

**Matching Grant Final
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**Prepared by
Mennonite Economic
Development Associates**



**155 Frobisher Drive, Suite I-106
Waterloo, ON N2V 2E1 Canada**

**T: (519)725-1633
F: (519)725-9083**

MEDA'S MATCHING GRANT PROGRAM

End of Project Final Report

Table of Contents

EXECUTIVE SUMMARY	1
1. BACKGROUND TO GRANT AND PROJECT CONTEXT.....	2
1.1 Project Context at MEDA Headquarters	2
1.2 Project Context for Peru	2
1.3 Project Context for Mozambique.....	3
1.4 Rational for Project Extension	4
2. PROJECT METHODOLOGY	6
2.1 Summary of Project.....	6
2.2 Summary of Accomplishments	7
2.2.1 Organizational Development	7
2.2.2 Technical Intervention	8
2.2.3 Partnership	9
2.2.4 Sustainability	9
2.3 Variances from DIP.....	10
3. MONITORING AND EVALUATION	11
3.1 Changes to Monitoring and Evaluation Plan	11
3.2 End of Project Final Evaluation.....	11
4. REVIEW AND ANALYSIS OF PROJECT RESULTS BY COUNTRY - PERU.....	12
4.1 Description.....	12
4.1.1 Specific Outputs Achieved.....	12
4.1.2 Effects on Target Group by Gender	14
4.1.3 Problems Encountered.....	14
4.1.4 Impact on Local Institutions, Local Policy and People Outside the Project.....	14
4.1.5 Unintended Effects	15
4.2 Comparison of Actual Accomplishments to DIP	15
4.3 Relationship with Local Implementation Partners	15
5. REVIEW AND ANALYSIS OF PROJECT RESULTS BY COUNTRY – MOZAMBIQUE ...	16
5.1 Description.....	16
5.1.1 Specific Outputs Achieved.....	16
5.1.2 Achieving Sustainability.....	18
5.1.3 Effects on the Target Group on Gender	19
5.1.4 Problems Encountered.....	19
5.1.5 Impact on Local Institutions, Policy and People Outside the Project.....	20
5.1.6 Unintended Effects	20
5.2 Comparison of Actual Accomplishments to DIP	20
5.3 Relationship with Local Implementation Partners	20
6. MANAGEMENT: REVIEW AND ANALYSIS OF HEADQUARTERS/SUPPORT FUNCTIONS.....	21
7.0 FINANCIAL NARRATIVE REPORT, PERIOD ENDING MARCH 31, 2005	25
8.0 LESSONS LEARNED AND LONG-TERM PROJECT IMPLICATIONS.....	26
9.0 CONCLUSION.....	29

ATTACHMENTS

MEDA MATCHING GRANT PROGRAM

CREDIT AND SMALL BUSINESS DEVELOPMENT PROGRAMS

USAID Award No. HFP-A-O-00020-00

EXECUTIVE SUMMARY

MEDA's Matching Grant (MG) program came to a close in March 2005 with the completion of a six-month unfunded extension period. The grant was implemented at a headquarter (HQ) level for institutional strengthening and at a country-specific level in Peru (agricultural productivity chains) and Mozambique (microfinance). For the most part, goals in all three project components have either been met or, in some cases, exceeded targets. There are a few remaining activities, such as training, that will continue past program completion to allow strengthening of MEDA's capabilities and ongoing contribution to industry learning.

As an institutional strengthening grant, MEDA's activities focused on organizational restructuring as well as development of Business Development Services (BDS) capabilities. Under the MG program, the following results have been realized:

- A more focused departmental organization that allows for increased leverage of in-house expertise and enables management to more effectively deploy its resources;
- Staff at both a headquarters and field-level are better equipped with more technically defined strategies and tools;
- Development of IT products and tools that allow for greater assessment and monitoring of existing and future projects; and
- Recognition as an industry innovator with a stronger capacity to design and execute BDS and microfinance programs.

On a country level, the MG Grant has allowed MEDA to explore new technical interventions, strategies, and tools to more effectively meet the needs of our clients and partners. With support from the MG, the following outcomes have been achieved:

- Transformation of MEDA's microfinance institution in Mozambique, *Kulane*, into a sustainable organization through a merger with a new initiative led by Opportunity International;
- Advancement of Mozambique's microfinance industry through training, technical assistance, and collaboration on new policy reforms and regulations;
- Design, testing, and analysis of productivity chain projects in Peru that explore new partnership models to help agricultural market players more effectively compete in markets leading to increased livelihoods.
- Development and commercialization of AgroMonitor, an MIS tool that assists project managers to more effectively monitor programs and evaluate impact.

As a result of the PVC Grant, MEDA is now a stronger, more focused organization that is better equipped to fulfill its mission. Even as the MG funding ends, MEDA's annual plan for next year indicates that we will be able to continue to grow and we are now well-positioned to serve the needs of our clients in the developing world

1. BACKGROUND TO GRANT AND PROJECT CONTEXT

For over fifty years, MEDA has demonstrated a successful track record in the design and execution of strategies and programs that improve the livelihoods of the economically active poor in developing countries. MEDA understands that in order to achieve long-term economic development, programs must be focused on approaches that enable the poor to participate more fully, and compete more fairly, in domestic, regional, and global markets. Throughout its history, MEDA's projects have endeavored to adhere to these project design principles and have adapted to reflect changing circumstances and environments both locally and globally.

A key factor in MEDA's success has been its ability to reflect introspectively and adapt its approach to assist the poor and, at the same time, learn from and share with the PVO community. Through the PVC matching grant, MEDA was able to adapt in a new competitive landscape and improve its ability to be both flexible and entrepreneurial in its approach to developing solutions for long-term economic development.

This matching grant was implemented at a headquarter (HQ) level for institutional strengthening and at a country-specific level in Peru (agricultural productivity chains) and Mozambique (microfinance).¹

1.1 Project Context at MEDA Headquarters

Prior to the Matching Grant (MG), MEDA's senior management had concluded that its international operations lacked specific BDS expertise and that MEDA was increasingly out-of-step with the emerging BDS program design trends and knowledge.

The HQ component of the MG focused on assisting MEDA to accomplish three main tasks:

- Overhaul the 'departmental' organizational structure of MEDA's International Operations into specific "technical" areas to better respond to the evolving needs of its' clients (the productive poor) and the demands of the international development marketplace;
- Update MEDA's core competencies in the area of BDS/PML (production and marketing linkages); and,
- Improve the effectiveness of MEDA's cross-cutting operations in specified areas (i.e.: gender performance, project monitoring and impact assessment; product and service innovation; deployment of in-house expertise; etc).

In 2003, during the process of the MG program, MEDA underwent a corporate restructuring designed to facilitate greater technical competency in the organization's work. Numerous changes were made in an attempt to update MEDA's expertise in BDS approaches and implementation of cross-cutting operations. This component of the MG has been executed according to plan and has achieved its' stated objectives.

1.2 Project Context for Peru

The MG program in Peru focused on development of agribusinesses and agricultural productivity chains to address Peru's problems of poverty, lack of employment, unsustainable use of natural resources, and illicit cocoa cultivation. The key MG activities in Peru included:

- Develop and expand the capacity of MEDA's staff in Peru, as well as that of key partners, to apply appropriate BDS/PML methods and practices to assist farmers;

¹ Original proposal submitted for the 2001 Matching Grant Program by MEDA.

- Develop and test implementation of a productivity chain model, whereby lending burdens and business risks are informally shared amongst input suppliers, credit agencies and commodity buyers; and
- Further develop and commercialize AgroMonitor, a software package that tracks farmer productivity.

The MG has contributed to the following outcomes in Peru:

- Two productivity chain projects implemented by MEDA:
 - Snow peas: established and expanded appropriate irrigation and small holder production driven by commercial linkages brokered in export markets;
 - Rice: identification of value chain partners, formal links to credit and attempts to integrate the producers with appropriate and value added processing options.
- Researched a number of new export-focused productivity chain project partnerships modeled on the above experiences for other commodities, such as artichoke, red pepper, cut flowers, and coffee.
- Forty installations of AgroMonitor MIS software in Peru and near completion of additional improvements in order to apply the product in three other countries.

A significant issue encountered during implementation in Peru resulted from poor performance by MEDA's original private sector partners. Both original firms encountered problems and management issues that required MEDA to revise programming and identify new partners. While MEDA recognizes and acknowledges that the original program planning suffered from either inadequate due diligence or outdated methodologies, the revised programming actually represents some of the most significant lessons learned from the MG in the BDS area and helped to inform MEDA's new approach in working with the full range of stakeholders in the concerned value chains.

1.3 Project Context for Mozambique

The MG component in Mozambique has centered on the microfinance (MF) sector. Activities focused on repositioning MEDA's MF activities in Mozambique towards playing a broader technical assistance role (away from direct implementation) to strengthen the competency and capacity of the Microfinance Institution (MFI) industry. This has included:

- Transitioning MEDA Mozambique's in-house credit program *Kulane ka Ntwananu (Kulane)* into a sustainable financial institution; and,
- Design, testing, and evaluation of new performance assessment tools, new internal fraud prevention procedures, and an improved MIS system.

With support from the MG, the following outcomes have been achieved:

- Merger solution for *Kulane* with *Banco Oportunidade de Moçambique (BOM)*, a new *MicroBank* Initiative, launched by a consortia led by Opportunity International was completed;
- Support for the Task Force of the Bank of Mozambique to developed new regulations for the microfinance industry, a new class of banks (i.e. MicroBanks) requiring lower levels of capitalization, and draft guidelines for the establishment of a credit bureau for MFIs; and,
- Capacity building of MFIs through adoption of leading industry practices, policies and management tools, some of which MEDA has pioneered.

Kulane originally planned for sustainability through the creation of a stand-alone, independent MFI. After considering possible options to achieve this goal, it became apparent that a partnership or merger (to be reviewed later in this report) was the only viable solution. While the methodology of a stand-alone entity changed during the execution of the project in

Mozambique, the results remained the same, a sustainable MFI able to continue to serve the welfare and needs of both its clients and staff.

1.4 Rational for Project Extension

In October 2004, a six-month, unfunded project extension was granted until March 2005. The purpose of this extension was to allow MEDA to continue to complete a few remaining project activities as well as additional time to conduct an external evaluation report.

Headquarters: During the extension, the following activities were completed:

- *Organizational Structure of IED Revised:* While the organizational restructuring of MEDA had been completed by October 2005, the final hiring and training of personnel was not yet finished. As of EOP, the target of placing three BDS technical advisors in headquarters has been met. These advisors are active participants in numerous BDS trainings and conferences. However, in order to remain current with industry trends, training will be an ongoing process and MEDA staff will continue to participate in learning opportunities to strengthen their expertise and disseminate best practices and lessons learned as a result of the MG.
- *Develop social impact indicators for investments:* The development of social impact indicators for investments has now been completed and application of these indicators is a process that will continue well past the end of the MG.

Peru: Activities in Peru during the extension period focused on technical interventions and efforts to achieve sustainability.

- *Improvements to the “Agro-Monitor” MIS system for tracking rural productive chains:* A revised “thin” version of the software, called AgroMonitor Plus was released internally for additional testing in late October 2004. The upgraded version has eliminated a number of the flaws of the original version by reducing the number of variables and simplifying the reporting. It will now undergo additional field testing for another year.
- *Guide for developing a “Productive Chain”:* The final guide is now complete and was translated into English during the extension period.
- *Documentation of lessons learned for Snow Peas:* MEDA is currently working on case studies to disseminate lessons learned. An article on the productivity chain was completed and included in a book supported by CORDAID on Innovative Ideas for Agriculture in Peru. A second article is currently being completed.

Mozambique:

- *Merger of Kulane credit institution with viable partner:* A merger solution for *Kulane* was secured with Opportunity International in Mozambique. The transition started in September 2004 and was completed on February 28, 2005.
- *Testing the integration of Insecticide Treated Net (ITN) purchase into regular loan cycle.²* As explained later in this report, the business environment for ITNs was harmed by several factors in Mozambique including subsidized nets and delayed government legislation.

The extension period also allowed completion of an external evaluation report that spurred a great deal of analytical discussion and communication both internally and between the USAID project officer and MEDA. The result was a greater understanding of the weaknesses within

² MEDA was interested in testing the integration of ITN purchase into the MF loan cycle because ITNs have proven to be one of the most effective strategies for the prevention of Malaria. Research provided by the Swiss Tropical Institute and WHO (<http://www.rbm.who.int/amd2003/amr2003/ch2.htm>) shows that 6 lives are saved for every 1000 ITNs distributed and used.

