



CHEMONICS INTERNATIONAL INC.

**Peru Increasing Microfinance for the Poor Activity
SEGIR Financial Services IQC
OUT-PCE-I-00-99-00007-00, Task Order 812**

Quarterly Performance Report No. 1

June 19, 2002 – September 30, 2002

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SEPTEMBER 2002 QUARTERLY REPORT

SEGIR Financial Services/Peru IMPACT

Under the Financial Services Indefinite Quantity Contract (IQC), on June 19, 2002 the Chemonics consortium was awarded a task order to provide financial services in support of the “Increasing Microfinance for the Poor Activity” (IMPACT) in Peru (Contract No. OUTPCEI00990000700, Task Order 812). The contract is being implemented by Chemonics International Inc., as the lead firm, and Ohio State University, Shorebank Advisory Services, J.E. Austin Associates, and International Consulting Consortium as subcontractors. The duration of the task order is about two years, during which time we anticipate contracting consultants to deliver technical assistance to improve the quality of performance of Peru's microfinance institutions and their financial and regulatory environment. The assignments, as conceived by USAID, are divided into intensive, focused, and quick technical assistance services. Intensive assignments are structured to work with a client periodically over about nine months (MITA); focused assignments will be shorter and more precise in nature, lasting about a month (FTA); and the latter (quick) is contemplated to be a week in duration and include diagnostics, training courses, lectures and interviews, market research, focus groups, and interviewing key policy makers (QTA). The subject matter will vary, but will include: credit technology, new product development (credit and savings), new financial services (insurance, housing, money transfers), management information systems, governance structures, mergers and strategy, regulation and supervision, prudential norms, expanding credit reference systems, and creating second tier funding mechanisms.

This report summarizes Chemonics/IMPACT’s activities this quarter, describes any problems which have arisen during implementation, outlines solutions to problems and presents a preview of the activities to be undertaken during the next quarter. It also contains a summary of level of effort and expenditures, by quarter and cumulative through the life of the project.

A. Activities During the Quarter

This section presents an overview of the quarter’s technical accomplishments, deliverables submitted and consortium management

A1. Technical Accomplishments

During this first quarter of the task order Chemonics worked in close contact with USAID and COPEME to initiate the project and begin delivering technical assistance. A supervisory trip was taken by Melissa Logan, the senior manager for the project, to meet with COPEME and USAID to develop an initial six month work plan, as well as to establish important communication, management logistics and consultant selection operating procedures.

As a result of the work planning activity scopes of work for several consultancies were written and some specific assignments were begun during the quarter. The following is a summary of the consultancies initiated.

A1a. PRISMA Financial and Operational Governance (MITA)

During the quarter terms of reference were developed to assist PRISMA's board of directors to understand and adopt important changes required to improve governance, financial discipline and operational/organizational clarity. A consultant, Gonzalo Puente, was selected by COPEME, PRISMA and Chemonics, and was approved by USAID to begin work in September, 2002. It is conceived that Mr. Puente will take approximately six trips to Peru over a period of six months. Mr. Puente will produce trip reports for each of his visits to Peru, annexing specific deliverables prepared during each trip. At the end of the consultancy he will prepare a final report. Mr. Puente's first trip report will be submitted during the following quarter.

A1b. Andean Microfinance Training Course (QTA)

Progress was made during the quarter to develop the curriculum and structure for an Andean Microfinance Training Course to be sponsored by USAID and COPEME, November 4-15, 2002. The training program will focus on exposing microfinance institution managers to the tools and methodologies necessary to achieve long-term, sustainable growth. Courses include: Microfinance and the Enabling Environment, Information Management for Microfinance, Product Costing and Activity Based Costing, Financial Management for Microfinance and Human Resources for Microfinance. Participants will gain knowledge of important case examples and programs from around the world and enjoy the opportunity to share ideas and solve problems with fellow participants and leading experts in the field, both within and outside the classroom. Terms of reference for four courses were developed and consultants recruited to prepare and deliver each of the courses. Instructors include: Laura Frederick (Chemonics), Luis Bocchio (Chemonics), Lorna Grace (SAS), and Claudio Gonzalez-Vega (OSU). Evaluations of the course and instructors will be presented in next quarter's report.

