Barriers encountered to implementation will be detailed, along with efforts to overcome these barriers and their success. Successful approaches to promoting implementation (e.g., through networks or in combination with IT support) will also be noted. Then, to the extent possible given the limited amount of time that has passed, any impacts from implementation will be investigated. This would include in particular increased access to funding by institutions that have implemented standardized accounting as compared to those that have not. It would also detail any differences in risk detection and risk management as well as additional costs encountered in implementation of standardized accounting. The results of these case studies would be written up, emphasizing similarities and differences among the experiences in the three countries, with dissemination as described below.

Limitations of Research

This research faces the two limitations of virtually all research: time and money. Time is a limitation especially in that not enough time will have passed to be able to ascertain the full impact of any progress toward transparency in Guatemala, Honduras and the Philippines, that is, whether this approach has allowed microfinance institutions to expand their sources of funding without incurring excessive risks and without imposing excessive costs on these institutions or on the institutions that would have been responsible for their prudential regulation and supervision. Money is an important limitation in that funds are not currently available to do additional cases studies, that is, to pursue in depth any cases where promising alternatives are uncovered, or to substantiate more thoroughly the costs of full-fledged prudential regulation and supervision of non-deposit-taking microfinance institutions, or evaluate the risks and limitations of allowing complete free rein to non-deposit-taking microfinance institutions.

Audience for Research and Deliverables

This research will be of direct interest to regulatory agencies, to MFI networks and individual non-depository MFIs, and to USAID project officers and other donor officials supporting the development of appropriate enabling environments for microfinance.

Intended or Possible Venues/Channels for Dissemination

The results of the survey, case studies and overall analysis will be disseminated in written reports and through postings on the AMAP website and other electronic fora. In addition, presentations will be offered to USAID missions in countries where in-depth studies have been carried out and, with adequate funding, at other seminars hosted by international agencies and bilateral donors.

Timetable for Research

Research would begin with the initiation of surveys in January 2005 The case studies would be carried out during the second and third quarters of 2005, with draft reports covering surveys and case studies finished by the fourth quarter of 2005.

The following products will be delivered on the estimated schedule below:

Microbanking Bulletin survey and follow up surveys carried out (end of Q2, 2005) → Case studies completed (end of Q4, 2005) → Draft report submitted for comment (mid-point Q1, 2006) → *Final Report* (end of Q1, 2006)

LOE and Selection of Firms and Personnel

A total LOE of 40 days has been allocated to this research topic, which will be managed by Bob Vogel of IMCC. Our proposed allocation of LOE appears below. It may be adjusted as the needs of the topic evolve.

Name	Level	Firm	LOE (in days)
Robert Vogel	I	IMCC	25
Felix Rivera	I	IMCC	10
Piedad Geron	TCN	IMCC	5
		Total	40