MEDA that led to some shortcomings and revisions of the MG over the life of the project. This introspective analysis will assist in future project planning.

There are some remaining outputs that are not so much incomplete as they are ongoing activities, such as training and testing, that will carry on past project completion to contribute to MEDA's capability both to serve its clients in the developing world and contribute to industry learning.

2. PROJECT METHODOLOGY

2.1 Summary of Project

The overall goal of MEDA's MG project was to advance our international capacity in small business development with an emphasis on business development services, micro-enterprise credit, and agricultural commodity productivity chain and marketing programs. Development of our BDS expertise was concentrated at the headquarters level while microcredit programming was based in Mozambique and advancement of agribusiness activities in Peru. A goal of the MG program was to ensure that lessons learned would continue to positively impact the entire organization and MEDA's project partners far beyond the end of the project.

In order to meet these goals, the MG program objectives were divided into four main categories: organizational development, technical intervention, partnership and sustainability.³ Throughout the course of the project, the DIP has evolved to adjust to project shifts, changing circumstances and to apply lessons learned. While specific activities of the project have evolved, the objectives and goals have remained constant throughout the life of the project.

Key activities have included: development of an organizational strategy to reorganize the principal International Economic Development (IED) functions into technical 'product lines' and reassignment of staff under this new structure; strengthening of technical competency in BDS and productivity chains; and enhancement of institutional capabilities in the areas of training, project monitoring, gender and other cross-cutting issues.

There are two primary objectives at the headquarter level. The first, as stated in the DIP, is to "improve the synergy between the International Economic Division's four departments to develop integrated and more effective services to MEDA's field partners and clients."⁴ This objective was based on the realization that the four existing IED departments were fragmented, frequently operating independently in communications with clients and donors, and were not adequately leveraging in-house expertise. MEDA sought a revised structure that would increase cooperation and coordination and improve the quality and delivery of MEDA's services. The process of change that led to a "product focus" within MEDA was based on the principles outlined in the book "The Discipline of Market Leaders" by Micheal Treacy and Fred Wiersema. In this restructuring process the decision was made to shift from business units such as projects, consulting and investments into product lines – microfinance, BDS and investments. The new configuration replaced IED with International Operations (IOPS), comprised of Microfinance (MF), Production Marketing Linkages (PML), and Investment Fund Development (IFD). The latter serves both the international and domestic operations and was not a focus of the MG grant.

The second main objective at the HQ level was enhancement of MEDA's BDS capacity, a theme that runs throughout the DIP. While MEDA had historically been involved in business development activities, the MG project emphasized the importance of building on these experiences to take "BDS programming to the next level, combining new technologies, tools and innovative products and services for the benefit of the poor."⁵ In short, MEDA programs had not kept pace with the principles and practices that were emerging from an increasingly formal BDS industry. In seeking greater integration with the international BDS community, MEDA's activities

³ "Matching Grant Program Revised Detailed Implementation Plan", November 2002.

⁴ "Matching Grant Program Revised Detailed Implementation Plan". Section B5, Planning Matrix (pg. 8).

⁵ Attachment B: Program Description" in 2001 Matching Grants Program Award HFP-A-0-0-00020-00 "Credit and Small Business Development Program", September 30, 2001 (p. 12).

have focused on documenting lessons learned (and dissemination both internally and externally), participation in BDS networks and industry dialogues, ongoing professional development, and application of BDS capabilities in new project designs and execution.

The key objectives in Peru centered on the provision of technical assistance and market access to smallholder farmers through the development of local staff and partnerships. Rather than establishing parallel systems to existing markets and in keeping with industry best practices, efforts focused on improving the capacity of producers to participate in existing productivity or “value” chains. These activities included strengthening the capacity of our partner organizations to deliver services to farmers, training of MEDA Peru staff in BDS to develop expertise and adoption of best practices in project delivery, development of a MIS system (AgroMonitor) to track farmer productivity, and development and testing of sustainable models for technical assistance. The BDS lessons learned from this component, along with other historical lessons, have developed into “best practices” and a revised methodology for MEDA that is documented in an internal publication called “Towards a MEDA Strategy for Business Development – Production and Marketing Linkages” written by Mary McVay and Steve Rannekleiv.

The chief objective in Mozambique was transition of the MEDA-managed credit program, *Kulane*, into a strong, sustainable microfinance institution. Through the MG project, MEDA examined many possible options for this transformation, eventually deciding to merge *Kulane* with Opportunity International (OI)’s *Banco Oportunidade de Moçambique* program. In addition to the merger, MEDA has also contributed to the advancement of the microfinance sector through the Mozambique Microfinance Facility (MMF). This initiative provides both capacity-building support to microfinance institutions and legal and regulatory advice to the Bank of Mozambique. The MG activities in Mozambique have centered on development of local staff, design and testing of new credit products, refining microfinance policies and procedures, improving accounting and monitoring and evaluation capabilities, advocacy on behalf of the industry for an improved enabling environment, and contributing to development of an MFI credit bureau.

2.2 Summary of Accomplishments

Through the MG grant MEDA has become a stronger, more technically competent organization. A more detailed discussion of specific country results is included later in this report. Many of these individual results point to the overall accomplishments achieved through the MG program.

2.2.1 Organizational Development

Headquarters: restructuring + BDS and other skills/capacity building

As discussed, one of the key accomplishments of the MG was improved coordination between the IED’s four departments. Prior to the project, MEDA’s demonstrated expertise was not being fully utilized in MEDA’s own projects and project performance often suffered as experts in the consulting group were either not available or not called on for input into program implementation. MEDA’s “country office” structure was also not contributing to effective technical programming as country managers tended to be generalists as opposed to technical experts.

Using the opportunity provided by a change in president, MEDA restructured from a business unit orientation to product lines in 2003. With cooperation and financing from USAID, an external consultant was hired to help MEDA work through the options and decide on a structure that would highlight MEDA’s areas of competence. This change has been especially useful for PML work, as previously there was little leadership or coordination of BDS projects. Under the

product line arrangement, field level staff are now experts in their technical areas and are provided with clearly defined goals for their work and projects.

Peru: BDS and other skills/capacity building

Under the MG, MEDA staff in Peru has become more competent in productivity (value) chain development, PML practices, BDS and MEDA's own market-based best principles and practices. However, there is still work to be done to continue to transfer these new practices to project partners in the ongoing work of MEDA.

Mozambique: transition Kulane to an independent self-sustaining institution

As mentioned, several options were examined to transition *Kulane* into an independent stand-alone MFI. After failed preliminary negotiations with two prospective merger partners, *Kulane* has successfully merged with OI's MicroBank initiative.

2.2.2 Technical Intervention

Headquarters: development and implementation of decision support systems

The Investment Fund Development (IFD) product line has developed and tested its' Social Indicators Assessment tool for prospective new investments. The Micro Finance (MF) product line is involved in continued upgrades and applications of its' Electronic Portfolio Analyst (EPA) MIS software for MFIs. Implementation has been completed at ten MFIs and is underway in three additional programs (Tanzania, Nicaragua and Afghanistan). Through its' involvement with Peru-based MEGA System, the PML product line has completed a new upgrade of its' productivity chain monitoring software, Agro Monitor Plus, a simplified version of earlier versions for easier use in-country by non-IT professionals.

Peru: Market Information and Monitoring System

PML has successfully completed its' withdrawal from the Agronegocios investment in a process that, among other developments, involved the assumption of a majority ownership share in MEGA System.⁶ With proprietary rights to the AgroMonitor MIS system, MEDA completed initial field-testing and a desk-based assessment of this monitoring tool. AgroMonitor Plus, a stripped down version more easily used by in-country non-IT professionals, was released at the end of October 2004; further field testing is either planned or underway in MEDA projects in Nicaragua and Tajikistan and in partner projects in Mozambique.

PML has also further analyzed the 'productivity chain' concept for several new commodities. This model brings together stakeholders having a common interest in providing services and financing to farm production activities (input suppliers, buyers, credit agencies) for the sake of better cooperation and efficiency. Initial results indicate that this methodology is demonstrating significant benefits: reduced lending risk leading to more accurate lending decisions improved credit availability and more favorable credit terms for farmers. AgroMonitor provides some of the data used to inform the credit decisions.

Mozambique:

A number of the revised outputs and interventions in Mozambique are centered on training, which are yielding positive results. Training on new internal controls aimed at minimizing fraud risk were implemented as part of *Kulane's* transition plan. The MG program allowed Ruth Dueck-Mbeba, Senior Consultant/Project Manager in MEDA's MF division, to update and improve the Credit Officer Training and Accounting for Microfinance modules which have already been delivered in the field. All but one of *Kulane's* staff joined *Banco Oportunidade de*

⁶ This investment supported one player in a competitive market, a potentially market-distorting practice that PML will avoid in the future.

Mozambique and have continued to apply these new skills in continued service of the MFI industry.

2.2.3 *Partnership*

Headquarters: capacity building of partners

Throughout the project, HQ has carried out training activities to build the capacity and competency amongst MEDA field staff and project partners. These activities have included a broad range of training modules, such as gender (workshop modules and content), environmental impact assessment (MF survey tool), fraud risk management (MF) and market-based BDS principles and practices (workshops). Implementation of the new internal quarterly reporting procedure on project activities against key performance indicators is complete and is routinely used by Project Managers in each product line.

Peru:

As discussed in greater detail elsewhere in the report, MEDA's original strategy in Peru had focused on identifying and collaborating with two key players in the agricultural value chain: AgroNegocios (rice) and PHISAC (hydroponics). When it became clear that MEDA's initial assessment of these two partners failed to identify operational and management problems, changes were introduced that included working with more players in the productivity chain. While it is true that this strategy was introduced as a solution to these difficulties, it is important to note that the management of these problems also helped to inform the shift in methodology towards a more classical BDS approach. The new orientation is one that helps facilitate linkages between producers and buyers by working with a multitude of actors to ensure farmers have choice in terms of price and level of services. The PVC grant has helped to support this new approach and development of the necessary skills to support this shift.

Mozambique:

Collaboration with the Bank of Mozambique on policy and regulatory reform concerning governance of MFIs proved fruitful during the year, including a framework for establishment of national credit bureau services. As mentioned earlier, the possibility of an industry association will be examined in the coming year. MEDA is working with the Bank of Mozambique and supporting it in its regulatory role for MFIs (or MicroBanks); this work may take the form of helping the MFIs to move towards becoming MicroBanks and in enabling compliance to the new regulations for the MFIs.

2.2.4 *Sustainability*

Headquarters:

The organizational restructuring to product line orientation has positively impacted IOPs financial performance. Net revenues attributable to core business activities, a loose indicator of productivity gain, increased from FY03 to FY04 for the PML and MF product lines by 45% and 21% respectively.⁷ By grouping staff with similar expertise into a single product line, MEDA is experiencing a more effective sharing and diffusion of skills, perspectives and knowledge, which MEDA believes is key to development of new business.

Peru:

The experience that MEDA Peru has had with its snow peas and rice productivity chains has helped develop the organization's local reputation as a knowledgeable facilitator of productivity chain improvement processes. MEDA Peru is also working closely on the revisions and testing

⁷ Grants, contracts and professional fees earned less direct program expenses. Charitable contributions, direct expenses and allocated indirect costs excluded.

of the new AgroMonitor software program supplied by MEGA System and is well positioned to respond to the interest being generated among a variety of potential clients in Peru.

Mozambique:

As mentioned, *Kulane's* path towards sustainability was complete with the final phase of the OI merger earlier this year. The majority shareholders in the new bank are Opportunity Transformation Investments, Oikocredit, OI, the Bank of Malawi and CARE International. The current micro-credit operations of CARE Mozambique in the central provinces of Sofala, Manica and Zambezia, have also merged into the new bank. This consolidation of credit programs in Mozambique is not unexpected, as organizations work to increase efficiencies and to achieve sustainability and autonomy without significant new capital investment. The costs involved in merging are lower than the comparable investment required to set up these structures from scratch.

2.3 Variances from DIP

Headquarters

No significant variances from the revised DIP during the reporting period.

Peru

For the most part, outputs have met or exceed the targets of the revised DIP. However, there are three key exceptions to note where this is not the case.