A1c. Caja Municipal de Arequipa: Seminario de Riesgos (QTA)

Terms of reference were developed to bring a risk expert to Peru to present at the Seminario de Riesgos on November 7-8, 2002 in Arequipa. A consultant, Javier Fernandez, was recruited from the Bolivian Superintendency of Banks and Financial Intermediaries to deliver a two hour presentation on: understanding the differences between commercial banks and MFIs (client base, lending models, ownership structure); exercising effective oversight (protecting against fraud, sanctioning insolvent institutions, organizing for supervision); and balancing between establishing strong minimum standards and being flexible and innovative. The instructor will use Bolivia as a case study for exploring the role of risk in regulating and supervision MFIs. The case study will focus on the Superintendency's role in supervising: portfolio risk (minimum capital, capital adequacy, liquidity, asset quality and portfolio diversification), ownership and governance, and management risks. It will highlight, to the extent that it is relevant, the pros and cons of the Bolivian credit bureau in creating and/or mitigating against risk.

A1d. Financiera Solucion: Evaluation of CRECER (FTA)

During the quarter USAID worked with Financiera Solucion to prepare terms of reference for a consultant to evaluate Solucion's loan product *CRECER*. The consultant will review *CRECER*'s

objectives, operating procedures and results over the past year to determine ways in which *CRECER*'s performance can be improved during the next year. The consultant will also provide USAID with a document outlining the critical indicators for effective monitoring and evaluation of the Development Credit Authority (DCA) guarantee of the *CRECER* portfolio.

Dinos Constantinou was selected by Financiera Solucion, USAID and Chemonics to undertake the assignment. His work will begin next quarter.

A2. Deliverables Submitted

“COPEME-USAID-Chemonics Basic Operating Assumptions,” Melissa Logan.

“Seminario de Riegos: El riesgo de regulación y supervisión de las instituciones microfinancieras, Terminos de Referencia,” Melissa Logan

“Andean Microfinance Training Course: Microfinance and the Enabling Environment, Terms of Reference,” Melissa Logan

“Andean Microfinance Training Course: Microfinance Financial Management, Terms of Reference,” Melissa Logan

“Andean Microfinance Training Course: Microfinance Management Information Systems, Terms of Reference,” Melissa Logan

“Andean Microfinance Training Course: Microfinance Product Costing, Terms of Reference,” Melissa Logan

A3. Consortium Management

Chemonics was active during the quarter ensuring the appropriate systems are in place for the effective management of the project. These systems include: communication, contracts, and performance monitoring/tracking. As part of her trip to Lima, Ms. Logan met together with the technical office (Eduardo Albareda, Jaime Giesecke) and the contracts office (James Dunlap) to hold a post award orientation. The purpose of this meeting was to review the contract, clarify interpretations of contract language and establish administrative guidelines for the implementation of Chemonics/IMPACT. A document clarifying interpretations of contract language was prepared and agreed to by all parties.

Also related to consortium management, Chemonics held lengthy meetings and/or teleconferences with each of the subcontractors to share with them the activities identified in the work plan session and discuss collaboration on upcoming assignments. In preparation of anticipated participation on upcoming assignments Chemonics prepared sub-task orders for Ohio State University, Shorebank Advisory Services and J.E. Austin and Associates. The sub-task orders will become effective when the subcontractors provide personnel for specific assignments under the task order. A subcontract was also prepared for International Consulting Consortium, (ICC). When and if ICC is selected to provide services under the task order the subcontract will be submitted to Mr. Dunlap, the Contracting Officer, for his consent.

B. Technical Activities Planned for Next Quarter

During the next quarter it is anticipated that the above referenced consultancies will continue. In addition, Michelle Rodriguez the Project Administrator for Chemonics/IMPACT, will travel to Peru to meet with COPEME and USAID to discuss activities for the first and second quarters of 2003. It is expected that after the trip terms of reference for new activities will be developed and recruit of personnel initiated for assignments beginning in January 2003.

C. Problems and Proposed Solutions

No problems were encountered during the quarter.

D. Level of Effort and Financial Summary

The following is the level of effort and financial summary for the period of June 19 through September 30, 2002.

LINE ITEM	TOTAL BUDGET	EXPENSES THIS QUARTER	CUMULATIVE EXPENSES	REMAINING BALANCE
Level of Effort	736	21	21	715
Work Days Ordered	\$781,367	\$15,206	\$15,206	\$766,161
Total Materials	\$283,977	\$4,277	\$4,277	\$279,700
TOTAL COSTS	\$1,065,344	\$19,483	\$19,483	\$1,045,861