- 1) Only two of three originally planned partnerships with fresh produce export marketing companies have been secured.
- 2) Work is still in progress on completing the guide for practitioners concerning development of productivity chains.
- 3) One article has been included in a CORDAID supported book to highlight the experiences in Peru with the Productivity Chain. The second 'lessons learned' case studie has not yet been completed, though it is close to publication.

Mozambique

As discussed in greater detail below, the three main variances from the DIP are in the areas of client demand, self-sufficiency, and BDS linkages. The targeted number of active clients and level of financial self-sufficiency are both below EOP expectations. Business development training for *Kulane* clients was explored; however this service was not pursued as it was *Kulane* concluded that the target enterprises would be unable to afford additional training. However, the merger with OI's new microfinance initiative will fulfill the target for institutionalization of the program.

3. MONITORING AND EVALUATION

3.1 Changes to Monitoring and Evaluation Plan

As discussed in previous annual reports, there were a number of changes to the original DIP. As the project unfolded, especially at the field level, it was argued that changing the original plan was more practical than continuing to report on outdated targets or invalid outputs. While this could be seen as a convenient way to meet (revised) targets MEDA would suggest that it is more a reflection of revised approaches and better methodologies that emerged from the MG itself. And while some targets may have changed, the overarching goals and objectives stayed constant.

3.2 End of Project Final Evaluation

During the six-month extension, an external consultant completed an End of Project (EOP) evaluation.

The EOP evaluation included an assessment of key performance aspects under the MG, drew lessons learned from project experiences to be applied in future programming, identified recommendations on strengthening IOPs' strategy, and provided recommendations for senior management on ways to develop and refine MEDA's product and services strategy.

In response to pointed comments received from USAID and following lengthy discussions within MEDA some changes to the final evaluation were made. At the time of writing this report, these changes and MEDA's response to the USAID comments had not been discussed with USAID, however, MEDA acknowledges in advance that it is unlikely we will be able to resolve all of the issues and respond to all of the comments as fully as USAID may desire.

4. REVIEW AND ANALYSIS OF PROJECT RESULTS BY COUNTRY - PERU

See **Appendix One** for tabular detail on objectives, targets and results.

4.1 Description

4.1.1 *Specific Outputs Achieved* Organizational Development

Strengthen partners' organizational capacity so as to deliver effective services to farmers: The evolution of MEDA's partnerships in Peru has been discussed earlier at great length. MEDA's approach and partnerships in Peru grew out of the development of MEDA's BDS experience and the emergence of our focus on more standard BDS practices. The solutions to our early problems in Peru contributed to, and were partially resolved by, the change in strategy. Due to improper due diligence and the inherent risk of working with only one player, MEDA altered its strategy to one that adopted better BDS methods. With this new methodology, there has been a greater focus on the initial situational analysis of partner capacity and financial management so that the design of the interventions is better targeted in the future.

This new approach is also keeping in line with the industry trend towards PVOs playing a "facilitator" role, rather than offering services directly. And by working with a range of partners, MEDA is able to reduce risks and place the focus on ensuring that competitive forces are leveraged to allow farmers' choice in accessing needed services.

One of the new partnerships that MEDA has developed is with INAGRO SUR S.A., an exporter specializing in asparagus. MEDA assisted INAGRO Sur in its expansion into the export of snow peas and helped the company switch from exclusively using its own and rented land and growing produce, to outsourcing expansion through contract farming. INAGRO SUR provides technical assistance and training to the farmers, product research, establishes growing methods, monitors quality, finances pre-harvest labor costs and contacts exporters. MEDA's role is as facilitator, i.e. market research, coordination, and farmer selection and training (including agrochemical use). The program reduces costs for INAGRO SUR, keeps the farmers on their land and has increased their net income. Although MEDA initially provided credit on concessionary terms, MEDA has since moved to the use of commercial credit providers in place of MEDA-provided credit. However the Government of Peru has since adopted a policy position that small-holder credit should be provided on concessionary terms in the project area so farmers still benefit from low interest credit. This new partnership is an example of MEDA's new BDS strategy in action.

As part of the exit from the partnership with Agronegocios, MEDA assumed proprietary rights for AgroMonitor, a database software application aimed at monitoring productivity chain performance. MEDA now holds 52% ownership share of MEGA System, the Peruvian company through which commercialization of AgroMonitor is being pursued. A business plan was finalized and implemented for MEGA Systems and numerous installations of AgroMonitor are being tested in Peru. A third generation of AgroMonitor, called AgroMonitor Plus, was released for further revision and testing in October of last year.

Develop capacity of MEDA Peru to manage BDS programs following industry best practices

During the course of this project, MEDA Peru has significantly strengthened and deepened its technical expertise in the areas of BDS, agricultural productivity chains, and agribusiness. Senior personnel have been active participants in BDS training events, including BDS training in Lima from Swiss Contact and PML's BDS best practices workshop in Pennsylvania. The staff has been able to develop a market-based approach to designing and managing BDS interventions, which have been adopted in the preparation of new proposals.

MEDA Peru continues to develop and test 'productivity (value) chain' operating practices and will share these experiences throughout the organization.

Technical Interventions

Implement a market information and monitoring system to track farmer productivity and financial projections

Much has already been written about MEDA's role in developing the AgroMonitor software, a MIS tool for monitoring production and business cycles in commodity productivity chains. In Peru, over thirty-six demonstrations have been made to various institutions and forty trial installations have been made. Field testing of the software by Caha Rural San Martin (a local financial institution) as part of their rice productivity chain project with Chemonics, continues to yield promising results. Chemonics has also used the software in thirty-nine installations with over 16,000 farmers tracked and 12 agricultural products monitored.

AgroMonitor Plus, a stripped down version, is currently being revised and tested. This generation of the software is easier for non-IT personnel to use and understand. When ready, it will be incorporated into new projects in Nicaragua and Tajikistan and will be piloted in four test operations in Mozambique.

Response from potential partners in Mozambique demonstrated great interest in the product. However, a needs assessment conducted with the Mozambican partners indicated that the software would need to be modified for these applications. This upgrade is well underway and is expected to be completed by June 2005.

Partnerships

Partnership with High Value Produce Marketing Companies to pilot and test a sustainable model to bring high-tech irrigation technology to small-scale farming

Snow Peas: The project has continued to provide technical assistance on production and appropriate irrigation. The project also links these farmers with exporters who handle the marketing. Due to the favorable results from last year's season, MEDA Peru has continued to work with INAGRO on developing further export opportunities for snow peas and sugar snaps. These results include an average income per season for Canete farmers of USD1700, a 300% increase in farmers' income, a 120% yield increase, and high level of product satisfaction from buyers.⁸ MEDA has continued to help consolidate the relationship between INAGRO SUR and the farmers; building the linkages between these two groups of actors is not a short-term activity and MEDA has plans to offer continued assistance after the end of the project. This year, MEDA has acted as a facilitator for another productivity chain in Canete, including Caja Senior de Luren (local MFI), input suppliers, farmers, and INAGRO.

⁸ A greater analysis of these numbers needs to be developed to assess exact contribution to MEDA's project compared to interest rate distortion and varying price and yields. However, even if some of the increase in income is related to factors such as low interest rates, it is apparent that the intervention is still relevant due to the level of increased incomes over more than one season.

High value produce marketing partnerships: Originally, the MG set an EOP target of three partnerships in this area. Only two partnerships were secured through the project although the experience of the projects with PHISAC and INAGRO SUR are providing opportunities for MEDA to collaborate with additional partners in Northern Peru.

Sustainability

Replication of best practices in new program delivery and partnership

During the next year, not only will MEDA stop providing credit directly to the farmers, but will also test the commercial sustainability of the “export model” by charging a commission for services provided. Over time, we hope to increase the volume of product exported enough that these commissions will pay for the added value provided by the MEDA staff.

The staff has contributed to industry learning by disseminating documentation of the productivity chain approach and its results. This includes development of a guide to productivity chains written in Spanish (and translated into English) as well as publication of articles on MEDA’s experiences.

4.1.2 Effects on Target Group by Gender

Snow Peas: In the high value produce (snow peas) for export project, women account for 60% of the direct participants. As mentioned above, the participants are benefiting from increases both in income and yield productivity.

4.1.3 Problems Encountered

As discussed earlier, the main problems encountered center around the weaknesses of the original partners chosen. Initial design work failed to include sufficient attention to the financial, technical and managerial capabilities of partners. MEDA was able to shift its approach early on in the project to one that focuses on working as a facilitator between a number of key market players thereby increasing the number of beneficiaries. Part of this new methodology includes a better situational analysis of partner capacity and financial management to ensure that the design of the intervention is better targeted in the future.

4.1.4 Impact on Local Institutions, Local Policy and People Outside the Project

As discussed in earlier reports, aside from the direct partners (PHISAC, INAGRO SUR, Flores de Callejon and MEGA System) and the direct project clients, several communities and institutions have also benefited from the project.

Caja Rural San Martin (CRSM): Through MEDA’s work in the region of Tarapoto, a strong relationship was created with CRSM, a local rural microfinance institution. Virtually all of the clients being monitored by the AgroMonitor system (rice and cotton producers) are clients of CRSM. Aside from the improved information and reduced risk that CRSM enjoys from the AgroMonitor system, this relationship has also allowed MEDA to develop and submit a proposal for IGP funding to support CRSM’s rural lending operations, which was approved by USAID and began Oct. 1st 2003. This project is designed to increase the institutions’ equity and working capital, and will help improve lending and savings operations for small producers.

Canete and Canta Communities: These communities, where MEDA has been supporting snow pea production, have seen significant increases in rural employment, an effect that accrues to the community, beyond the benefit accrued directly to the producers.

Chemonics PRA: Chemonics, which is managing a large economic development project in nine socio-economic corridors of Peru, has begun to contract the monitoring services provided by the AgroMonitor system, as it provides a richness of data and a timeliness of reporting that helps improve the quality of their work and allows them to provide detailed information to project donors.

4.1.5 Unintended Effects

Snow pea production has important effects not only for producers, but also for the surrounding community. As production is very labor intensive, it therefore generates a great deal of local employment, especially for women. It is estimated that the snow pea and flower production supported by the PVC project has generated 439 new part-time jobs, mainly in harvesting and to a lesser extent processing, of which 75% (328 jobs) was for women.

4.2 Comparison of Actual Accomplishments to DIP

In most cases, project accomplishments exceed targets. However, there are three exceptions (explained in the previous section) where this is not the case.

4.3 Relationship with Local Implementation Partners

The previous sections provide an overview of MEDA Peru's partner relationships. The key change to mention is the shift in approach towards a strategy that involved collaboration with a variety of key stakeholders. This new approach reinforces competition, encourages cooperation to improve the productivity chain, provides greater flexibility, and diminishes the risk for any individual partner. MEDA Peru's productivity chain work exemplifies this approach and demonstrates the advantages of this strategy. By bringing stakeholders together to identify, assess, find and implement solutions to improve value chain performance, MEDA is acting as a facilitator to link the stakeholders, streamline their processes, and monitor their progress.

5. REVIEW AND ANALYSIS OF PROJECT RESULTS BY COUNTRY – MOZAMBIQUE

See **Appendix One** for tabular detail on objectives, targets and results.

5.1 Description

5.1.1 *Specific Outputs Achieved* Organizational Development

Improve strategic management practices through developing an institutional and governance structure

The goal of the program in Mozambique was to transition *Kulane ka Ntwananu* into a locally owned and operated financial institution. In order to achieve this goal, it was envisioned that an independent, stand-alone microfinance organization would be created. However, during the project it became clear that merging with another institution was a preferable option for two reasons:

1. Legislation in Mozambique does not allow microfinance institutions to collect savings or capture deposits for on-lending purposes, unless they are registered as a commercial bank or credit cooperative. The minimum capital for a commercial bank dedicated to microfinance is just over US\$1 million; the program could not be expected to accumulate this level of equity.
2. The pool of suitably experienced local microfinance professionals was very limited, thereby hampering the progress towards a non-merger solution as without the necessary expertise it would be both difficult and impractical for a small organization like *Kulane* to move towards a sustainable, stand alone microfinance organization.

These issues, and a reassessment of the competitive landscape, led to the decision to enter into a partnership or merger with an existing microfinance institution. Part of the rationale for this approach was based on MEDA's experience merging credit institutions in Haiti and Tanzania. As discussed in previous annual reports, mergers with the microfinance programs of World Relief Corporation and Save the Children were both examined at separate times, but eventually dismissed as impractical. After these two unsuccessful negotiations, MEDA found an acceptable solution involving a merger with Opportunity International, completed earlier this year. There was a very seamless transition at December 31, 2005 when *Kulane* staff were terminated and on January 1, 2005 became employees of the new venture.

OI's new commercial microfinance bank main objectives are as follows:

- To establish a commercial microfinance bank.
- To offer savings, credit and other financial products to the economically active poor
- To expand banking services to rural and underserved areas through an innovative "mobile branch" system as an extension of each branch that is established

The new bank is projected to reach 40,000-50,000 clients, build a deposit base of MZM 180 billion, operate profitably and earn a respectable return by its fifth year of operation.

Increase organizational learning to enhance capacity to increase client demand

Client retention during the last two years of the project remained below the target of 90% due to a variety of factors. As planned, client exit surveys and customer satisfaction interviews were designed and implemented in order to assist staff in their ability to revise products to meet consumer demand. Most of the exit surveys showed that clients tended to leave the program to

avoid the burden of additional debt. Retention was also below target as there were quite a large percentage of clients who were denied access to repeat loans due to poor credit records and other repayment issues.

Improve financial management through stronger and better skilled staff

The staff at *Kulane* participated in industry training courses on advanced financial modeling and ratio analysis. MEDA Mozambique provides monthly financial statements, portfolio reports and financial ratios to HQ as well as quarterly reports. The accounting system is fully functioning; however, further reviews to the MIS and accounting system were put on hold due to the merger. The new bank will use the banking software and the data for *Kulane* will be incorporated into that system.

Improve Human Resource Management:

Staffing at MEDA Mozambique is now project-based and a new MMF project manager has been hired to replace Trudi Schwartz, who was in effect the senior manager for *Kulane* and transferred to *Banco Oportunidade de Moçambique* as Chief Operating Officer thus adding to the capacity of OI and the continuity with *Kulane*. Staff retention at *Kulane* is 79%. All but one of *Kulane*'s staff members accepted new positions in OI's *MicroBank* as part of the merger process; one staff member did not join the new initiative, as she was about to go on maternity leave.

Technical Interventions

Increase ability to detect fraud

Detecting fraud perpetrated by credit officers is a common problem for all microcredit programs. *Kulane* experienced two incidences of credit officer fraud during the project. Both cases were detected early; the misappropriated funds were recovered and legal action was taken with the staff members who perpetrated the crimes. The early detection was due mainly to improved internal controls and involvement of supervisory staff in reporting processes. Internal control policies are now in place; the credit supervisor has taken on a portfolio of clients, while the program manager performs many of the duties a supervisor would do in normal circumstances. Given the impending merger, an internal auditor was not hired. MEDA has a strong internal controls program in the form of the Electronic Portfolio Assistant (EPA) MIS software. The project helped emphasize the necessary insistence on applying this system to prevent future fraud cases.

Improve business management capacity in clients

The average initial loan size has increased by more than 30% for the individual loan clients who received repeat loans. This increase is dependant on the improved equity base in the clients' business; a sample of repeat clients has shown an average equity growth of just over 17%, well above the EOP target of 10%, demonstrating that clients have been able to significantly grow their businesses during the reporting period.

Improve staff capacity through training

Under the PVC Grant, MEDA has also updated training modules on Credit Officer Training and Accounting for Microfinance. These modules have been delivered to *Kulane* staff; personnel have also been able to take advantage of the training offered by MEDA through the Mozambique Microfinance Facility. Two staff members were also trained in Environmental Assessment for Microfinance. *Kulane* staff are also active in industry learning processes, such as the Third Microfinance Conference in Mozambique.

Encouraging professional development and participation in training courses for the *Kulane* staff has been a key capacity building component of the project. The Program Operations Manager for *Kulane* is studying for a degree in finance and administration on a part-time basis and has demonstrated the capacity to integrate his newly acquired skills in management for the program. The credit supervisor also recently completed a Diploma course in Accounting and Management and has similarly demonstrated increased capacity in decision-making.

Partnerships

Establish innovative partnerships for new product development in mosquito treated bednets

One of the desired outputs of the MG program was to test the integration of a loan for Insecticide Treated Mosquito Net (ITN), however, government regulations to reduce import duties and encourage the import of ITNs were delayed which derailed this initiative. One importer was able to source stock from a supplier in Tanzania; as both countries are members of the Southern African Development Community this measure helped bypass the import duties. *Kulane* has continued promoting the sale of ITNs but was unable to reach the goal of 25% of the clients purchasing nets. While a line of credit is available for clients who wish to purchase the nets, many clients prefer not to make use of this because of the added interest burden. In light of the difficulties mentioned above and because of the merger, MEDA in fact recently terminated its additional financial support for continuing this project.

Important to note is that MEDA's efforts in assisting companies to market ITNs has met with some success: the importer with whom MEDA has been collaborating reports a strong increase in business with sales increasing more than 300%. He has established three kiosks in Maputo city and attributes much of his success to the assistance MEDA provided in marketing materials and promotion through the *Kulane* program.

Establish new partnerships to provide start-up credit to retrenched or formally state owned employees

As noted in previous reports, MEDA had been in discussions with a South African mining company to develop a program whereby *Kulane* would provide retrenched employees with start-up business loans. The program never came to fruition as many of the potential clients lived outside of Maputo City and the suburban areas in which *Kulane* operates.

A partnership has been formed with HelpAge International whereby *Kulane* would provide start-up loans to HelpAge's target group: the elderly and their caregivers. For at least two loan cycles, HelpAge would co-guarantee the loans and cooperate with *Kulane* credit officers on loan repayment follow-up. However this loan product was not commercially successful enough to warrant further activity.

5.1.2 Achieving Sustainability

Form a strong, sustainable credit institution. Develop new product lines. Provide high quality loan products to an expanding client base.

Once it became clear that *Kulane* would merge with another organization, the drive for size and efficiency gave way to efforts to improve the portfolio quality. And given that the newly merged organization is much more sustainable than *Kulane* on its own, the goal of a sustainable institution was met earlier this year with the transfer of *Kulane*'s clients with OI's new microfinance initiative. Management has directed the merger of *Kulane* through two visits during the six-month extension period.

The plan to develop a new rural credit line was not introduced as the focus for *Kulane* remained on improving capacity with urban loans. However, with the new OI initiative a rural credit line will be introduced.

Contribute to the advancement of the microfinance sector

The difficulties that MEDA has encountered in pursuing sustainability with *Kulane* have helped to inform its wider activities at the MFI system level. Over the past three years, MEDA has worked with the Bank of Mozambique and the Informal Working Group of Microfinance Practitioners on developing legislation and regulation of the microfinance industry. In May of last year, the revision to the Law for Financial Institutions was enacted; key changes include adding a new institution, MicroBanks that allows microfinance institutions to transition into deposit-taking institutions with a reduced minimum capital requirement. MEDA was an active participant in the task force that drafted the regulations that govern this new initiative.

Another key success in Mozambique is the promotion of a Credit Bureau, for both regulated and unregulated MFIs, which will help address the issue of over-indebtedness. This bureau will help MFIs in large urban centers streamline their approval process, reduce lending costs, and prevent overindebtedness of borrowers. The credit bureau will be likely be implemented through an industry association, which is currently being investigated.

MEDA is also working closely with the Banking Training Institute to improve the capacity of the microfinance industry through inclusion of best practices in the Institute's curriculum. The improvement of the curriculum will help increase the expertise and address the constraints in human resource capacity, as discussed above.

5.1.3 Effects on the Target Group on Gender

Kulane ka Ntwananu services female clients in the urban and peri-urban areas of Maputo. As of the end of September 2004, 189 clients had credit in group loans and 77% of these clients were women. At the same time 319 clients had individual loans with *Kulane*, of which 61% were owned and operated by women.⁹ Women prefer to participate in groups since this does not require them to have a guarantor or pledge household assets as a guarantee. Women also tend to work better in groups than do men.

5.1.4 Problems Encountered

As alluded to earlier, the level of competition has continued to intensify in Maputo. A lot of this competition came from commercial microfinance banks who, under the government regulations, were able to offer savings products. The ability to provide these services proffered these competitors considerable advantage over *Kulane*, whose limiting legal structure prevented the offering of a savings product. Part of the original design process did include an assessment of the competitive environment. During the course of the project however, there was an influx of MFIs, many of whom had the capacity to offer savings.

Further exacerbating the situation was the fragile state of the economy in Maputo, with low employment opportunities and minimal disposable income. Inflationary pressures during the past two years further served to constrain microfinance borrowing demand. These inflationary pressures were frequently cited by the target MF client base (factor inputs to business operations; retail consumption prices) as a reason for not renewing loans.

⁹ Awaiting update

Due to the high delinquency rate experience by *Kulane*, many customers have been denied renewal of loans due to non-payment. During loan follow-up, it has been discovered that many clients had loans with more than one MFI in Maputo leading to over-indebtedness. MEDA is therefore working with others in the industry to develop a Credit Bureau to promote information sharing and avoid this continued situation.

5.1.5 *Impact on Local Institutions, Policy and People Outside the Project*

The program manager of *Kulane* continues to be actively involved in the Informal Working Group (IWG) for Microfinance in Mozambique. The group comprises microfinance practitioners, consultants and stakeholders who meet monthly to discuss various issues pertaining to the industry in Mozambique. MEDA, through the MMF, has worked closely with the IWG to advocate to government on issues pertaining to the microfinance sector. Through its' participation on the Task Force of the Bank of Mozambique, MMF has also played a significant role in formulating regulations for the recently created *MicroBanks* and for the establishment of a credit bureau for microfinance institutions.

5.1.6 *Unintended Effects*

No unintended effects have been observed as a result of the microcredit program in Mozambique.

5.2 **Comparison of Actual Accomplishments to DIP**

There have been three main variances in the areas of client demand, self-sufficiency, and BDS linkages.

- 1) *Kulane* did not meet the targeted number of active clients. Delinquency rates have been high, and clients with poor repayment histories have been denied repeat loans, leading to a higher than expected dropout rate. In order to ensure a high portfolio quality prior to the merger, *Kulane* imposed a moratorium on new loans and undertook measures to curb any additional costs.
- 2) The lower number of clients also affected *Kulane's* ability to attain financial self-sufficiency. During the initial two years, the credit program showed improvements in this area, however, by September 2004, the program only managed to cover 51% of its operational costs. The merger of *Kulane* with OI gave it a presence in Maputo and a base from which to grow. For *Kulane*, this will translate into access to ongoing professionalism and capital for growth.
- 3) Although options for business development training to clients have been researched, it was decided not to provide this service as *Kulane* concluded that the target businesses would be unable to afford additional business training.

In spite of the challenges mentioned, *Kulane* was able to provide services that led to growth among many of its client businesses. The average equity growth of *Kulane* businesses was just over 17% and the average initial loan size increased by 25%.

5.3 **Relationship with Local Implementation Partners**

Presented and discussed in detail above, there is nothing further to add on this subject.

6. MANAGEMENT: REVIEW AND ANALYSIS OF HEADQUARTERS/SUPPORT FUNCTIONS

See **Appendix 1** for tabular detail on objectives, targets and results.

Organizational Development

Improve the synergy between IED's four departments to develop integrated and more effective services to MEDA's field partners and clients

As reported elsewhere in this document, the PVC grant facilitated MEDA's reorganization of the IOPs group into product lines based on a 'Product Leadership' model. The new product lines are:

- 1) Microfinance (MF) – providing innovative and sustainable access to savings and credit for the poor;
- 2) Production-Marketing Linkages (PML) – providing innovative and sustainable access to markets for small producers and/or giving the poor better access to products that serve their basic needs; and,
- 3) Investment Fund Development (IFD) – promoting profitable direct investment in businesses and institutions that serve the poor. This group supports both international and domestic operations.

The creation of these product lines has brought all the technical expertise and resources for each area under a business line manager. This shift provides MEDA with a stronger strategic focus with the following results:

- Headquarters and field-level staff in each product line are now equipped with more technically defined goals, strategies and workplans to better serve and respond to the needs of our clients;
- The new focus on core areas of business enables management to more effectively deploy its resources (i.e. project managers can now be called upon to carry out a short term consultancy or facilitate a workshop);
- Activities with common themes (i.e.: large-scale MF projects, short term MF consulting) are now more closely aligned thereby enabling in-house expertise to be leveraged more effectively, bringing greater clarity for partners, donors and clients;
- The product line approach is fostering a culture of learning and continuous improvement as previously poorly linked functions are merged in mutually reinforcing ways within each product line;
- IOPS can now more easily ensure that the benefits of its' investments in staff professional development and broader knowledge-building will permeate the entire institution and flow to project partners;
- MEDA project offices are now clearly defined by their new roles within product lines, thus simplifying management of the relationship between HQ and overseas locations.

The transition from country offices to project offices was a difficult decision for MEDA that is not without certain negative consequences. For instance, MEDA is no longer able to retain the historical country presence and stability that can lead to retention of good staff and donor confidence. However, after due consideration, it was concluded that MEDA's goals were best served by focusing resources only on distinct projects with specific and measurable targets. We expect that projects will now be more technically focussed as this shift allows MEDA to hire

specialist rather than generalist managers. While the Mozambique project is already managed by an MF specialist, in Peru we have been working to upgrade the BDS skills of management through a variety of interactive tools, including:

- submission of project plans and feedback received during the annual planning process;
- MEDA policy which requires participation and signoff of large donor proposals;
- training received by the country manager at the BDS seminar in 2004, training and discussions at the MEDA annual planning workshop (March 2005) and by dissemination of the completed strategy document.

Some of the benefits already observed throughout the organization as a result of the product line focus were highlighted in the 2004 report, including:

- PML and the V.P. Resource Development joined forces to generate new PML business, resulting in five new BDS project contracts: produce sub-sector development program in Tajikistan, two BDS contracts with Chemonics in Peru, an ITN voucher scheme in Tanzania and a women's micro-enterprise BDS services improvement project in Pakistan;
- Human Resources worked with the MF product line to develop and lead human resources management and development workshop for MFIs;
- Complementing the MF product line's experiments to incorporate ITNs for malaria prevention in micro-lending products in Mozambique, PML participated in a joint bid on a DFID-funded ITN products markets development and ITN voucher distribution project; and,
- Most recently, the PML team has worked with the MF's new MMF project director to identify and develop opportunities to pilot test AgroMonitor Plus in Mozambique, the first of which may focus on linking MFIs into existing agriculture productivity chain projects in the country.

The new organizational structure is also improving MEDA's ability to address cross-cutting themes, such as gender equality. Under the new formation, Pauline Achola, the Technical Advisor for Cross-Cutting Issues (including gender) now reports directly to the Vice-President for IOPs. Under this arrangement, gender issues are now more easily incorporated in IOPS/IFD programming and the opportunities to address these issues have increased.

To complement this organization restructuring, the PVC grant also helped MEDA strengthen its technical expertise in BDS and production and marketing linkages. A recruitment of technical advisors in BDS and agriculture was completed to enhance the staff resources necessary for this strategy.

MEDA's goal in this process is to be recognized as a product leader in our field, characterized as follows:

- Our name is synonymous with our work;
- Used by other organizations as a standard to measure quality;
- Specialized and professional staff;
- Substantial investment in R& D and publishing our work;
- Encourage entrepreneurial imagination and future thinking; and
- Results driven and reward/measure new product successes.

Technical Interventions

While IFD was not a significant part of the MG program, the development of social impact indicators to be incorporated into MEDA investments, in support of IOPS services, was a goal of the project. Development of seven categories consisting of 40 social impact indicators was

identified. Two consultants helped develop these indicators, which were partly based on those used by the former Canadian Industrial Development Bank, and the Canadian Federal Business Development Bank.

Another key technical intervention was the enhancement of expertise in the delivery of MIS for financial and impact tracking. EPA, MEDA's loan tracking & MIS system, has successfully be installed in a number of microfinance programs. The software is proving extremely useful and user friendly for local MFIs. In one typical installation, the Presidential Trust Fund in Tanzania acquired the software for its operations in Mbeya and Dar es Salaam in 2002 and is now installing the software in four branches across Tanzania, doing so independently with little technical assistance back-up.

Partnership

The MG program also helped MEDA build on its partnership capabilities, more specifically to improve delivery of technical assistance and training and increase monitoring and evaluation capacity in field programs. Throughout the project, MEDA has built its reputation in BDS, MF, and cross-cutting issues arena and have shared learnings both within headquarters and at the field level for increased project impact.

MEDA is strongly committed to addressing gender and HIV/AIDS issues given the potential impact they have on program implementation. MEDA is also consistently working to improve its monitoring and evaluation capabilities in order to ensure accurate and appropriate impact assessment. Training sessions in cross-cutting themes, including gender, environment, and impact assessment, have been held in Peru, Mozambique, Egypt, Tajikistan, and other project locations. In addition to conducting field-training workshops, MEDA's Training and Resource Unit (TRU) completed work on a series of analytical and project planning guides on cross-cutting issues, including:

- Gender Strategy Manual – Strategy document including overview of gender considerations for projects and specific guidelines for each project stage;
- Gender Assessment Tools – Specific guidelines from project design/planning to impact assessments and tools for gender analysis;
- Gender Workshop – a three-day gender training workshop comprised of five sessions, and includes User-Friendly Participant Workbook (Handouts and Activities), Facilitator Notes, and Appendices. A two and one day duration versions are also available.

Gender performance indicators have been developed and implemented. 67% of HQ staff is female as are many of IOPS' associate consultants and key members of IOPS' project management teams in Peru, Mozambique, Tajikistan, and Pakistan. MEDA's Gender Committee remains very active and expanded during the year to include representatives of MEDA's country and project offices around the world in an advisory capacity.

Sustainability

With the PVC grant, MEDA has contributed to its sustainability by supporting the development of BDS Market development programming and contributing to industry-wide best practices for SME development.

The PML product line has moved quickly to incorporate recently identified market-oriented BDS principles and practices into its' existing programs in Peru and Nicaragua. This approach has also been incorporated into new projects being implemented at MEDA, such as our agricultural

development program in Tajikistan and our project in Pakistan, which helps rural embroiderers tap into higher value markets. The ITN voucher project in Tanzania is a further example of PML's application of these principles in projects. The project is designed to tap and reinforce markets-based means of delivering services (health commodities rather than BDS services in this case). PML is also bringing these perspectives to a series of consultancy assignments, expressions of interest (EOI) and full proposals submitted to various funding agencies.

MEDA has actively contributed to industry-wide best practices for enterprise development. All product lines actively participate in industry learning through conferences and PVO networks. For example, MEDA is well represented in the SEEP Network working groups, including the BDS Working Group, HAMED (HIV/AIDS and Micro-Enterprise Development), and the Financial Services Working Group. MEDA staff members regularly attend industry conferences, such as the SEEP Network AGM and the ILO BDS Seminar.

MEDA staff have also worked on publications to help share and inform industry learnings for development. Pauline Achola, Technical Advisor, International Operations is a member of the SEEP HAMED Working Group and was an active contributor to the development of a manual of promising practices in economic mitigation practices for MFIs in communities affected by HIV/AIDS. Linda Jones, Senior Consultant and Project Manager in the PML group, has produced a number of publications, including a paper on Non-Financial Services for the Poorest for Trickle Up as well as a Gender and BDS Thinkpiece, a technical note on The Role of the Facilitator, and a learning paper on Middlemen as Agents of Change for the SEEP Network.

During the extension period, MEDA hired an outside consultant to complete a paper that provided an overview of MEDA's best practices in BDS and market approach to development. This strategy paper entitled 'Towards a MEDA Strategy for Business Development: Production and Marketing Linkages' was written by Mary McVay and Steve Rannekleiv. We hope that this paper will help contribute to ongoing industry dialogue in this area. MEDA is also working with the next generation of development professionals to disseminate best practices. Linda Jones has developed, and continues to offer, a course on BDS programming at Eastern University as part of their MBA in International Economic Development. She will also be teaching a course this summer at Southern New Hampshire University as part of their Microenterprise Development Institute entitled Market Research: Tools and Techniques for BDS Program Design. MEDA has been extremely successful at sharing the best practices and learnings gained during the PVC Grant program and disseminating this information among industry colleagues.

7.0 FINANCIAL NARRATIVE REPORT, PERIOD ENDING MARCH 31, 2005

Peru Program Expenditures – Peru program expenditures ran over budget by 12% due to the extension in time granted to the project. Peru training and procurement both ran under budget for the project, helping to fund the over expenditure in program costs. In total, Peru PVC expenditures were within 2.3% of budget for the life of the project.

Mozambique Expenditures – Mozambique expenditures came within 3% of budget for the project. Procurement ran slightly over budget while training was slightly under budget.

Headquarters Expenditures – Headquarter expenditures were within 1% of budget for the project. Conferences and seminars and office costs ran slightly over budget while the BDS seminar and consulting and procurement came in slightly under budget.

Overall – Overall MEDA was able to stay within the \$1.2 M budget for the project while exceeding our match commitment by \$17K.

8.0 LESSONS LEARNED AND LONG-TERM PROJECT IMPLICATIONS

1. Estimates of project costs and benefits

The MG was primarily an institutional strengthening project. As a result, there has been no systematic attempt to measure concrete “benefits”. Certainly incomes of Peruvian farmers have increased, the micro finance industry in Mozambique is stronger and MEDA is better organized and better trained in BDS programming. But there was no intent (nor was it a design of the project) to measure the economic impact of these accomplishments in a “cost / benefit” analysis.

2. Institution Building Assessment

Among MEDA programs and elsewhere it seems increasingly apparent that, smaller microfinance programs will need to seek partnerships in order to ensure survival and sustainability. One of the central goals for the MG in Mozambique was transition of MEDA's microfinance operation, *Kulane ka Ntwanano*, into a stand-alone MFI. Numerous factors prevented this transformation. Due to the relatively recent conflicts in Mozambique, many working age people did not have the opportunity to access education. As a result, there is a lack of local capacity to own and manage a microfinance institution; in our original assessment we overestimated the competency in this area. Further compounding the situation, the Bank of Mozambique did not enact special legislation for MFIs to operate as savings and credit institutions with a lower minimum capital requirement, as had been expected at the time of project design. As a result, MEDA looked instead to a partnership solution to build the institution. The need to seek out these partnerships and the importance of planning for these at the project design stage has been highlighted by the MG program. The difficulties encountered in obtaining *Kulane's* sustainability helped to inform MEDA's activities on an industry level; MEDA has regularly collaborated with the Bank of Mozambique and the Informal Working Group of Microfinance Practitioners on developing legislation and regulation of the microfinance industry and is currently exploring the possibility of a MFI association with the Bank of Mozambique.

In Peru, early problems encountered with partners highlighted the importance of solid analysis of partner capacity and management prior to design of institution building intervention. Another important lesson in Peru was the realization that working as a facilitator between a number of key market players will greatly increase the number of beneficiaries as opposed to working with only one player for institution building. As a result of the PVC Grant, MEDA has been able to help build MEGA System and improve the capacity and competency of InagroSur and Caja Rural San Martin.

3. Estimate of Sustainability

During the course of the PVC project, the measure by which MEDA calculates project sustainability has been revised. Sustainability was previously calculated by measuring the success (or failure) of the individual businesses that MEDA was working with to provide services to producers. As mentioned, the PVC helped to inform a new approach in MEDA's BDS methodology, one that is more inclusive of the value chain stakeholders. In the new paradigm, MEDA measures success by looking at the number of companies offering a service, how many small businesses are being reached, and the positive impacts that these small businesses derive from those services. With this new strategy, the definition of sustainability and the desired end result is more in line with ambition of supporting a larger number of producers. At the HQ level, one of the best measurements of sustainability is MEDA's ability to grow and manage

without the MG funding. The annual plan for next year indicates that MEDA will continue to grow – even as the MG funding ends.

4. Benefit Distribution (disaggregate by gender)

Under the PVC Grant, MEDA has successfully been able to ensure equal distribution of benefits according to gender both in Mozambique and Peru. In the case of the former, 77% of *Kulane's* group clients and 61% of individual clients are female. Throughout the life of the project, the average loan size has increased for repeat clients; a sample of these clients has shown an average equity growth of just over 17%.

The projects in Peru have also demonstrated strong benefit distribution for women; participants in the snow peas project, 60% of which are women, have experienced excellent productivity increases. Some of the unintentional benefits derived from the program have been to the advantage of women. For example, the snow peas project generated new for employment opportunities for women.

MEDA will need to continue to factor specific gender targets into the analysis of potential projects to assure a more equitable distribution of benefits for women, particularly with agricultural activities, which are traditionally dominated by men.

5. Local Participation (disaggregate by gender)

Seeking local acceptance of projects is a somewhat obvious objective and the programs under the PVC grant emphasized the importance of building relationships with the local community beyond just technical assistance. As trust must be built before results can be achieved; an important step is gaining the confidence of local leaders. For example, with the snow peas project in Peru, once the first core group of fifteen producers began to see excellent results, many more became interested, including a large number of female producers. In the case of Mozambique, MEDA's activities with *Kulane* and the Mozambique Microfinance Facility helped develop its reputation with local organizations and with the Bank of Mozambique, greatly assisting in its efforts to contribute to the advancement of the industry.

6. Leadership Development (disaggregate by gender)

A key capacity building component of the MG has been support for professional development and participation in training courses. In addition to participating in training sessions, *Kulane* staff have actively pursued higher education opportunities: the Program Operations Manager is pursuing a finance and administration degree and the Credit Manager completed a diploma course in Accounting and Management. In Peru, leadership development has focused on investment in capacity building for Sonia Dominguez, Country Manager for MEDA. Through participation in training and industry networks, Ms. Dominguez has successfully developed strong BDS capacity; best practices in this area have successfully been applied both to existing and new projects.

7. Innovation and Technology Transfer

MEDA's role and work with AgroMonitor has allowed the software to be applied in its new market-oriented productivity chain approach to improve monitoring and evaluation of the models. One of the lessons learned during our development of the software is the need for continued product refinement as well as the importance of ensuring ease for the end user; the more complex and open an application the more difficult it will be for the end users to employ the software and therefore a greater level of technical support will be needed which will raise costs and limit application.

Part of the impressive success of the hydroponics technology project in Peru has been the effective linking of farmers to markets. The project has validated the importance of establishing solid market linkages before increasing production to ensure appropriate and effective use of the new technologies.

8. Policy Implications

One of the barriers that prevented the project from meeting targets at a country level were government regulations. For example, the restrictive legislation on organizations and acceptance of savings meant that it was almost impossible for a small local organization to compete. Based on the projects in Peru and Mozambique, it is obvious that any future BDS intervention will involve on at least some policy work with government. Advocating for a more conducive enabling environment will be a necessary complement for any work in business development.

9. Collaboration/networking with other U.S. Agencies

While MEDA did not extensively collaborate with other American government agencies during the PVC Grant, there was significant cooperation with other American development entities. In Peru, Chemonics has contracted monitoring services through AgroMonitor for their agricultural development projects. The importance of cooperation with other PVOs was also highlighted in MEDA's efforts to enhance the Mozambican microfinance industry through collaboration with other microfinance organizations, many of whom were American. Our merger solution with Opportunity International also accentuated the effectiveness of partnerships as a means to ensure sustainability for a smaller microfinance programs.

11. Partnership with local entities

Through the PVC Grant, MEDA has learned that it must focus on a wider range of local partners and not try to become overly involved in the management of individual businesses. By working with a wider group, MEDA will diversify risk to ensure a greater end benefit for small producers. MEDA should support these groups of partners in developing specific services needed by small producers in order to improve their businesses. MEDA has been able to pursue this strategy of a wider focus through the MMF project, which provides technical assistance to a number of MFIs (six at present), focusing in the areas of internal controls, financial management, MIS, governance and human resource management.

One of the lessons learned from Peru is the importance of greater assessment of the management style and capabilities of partners prior to project implementation. MEDA Peru lost valuable time at the beginning trying to secure good partners. The objectives were met by the EOP; however these difficulties demonstrated the need for greater management and financial analysis in advance to understand partners' capacity in the long term.

The new product line approach of MEDA is more strategically prepared to adopt the partnership approach to projects. MEDA's new BDS project in Pakistan is partnering with an established NGO as opposed to opening a country office. This strategy allows for leverage of the local partners' capital (staff recruitment, government contacts, established relationships with local organizations, professional and personal networks), that in turn promotes efficiency and development of that are more compatible with the local environment, both cultural and regulatory.

12. Replication potential of project approach and activities

'AgroMonitor Plus', a simplified version of the agricultural monitoring software is currently in use in Peru and has been upgraded for use in different projects and contexts. This will expand its

utility in different geographic contexts and MEDA has started installations in projects in Tajikistan, Nicaragua and Mozambique. Great interest was expressed by potential partners in Mozambique; after looking at their needs it was realized that some additional refinements will need to be made. Once complete, the product will be available for wider replication.

MEDA's other MIS system, EPA for microfinance institutions, has also been well received by MFIs in Jamaica, Tanzania, and three MMF partners in Mozambique. In addition to the development of EPA, MEDA's IT specialist has been selected as one of CGAP's approved IT consultants and has provided support to over 20 organizations in the area of management information systems.

Recent BDS proposals and programs from MEDA have integrated the lessons learned from the PVC grant. For example, MEDA is reaching homebound female embroiderers and garment areas in conservative areas of Pakistan and bringing them into profitable value chains. In this model, we are working with a greater number of BDS firms in order to ensure a greater end benefit for producers. At the same time, MEDA is expanding its expertise in helping agricultural producers tap into regional and global value chains through its pro-poor sub-sector development project in Tajikistan. This project has the potential to be replicated in other countries in the region, such as Afghanistan.

With these foundations, programs are more likely to contribute to industry and MEDA learnings, and to provide opportunities for replication.

9.0 CONCLUSION

This matching grant has served to instruct and improve MEDA. The institutional strengthening component of the MG program has considerably improved MEDA as an organization, strengthened our BDS/PML capabilities, and resulted in program designs and executions that more effectively and efficiently utilize resources to improve the livelihoods of the economically active in the developing world. MEDA is increasingly regarded as an innovator in the international economic development field, as evidenced by the frequency of which MEDA staff is called on for conferences, papers, and consulting to other PVOs and development organizations. As a result of USAID's investment through the PVC grant, MEDA is now a stronger organization, armed with a greater strategic focus, enhanced analytical capabilities, and improved project management tools and is better positioned for the future to achieve its mission.

ATTACHMENTS TO ANNUAL REPORT

APPENDIX 1 Acronyms

BDS	Business Development Services
DIP	Detailed Implementation Plan
EOP	End of Project
EPA	Electronic Portfolio Analyst
HQ	Headquarters
HAMED	HIV/AIDS and Micro-Enterprise Development
ITN	Insecticide Treated Mosquito Net
IED	International Economic Development.
IOPs	International Operations
IFD	Investment Fund Development
MCG	MEDA Consulting Group.
MG	Matching Grant
MF	Microfinance
MMF	Mozambique Microfinance Facility
MFI	Microfinance Institution
OI	Opportunity International
PML	Production Marketing Linkages
SEEP	Small Enterprise Education Promotion
PVC	Private and Voluntary Cooperation
PVO	Private Voluntary Organization

APPENDIX TWO
Comparison of Results to DIP, EOP

PERU

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
Organizational development		
<ul style="list-style-type: none"> ➤ Develop business plan for Mega System ➤ Develop administrative systems to allow produce exporters to subcontract production to small producers 	<ul style="list-style-type: none"> ➤ Mega System business plan developed & implemented ➤ Administrative systems designed & implemented with at least one partner 	<ul style="list-style-type: none"> ➤ Mega System business plan in place and implemented ➤ Administrative system in place and implemented with one partner.
<ul style="list-style-type: none"> ➤ # of staff managing project 	<ul style="list-style-type: none"> ➤ 3 	<ul style="list-style-type: none"> ➤ 3
<ul style="list-style-type: none"> ➤ HR policies implemented 	<ul style="list-style-type: none"> ➤ HR policies implemented 	<ul style="list-style-type: none"> ➤ HR policies in place
<ul style="list-style-type: none"> ➤ Financial accounting ACCPAC system in place 	<ul style="list-style-type: none"> ➤ Financial reports submitted using new system 	<ul style="list-style-type: none"> ➤ An adapted ACCPAC system has been implemented to conform to Peru regulations
<ul style="list-style-type: none"> ➤ Staff received BDS training. 	<ul style="list-style-type: none"> ➤ Staff able to replicate and design new BDS projects 	<ul style="list-style-type: none"> ➤ Staff has used the BDS concept on new proposals
<ul style="list-style-type: none"> ➤ BDS project concept papers developed (by end of project) 	<ul style="list-style-type: none"> ➤ 4 	<ul style="list-style-type: none"> ➤ 10 proposals submitted based on BDS concepts, 3 accepted, 2 rejected, 2 on the final stage and 3 under evaluation
<ul style="list-style-type: none"> ➤ Gender training for all staff, financial training, BDS training other computer training. 	<ul style="list-style-type: none"> ➤ No formal indicators 	<ul style="list-style-type: none"> ➤ All staff received gender training twice and several training on BDS and computer.
Technical intervention		
<ul style="list-style-type: none"> ➤ # of demonstrations made to various institutions 	<ul style="list-style-type: none"> ➤ 10 	<ul style="list-style-type: none"> ➤ 36 demonstrations: 1 to CRSM, 1 to Asociación de Cajas Rurales, 1 to NGO CIPCA, 1 to PIDECAFE, 1 to Empresa ALgodonera de la Selva, 1 to COLCAFE, 1 to Banco Interbanc, 1 to Farmex, 1 to Rain Forest Trading, 2 to PRA project: Lima and Tarapoto, 4 to PDAP project: Tingo Maria, VRAE Tocache and Aguaytia, 3 to FONCODES, 2 to CEPSCO, 1 to Asociacion Entorno, 1 to Caja Rural Norperu. 1 to Caja Rural Sr. de Luren, Caja Rural Cruz de Chalpón, COPEME, NGO Prisma, 2 to Foncodes: Lima and San Martín, 1 to CTTU, 1 to CEDEPAS, 1 to PROASSA, 1 to Solidaridad, 1 to IPR, 1 to Las Delicias, 1 to Tabacalera del Oriente and 1 to Technoserve

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
➤ # of systems installed.	➤ 2	<ul style="list-style-type: none"> ➤ 40 systems installed. The original version in 5 computers in CRSM, 1 in Prodas. The new version in 34 computers, 1 in PRA office in Tarapoto, 3 in PRA Lima and 30 in PDAP offices (4 in VRAE, 3 in Tingo Maria, 6 in Aquaytia, 17 in Tocache). ➤ 3 Systems are in the process to be installed in MEDA Nicaragua, MEDA Tajikastán and MEDA Mozambique ➤ 5 Systems are in the process to be sold to FONCODES, Entorno, Rain Forest, Caja Rural Nor Perú and Prisma
➤ # clients tracked	➤ 250	➤ 16,128 tracked with the MIS system
➤ # service providers monitored with system	➤ 15	➤ 30 service providers
➤ # of ag products monitored	➤ 2	➤ 12 products monitored: cacao, coffee, bananas, corn, cotton, hay, camu camu, citrus fruit, papaya, pineapple, peanuts and rice
➤ # of irrigation systems implemented	➤ 8	➤ 54 units in place
➤ # of farmers reached	➤ 5000	<ul style="list-style-type: none"> ➤ With the MIS system 16,128 farmers were tracked: 4,440 in VRAE, 2,472 in Tingo María, 5,175 in Aguaytia, 3,861 in Tocache. 150 farmers participated on a RPS in Bagua, 30 in Bellavista, ➤ 300 farmers participated on the snow pea project
➤ % of farmers reached female	➤ 10%	<ul style="list-style-type: none"> ➤ 20% female participated monitoring with Agromonitor. ➤ 60% female in the snow pea Project
➤ % increase in productivity	➤ 5%	➤ 120% increase in productivity
➤ % decrease in cost of inputs	➤ 7%	➤ Cost of inputs has decreased 15% on the snow pea project and 10% on the RPS with the use of the MIS.
<ul style="list-style-type: none"> ➤ % sustainability of Mega System ➤ profitability of individual services of Agro Monitor 	<ul style="list-style-type: none"> ➤ 98% ➤ 105% (5% profit) 	<ul style="list-style-type: none"> ➤ Mega System is 100% sustainable ➤ There is no profit since Mega System is in an investing stage
Partnerships		
➤ promotion of high value produce production systems	➤ 20 systems implemented	➤ 54 technological packages have

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
		been implemented.
➤ training on irrigation technology	➤ 100 farmers trained	➤ 150 have been trained in irrigation technology
➤ # products developed	➤ 3	➤ 3 products are produced with the technological package: baby corn, snow peas and sugar snaps.
➤ increase in productivity	➤ 25%	➤ The average increase in productivity has been 120%
➤ increase in # of high value produce marketing companies subcontracting to small farmers	➤ 3	➤ 2 marketing companies have participated in the project: PHISAC and INAGRO. MEDA Peru realize the need of capital to reach more small farmers and other marketing companies.
Sustainability		
➤ # 'lessons learned' case studies developed	➤ 2	➤ MEDA is working on case studies. It has published one article and is writing another one to share its experience.
➤ # of seminars / conferences attended	➤ 2	➤ 4 in BDS
➤ Participation in workshops/ conferences	➤ 3	➤ 20 workshop/conferences participated. They have been related to export, APTDA, Peruvian regulations, accounting, BDS, strategic planning
➤ New partnerships solicited	➤ 5	➤ MEDA has been in contact with 7 potential partnerships (medium to big size Peruvian exporter's companies): Intipa, Damper, Roots Peru, CEDEPAS, CTTU, Rain Forest, San Fernando
➤ New proposals developed	➤ 3	➤ 10 proposals submitted based on BDS concepts, 3 accepted, 2 rejected, 2 on the final stage and 3 under evaluation
➤ # New programs	➤ 2	➤ 5 new programs run, 3 with PDAP (Chemonics) last for 9 months and 2 are still in place.

Comparison of Results to DIP, EOP

MOZAMBIQUE

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
Organizational development		
<ul style="list-style-type: none"> ➤ Change in institutional structure ➤ Governance structure installed 	<ul style="list-style-type: none"> ➤ Identified potential governance body ➤ Registration process in progress or merger completed 	<ul style="list-style-type: none"> ➤ Identified new microfinance bank as merger partner. Bank to have fully constituted Board of Directors to govern ➤ MOU signed and process to be completed.
<ul style="list-style-type: none"> ➤ Client retention rate ➤ Increased client demand 	<ul style="list-style-type: none"> ➤ 90% 	<ul style="list-style-type: none"> ➤ Client demand exists but clients can not afford credit or already hold credits with other MFIs who offer a wider range of services
<ul style="list-style-type: none"> ➤ Training sessions conducted ➤ Improvements made on MIS and accounting system 	<ul style="list-style-type: none"> ➤ Training completed in: advanced financial modeling and ratio analysis ➤ Review and changes made to MIS / accounting system 	<ul style="list-style-type: none"> ➤ The program manager and credit supervisor have both been trained in financial modeling using Microfin. Two staff people attended ratio analysis course offered by the MMF. ➤ Accounting system functioning and further reviews to MIS and accounting system put on hold due to merger. The new bank will use banking software and the data for Kulane will be taken into that system
<ul style="list-style-type: none"> ➤ # of staff trained ➤ Staff retention rate 	<ul style="list-style-type: none"> ➤ 4 ➤ >90% 	<ul style="list-style-type: none"> ➤ 3 ➤ Staff retention = 79% One voluntary resignation and 2 dismissals for fraudulent actions.
Technical intervention		
<ul style="list-style-type: none"> ➤ Policies and procedures revised ➤ Accounting staff applying internal control procedures 	<ul style="list-style-type: none"> ➤ Internal control policy implemented and internal auditor hired and trained 	<ul style="list-style-type: none"> ➤ Internal control policies in place. Internal auditor not hired because of low # of clients and pending merger.
<ul style="list-style-type: none"> ➤ Improved growth in equity rate for individual clients ➤ Improved repayment rate for repeat clients 	<ul style="list-style-type: none"> ➤ >10% average growth in client equity 	<ul style="list-style-type: none"> ➤ Sample of repeat clients have shown an average equity growth of just over 17%
<ul style="list-style-type: none"> ➤ # of staff trained ➤ New credit officers to achieve target caseload w/n 6 months ➤ Credit Supervise able to analyze portfolio indicators 	<ul style="list-style-type: none"> ➤ All credit staff undergo training ➤ Portfolio targets met 	<ul style="list-style-type: none"> ➤ 2 members of credit staff were trained in Environmental Assessment for Microfinance ➤ 2 members of staff attended the 3rd Microfinance Conference in Mozambique and attended workshops presented ➤ 1 staff member attended training in Trainer of Trainer
Partnerships		
<ul style="list-style-type: none"> ➤ # of clients purchasing nets ➤ # of vouchers exchanged ➤ \$ of sales/credit officer 	<ul style="list-style-type: none"> ➤ 25% of clients purchase nets ➤ \$450 value of nets per credit officer sold 	<ul style="list-style-type: none"> ➤ 12% of average # clients in FY04 purchased ITNs ➤ \$99 value of nets per credit officer sold
<ul style="list-style-type: none"> ➤ # of organizations consulted 	<ul style="list-style-type: none"> ➤ Client base expanded 	<ul style="list-style-type: none"> ➤ Partnership with HelpAge

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
and presentation made	through new partnerships	established, but needs of the majority of target group differs from what Kulane offers
Sustainability		
<ul style="list-style-type: none"> ➤ Financial sustainability ratio ➤ # of active clients ➤ Definition of institutional structure 	<ul style="list-style-type: none"> ➤ 80% ➤ 1,831 ➤ Future structure / merger defined 	<ul style="list-style-type: none"> ➤ 51% ➤ 508 ➤ Merger with new microfinance bank of Opportunity International
<ul style="list-style-type: none"> ➤ # of new products for alternative sectors ➤ Increase in avg. loan size 	<ul style="list-style-type: none"> ➤ Introduce rural credit line with merger partner ➤ 26% 	<ul style="list-style-type: none"> ➤ Rural credit line not introduced. Focus for Kulane has been on urban loans ➤ 25%
<ul style="list-style-type: none"> ➤ ITN product developed ➤ repayment rate ➤ Rural credit product developed ➤ Contribute to advancement of the microfinance sector 	<ul style="list-style-type: none"> ➤ Line of credit available for ITN ➤ 98% ➤ Rural credit identified and ready for pilot testing ➤ Company identified for creation of credit bureau. ➤ New law includes revisions for MFIs ➤ 3 bulletins distributed ➤ Criteria and systems governing participation in fund in place and selection process underway 	<ul style="list-style-type: none"> Line of credit available ➤ 94% ➤ Rural credit not identified ➤ Company identified, but waiting for approval from the Bank of Mozambique to allow regulated and non-regulated MFIs to share client information ➤ Revised Financial Act includes new institutional type – MicroBanks ➤ 2 bulletins distributed (Policy Development Process for MFIs and Rural microfinance) ➤ Criteria established and requests for proposals received with selection process underway.

Comparison of Results to DIP, EOP

HEADQUARTERS

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
Organizational Development		
<ul style="list-style-type: none"> ➤ Departments' annual review and plan of operations (ARPO) ➤ # of concept papers developed for funding ➤ # of proposals developed for funding ➤ IOPS/IFD's five year strategy defined ➤ Organizational structure of IED revised 	➤ 3 ARPOs/ dept. completed	<ul style="list-style-type: none"> ➤ 4 ARPOs completed. ➤ 4 concept papers developed in FY04 plus more than 10 from prior years ➤ 7 proposals submitted in FY04 plus 15 in prior years ➤ ARPO Fiscal Year 2005 shows that IOPS/IFD's new product line strategy is in place and operational ➤ IED organizational structure based on product lines now in place and operational
	➤ 12 concept papers	
	➤ 6 proposals	
	➤ New strategy defined and in place	
	➤ Changes to IED structure in place	
<ul style="list-style-type: none"> ➤ # of technical BDS/Ag advisors based in HQ ➤ # of programs adopting new strategies (BDS/AG) ➤ # of concept papers developed for funding 	➤ 3 BDS/Ag advisors based in HQ	<ul style="list-style-type: none"> ➤ 3rd BDS/Ag Senior Consultant / Project Manager hired ➤ 3 country programs in place (Peru, Nicaragua and Mozambique) ➤ 4 BDS/PML concept papers developed in FY04 plus 8 from prior years
	➤ 3 Country Programs (Peru, Bolivia and Nicaragua)	
	➤ 6 concept papers developed for BDS/PML funding	
Technical Intervention		
<ul style="list-style-type: none"> ➤ # of partners submitting monitoring sheets to HQ ➤ # of BDS indicators developed 	➤ not applicable (refer to previous annual report for details)	➤ N/A – Testing showed that standard monitoring sheets were impractical because each BDS programs is unique.
	➤ 8 BDS indicators developed	
<ul style="list-style-type: none"> ➤ # of social impact indicators (monitoring of investments) ➤ # of investments evaluated using criteria 	➤ 5 social impact indicators	➤ 7 categories comprising 40 social impact indicators identified
	➤ 10% investments evaluated using criteria	
<ul style="list-style-type: none"> ➤ # of microfinance programs using MIS systems ➤ # of Reviews/ Improvements to MIS system (microfinance) ➤ # of monitoring trips to assist/test market information system (BDS) ➤ financial tracking system used by country programs 	➤ 4 microfinance programs using MIS systems	<ul style="list-style-type: none"> ➤ 10 microfinance programs using MIS systems. (5 Tanzania, 3 Mozambique, 1 Jamaica); 3 more installations in process (Tanzania, Nicaragua and Afghanistan) ➤ 1 MIS system review in FY04 in XacBank in Mongolia ➤ Agro Monitor developed and implemented in numerous client sites/projects ➤ 100% MEDA programs provide financials monthly and 100% of MEDA's financial programs provide SEEP information monthly.
	➤ 3 updates carried out	
	➤ 6 MFIs using MEDA's MIS system	
	➤ 2 but with ongoing HQ support	
	➤ 100% of the programs provide figures for the financial tracking system	
Partnership		

<i>Indicators</i>	<i>Target for EOP</i>	<i>Actual Attained at 31/03/05</i>
<ul style="list-style-type: none"> ➤ # of training sessions facilitated by TRU ➤ # of training provided to staff ➤ # of TA monitoring trips to Partner organizations ➤ participants' satisfaction of training content 	<ul style="list-style-type: none"> ➤ 3 (Moz) ➤ 5 (Peru) ➤ 3 (gender) ➤ 3 (environment) ➤ 3 (impact assessment) ➤ 8 ➤ 5 (on a score of 6) participant's satisfaction of training content 	<ul style="list-style-type: none"> ➤ Prior years TRU Training: 2 Gender workshops in Peru and Mozambique, helped develop Environment training sessions in Peru. ➤ Prior years 1 Impact assessment workshop in Egypt to MEDA staff ➤ Prior year Trips: 1; FY04 trips to Peru (Dec 03) 1 trips to Mozambique (Oct 03)
<ul style="list-style-type: none"> ➤ Define use of new report structure ➤ # of BDS monitoring reports received from field ➤ total # of impact studies completed (BDS) 	<ul style="list-style-type: none"> ➤ All programs using new standards ➤ 0% ➤ 0 impact study completed 	<ul style="list-style-type: none"> ➤ Quarterly reporting on outputs achieved against performance indicators, with variances and explanations in tabular format implemented.
Sustainability		
<ul style="list-style-type: none"> ➤ # of management visits to Kulane ➤ determine strategy to expand /merger ➤ Increase loan capital for lending 	<ul style="list-style-type: none"> ➤ 6 ➤ Future strategy determined ➤ Increase by 20% 	<ul style="list-style-type: none"> ➤ well in excess of 6 visits ➤ Merger partner identified, MOU signed, entity to operate a bank with Board of Directors, business planning underway ➤ Substantial scaling up of loan capital anticipated
<ul style="list-style-type: none"> ➤ Monitoring of performance targets ➤ # of training sessions on BDS provided ➤ # of participants attending BDS conference 	<ul style="list-style-type: none"> ➤ Provide EOP evaluation ➤ 2 training sessions 	<ul style="list-style-type: none"> ➤ EOP evaluation complete ➤ BDS Training for MEDA Worldwide Staff – February 2004
<ul style="list-style-type: none"> ➤ # of conferences attended ➤ # of workshops delivered ➤ # of case studies developed 	<ul style="list-style-type: none"> ➤ 6 ➤ 3 ➤ 2 	<ul style="list-style-type: none"> ➤ in excess of 6 conferences and forums attended in FY 04, plus 7 in prior years ➤ 4 workshops delivered in FY04 (2 on BDS, 2 on MF) plus 3 in prior years

**APPENDIX THREE
Country Data Sheets**

ATTACHMENT D (1550)

**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORTED PVO PROJECTS**

Project Information

Name of Organization

Mennonite Economic Development Associates

Project Number

Grant/Contract Number

HFP-A-00-01-00020-00

Start Date (MM/DD/YY)

09/29/01

End Date (MM/DD/YY)

31/03/05

AID Project Officer's Name

Thomas Carter

AID Obligation By AID FY (\$000)

FY	AMOUNT	FY	AMOUNT
FY01	\$ 410		\$
FY02	\$ 651		\$
FY03	\$ 170		\$
	\$		\$

Project Purpose: Improve the development of MEDA Peru's institutional capacity in the Business Development Services (BDS) and agribusiness sectors to improve program delivery and expand MEDA's capacity in Peru to design, manage, and evaluate BDS programs.

COUNTRY INFORMATION

Country

Peru

Location in Country (Region, District, Village)

Lima

PVO Representative's Name

Sonia Dominguez – MEDA Peru

Local Counterpart/Host Country Agency

COUNTRY FUNDING INFORMATION

Year 2004

AID\$ 94,560

PVO\$ 37,605

INKIND\$ 0

LOCAL

Purpose (if other than project purpose)

Status: complete

FOR OFFICIAL USE ONLY

PVO TYPE

SUBPROJ

APPN

FUND TYPE

CNTRY CODE

TECH CODE

PROJ OFFC

NON ADD1

NON ADD2

AID 1550-11 (8-85_

**PVO PROJECT REPORTING INFORMATION
ON AID SUPPORTED PVO PROJECTS**

Project Information

Name of Organization

Mennonite Economic Development Associates

Project Number**Grant/Contract Number**

HFP-A-00-01-00020-00

Start Date (MM/DD/YY)

09/29/01

End Date (MM/DD/YY)

30/09/04

AID Project Officer's Name

Thomas Carter

AID Obligation By AID FY (\$000)

FY	AMOUNT	FY	AMOUNT
FY01	\$ 410		\$
FY02	\$ 651		\$
FY03	\$ 170		\$
	\$		\$

Project Purpose: In Mozambique, MEDA supports the institutional development of a locally owned and operated financial institution called *Kulane ka Ntwanano*. To ensure *Kulane's* long-term sustainability, MEDA is also facilitating a merger between it and a new *MicroBank* venture in the process of being launched (early to mid-2005) by a consortia led by Opportunity International.

COUNTRY INFORMATION

Country**Location in Country (Region, District, Village)**

Mozambique

Maputo

PVO Representative's Name

Pierre Martin: MEDA Mozambique

Local Counterpart/Host Country Agency

COUNTRY FUNDING INFORMATION

Year 2004

AID\$ 37,234

PVO\$ 379,228

INKIND

LOCAL \$71,670 (Local program income included in PVO match)

Purpose (if other than project purpose)

Status: complete.

FOR OFFICIAL USE ONLY

PVO TYPE

SUBPROJ

APPN

FUND TYPE

CNTRY CODE

TECH CODE

PROJ OFFC

NON ADD1

NON ADD2

AID 1550-11 (8-85_

APPENDIX FOUR
Revised DIP FY05 (Oct 04 – Mar 05)

PERU

Program Objectives	Major Planned Activities	Indicators	Targets	Actual Attained Mar 2005
			End of Project	
Technical Interventions				
Improve Agro Monitor system	<ul style="list-style-type: none"> Assist MEGA System to develop 'thin' version of Agro Monitor 	<ul style="list-style-type: none"> Availability of 'thin' version 	<ul style="list-style-type: none"> Agro Monitor Plus released 	<ul style="list-style-type: none"> Completed October 2004
Achieving Sustainability				
Replication of best practices in new program delivery and partnership	<ul style="list-style-type: none"> Document lessons learned Engage in sharing lessons with other MEDA programs 	<ul style="list-style-type: none"> # of case studies developed Productivity Chains manual 	<ul style="list-style-type: none"> 2 case studies completed Manual in Spanish & translated to English 	<ul style="list-style-type: none"> One Case Study Published; Second near completion Manual Completed & Translated

MOZAMBIQUE

Program Objectives	Major Planned Activities	Indicators	Targets	Actual Attained Mar 2005
			End of Project	
Achieving Sustainability				
Form a strong, sustainable credit institution	<ul style="list-style-type: none"> ➤ Merger of <i>Kulane</i> with OI's <i>MicroBank</i> 	<ul style="list-style-type: none"> Kulane staff employed by OI's MicroBank 	<ul style="list-style-type: none"> Merger completed 	<ul style="list-style-type: none"> Merger completed in February 2005
Develop new rural credit product line	<ul style="list-style-type: none"> Design/revise/test and place products on the market 	<ul style="list-style-type: none"> Rural credit product developed 	<ul style="list-style-type: none"> ➤ Fund in place, product available for piloting 	<ul style="list-style-type: none"> ➤ Product to be developed by new OI initiative
Contribute to the advancement of the microfinance sector	<ul style="list-style-type: none"> Support the creation of national MFI credit bureau serving the MFI industry Create loan fund and rural credit product for piloting MFI information bulletins 	<ul style="list-style-type: none"> Project Working Group (WG) Equipment tender process Availability # of bulletins 	<ul style="list-style-type: none"> WG established Legal structure identified Tender process initiated Fund in place 3 bulletins issued 	

Revised DIP FY05 (Oct 04 – Mar 05)

HEADQUARTERS

Program Objectives	Major Planned Activities	Indicators	Targets	Actual Attained Mar 2005
			End of Project	
Improve the synergy between IED's four departments to develop integrated and more effective services to MEDA's field partners and clients	<ul style="list-style-type: none"> PML product line director to initiate action aimed at better integration of MEDA Peru's PML programming with overall PML product line direction External consultant to conduct End-Of-Project evaluation aimed at assisting senior management to identify further organizational development needs and options 	<ul style="list-style-type: none"> PML programming guidelines issued to MEDA Peru EOP evaluation report Departments' annual review and plan of operations (ARPO) Feb/March 05 	<ul style="list-style-type: none"> Guidelines issued EOP evaluation report 4 ARPOs completed by EOP 	<ul style="list-style-type: none"> Guidelines issued and submission of project plans and feedback received during the annual planning process EOP evaluation report Complete 4th ARPO Completed Feb 2005
Strengthen HQ technical expertise in BDS, production-marketing linkages	<ul style="list-style-type: none"> ➤ Recruitment of technical advisors in Agriculture and BDS ➤ Develop technical strategy in BDS, production-marketing linkages and microfinance 	<ul style="list-style-type: none"> # of technical BDS/Ag advisors based in HQ # PML staff able to 'spec' out and apply Agro Monitor Plus 	<ul style="list-style-type: none"> 3 2 pilots initiated in Tajikistan & Mozambique 	<ul style="list-style-type: none"> Third hired August 2004 2 pilots initiated; awaiting upgrade before completed
Develop social impact indicators to be incorporated into MEDA investments	<ul style="list-style-type: none"> Apply investment impact tools to due diligence process Monitoring of impact indicators in investments 	<ul style="list-style-type: none"> # of social impact indicators (monitoring of investments) # of investments evaluated using criteria 	<ul style="list-style-type: none"> 5 10% 	<ul style="list-style-type: none"> 11 categories with specific indicators finalized
Enhance expertise in the delivery of MIS for financial and impact tracking	<ul style="list-style-type: none"> Complete implementation of 6th EPA system in Tanzania Train staff on the application of software 	<ul style="list-style-type: none"> # of microfinance programs using MIS systems training session completed 	<ul style="list-style-type: none"> +1 during six month extension for a total of 6 MFI's using EPA 1 	<ul style="list-style-type: none"> Six installations now complete Training Session completed
Support and strengthen a locally managed Microfinance Institution in Mozambique	<ul style="list-style-type: none"> Maintain support for merger of Kulane with OI <i>MicroBank</i> venture 	<ul style="list-style-type: none"> # of management visits to Kulane 	<ul style="list-style-type: none"> +2 during six month extension period 	<ul style="list-style-type: none"> Two trips from North American Management by March 2005
Contribute to industry-wide best practices for SME development	<ul style="list-style-type: none"> Publish MEDA's BDS lessons learned and best practices guide 	<ul style="list-style-type: none"> Availability 	<ul style="list-style-type: none"> Guide published 	<ul style="list-style-type: none"> Guide published and disseminated

APPENDIX SIX

USAID Matching Grant

Program Report
All amounts in USD

Submitted by: Mennonite Economic Development Associates
Award No.: HFP-A-00-01-00020-00 - Credit and Small Business Development Programs

	Oct - Dec 04		Jan - Mar 05		YEAR 4		ACTUAL LOP		BUDGET LOP	
	AID	PVO	AID	PVO	AID	PVO	AID	PVO	AID	PVO
DIRECT COSTS										
Country: Peru										
Salaries and benefits	19,000		8,888	7,938	27,888	7,938	98,248	101,676	207,000	113,000
Operations	6,221		7,099	7,099	13,320	7,099	118,874	11,822	80,000	34,000
Investment/Subsidy Partner Organizations	3,204		2,674		5,878	0	106,156	224,973		195,000
Subtotal - Peru Program	28,425	0	18,661	15,037	47,086	15,037	323,278	338,471	287,000	342,000
Training - Peru	0	0	2,429		2,429	0	6,419	0	12,000	
Supplies					0	0	0	42,780		8,000
Services	5,693		5,505		11,198		91,429	1,404	112,500	10,000
Subtotal - Peru Procurement	5,693	0	5,505	0	11,198	0	91,429	44,184	112,500	18,000
Total Peru	34,118	0	26,595	15,037	60,713	15,037	421,126	382,655	411,500	360,000
Country: Mozambique										
Salaries and benefits		34,199			0	34,199	39,870	337,513	45,500	273,500
Operations	0	7,449			0	7,449	21,676	105,910	20,000	100,000
New Product Development/Advancement MF Sector	743	8,048	743	10,062	1,486	18,110	18,680	241,140	18,000	3,000
Loan Fund					0	0	0	7,850		375,000
Subtotal - Mozambique Program	743	49,696	743	10,062	1,486	59,758	80,226	692,413	83,500	751,500
Training - Mozambique					0	0	3,870	0	12,000	
Supplies					0	0	0	6,226		21,000
Services			35,466		35,466		63,736	0	57,000	
Subtotal - Mozambique Procurement	0	0	35,466	0	35,466	0	63,736	6,226	57,000	21,000
Total Mozambique	743	49,696	36,209	10,062	36,952	59,758	147,832	698,639	152,500	772,500
Headquarters										
Salaries and benefits	15,649	0	9,042	0	24,691	0	423,431	10,578	428,979	
International Travel	0	7,878	0	1,048	0	8,926	7,755	76,989	2,986	83,708
BDS Seminar and Workshop	0	0	0	0	0	0	19,327	0	26,200	
Seminars/Conferences	0	0	0	700	0	700	33,322	700	15,763	
Communications	2,257		1,621		3,878		16,326		16,103	
Office costs	6,943		5,257	341	12,200	341	59,620	341	49,185	
Other costs	1,040		1,006	0	2,046	0	8,713	0	14,186	
Subtotal - Headquarters Program	25,889	7,878	16,926	2,089	42,815	9,967	568,494	88,608	553,402	83,708
Supplies		4,063		4,331	0	8,394	0	79,694		16,200
Services	2,610		11,624		14,234	0	41,519	0	55,500	
Audit			9,805		9,805		34,569		37,830	
Evaluation	528		16,964		17,492		17,492	0	20,300	
Subtotal - Headquarters Procurement	3,138	4,063	38,393	4,331	41,531	8,394	93,580	79,694	113,630	16,200
Total Headquarters	29,027	11,941	55,319	6,420	84,346	18,361	662,074	168,302	667,032	99,908
Total	63,888	61,637	118,123	31,519	182,011	93,156	1,231,032	1,249,596	1,231,032	1,232,408
Total Program	55,057	57,574	36,330	27,188	91,387	84,762	971,998	1,119,492	923,902	1,177,208
Total Training	0	0	2,429	0	2,429	0	10,289	0	24,000	0
Total Procurement	8,831	4,063	79,364	4,331	88,195	8,394	248,745	130,104	283,130	55,200
Total	63,888	61,637	118,123	31,519	182,011	93,156	1,231,032	1,249,596	1,231,032	1,232,408

Program Income Included in PVO Match

12,751

12,751

246,301

507,500