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ARMENIA MICRO ENTERPRISE DEVELOPMENT INITIATIVE

YEAR 1 ANNUAL REPORT

(July 25, 2003 – July 24, 2004)

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CHAPTER ONE: Overview of MEDI

Background. In July 2003 USAID awarded the three-year Micro Enterprise Development Initiative (MEDI) contract to Chemonics International to provide micro enterprises in Armenia, particularly those owned by women and the working poor, with greater and more reliable access to sustainable financial and business services. The MEDI project was designed to support the Mission's efforts to accelerate the systemic restructuring of the Armenian economy towards a market orientation through the creation of new jobs, an improved business and investment environment, and through increased attention to grassroots efforts to create jobs – whether through micro, small and medium enterprise growth or other experimental approaches.

Expected results. In September 2003 USAID approved MEDI's strategic, life-of-project plan which set forth three project intermediate results (PIR): PIR 1 increased access to finance; PIR 2 increased access to business development services and PIR 3 improved enabling environment for micro and small enterprises (MSEs). This strategic plan was developed with input from USAID and Armenian stakeholders, and it aligns MEDI's results with USAID/Armenia's 2004-2008 strategy which calls for increased employment in a competitive private sector (SO 1.3) through: (IR 1) an improved business environment and (IR 2) growth of micro, small and medium sized enterprises.¹

Approach. Since its inception the MEDI project has implemented a demand-driven approach to the development of the MSE sector, serving as an "honest broker" between key constituencies. At the enabling environment level MEDI has facilitated donor collaboration, fostered dialogue between the government and private sector, and provided independent, objective third-party research and analysis of key issues. At the institutional level MEDI's role could be described as that of an auditor – pointing out strengths and weaknesses – and working with institutions to develop plans to improve performance and deepen support for the sector. Despite the fact that MEDI, as a mediator, sometimes delivered tough news to its partners and stakeholders, most feedback that MEDI has received from its stakeholders has generally praised its approach and commitment to integrity, transparency and diplomacy.

From a project management perspective MEDI's approach has been to focus on results, while remaining flexible and open minded. MEDI has worked closely with USAID to implement activities in accordance with its year one work plan, while adjusting to seize available opportunities.

CHAPTER TWO: Activities, Accomplishments and Results to Date

During its first year of operations, MEDI made significant progress towards achieving the results set forth in its strategic plan. As a result, the project is starting to make a major contribution towards improving the livelihoods of Armenians. What follows is a summary of MEDI's activities by component, including results to date.

Increased MSE access to finance (PIR 1). In order to have a lasting impact on the Armenian financial sector, MEDI decided to take a long-term view toward developing the institutional capacity of its financial sector counterparts. As a first step in this process, MEDI conducted due diligence on both microfinance institutions (MFIs) and banks, as well as assessed the demand for financial services by MSEs. In essence, MEDI sought to clearly understand both the supply and demand sides of the MSE finance market in order to

¹ Within these two intermediate results USAID highlights the need for: IR 1.1: more effective policy, legal and regulatory environment; IR 1.2: more developed financial and capital markets; IR 2.1 improved competitiveness; IR 2.2 increased access to finance; and IR 2.3 increased capacity to conduct business.

determine and prioritize its technical assistance interventions. The following is a summary of MEDI's key technical assistance activities and first year results in the increased MSE access to finance component of the project.

Institutional assessments of micro lending institutions. MEDI conducted thorough due diligence on Armenia's five leading micro lending institutions: UMCOR Aregak, MDF Kamurj, FINCA Armenia, World Vision's SEF, and Horizon. The institutional assessment process took approximately one month per MFI and consisted of two main aspects. The first was to adjust the financial statements of each MFI to take into consideration such things as subsidies and inflation, with the ultimate goal of restating them in accordance with MFI best practice accounting standards. The second was to conduct one to two week on-site operational reviews for each MFI.

The assessment process established the foundation of MEDI's future technical assistance for the remainder of the project by clearly identifying the strengths and weaknesses of each MFI. MEDI prepared written assessments for each MFI and delivered follow-up debriefings to each MFI on the assessments' key findings.

In general, the assessments were very well received by the MFIs, which had never before received such a thorough analysis of their operational and financial performance. Moreover, due to the confidential nature of the process, MEDI has been able to gain an intimate and holistic understanding of each MFI and, in so doing, establish a foundation of trust and credibility with each one, which will serve as a platform for future cooperation over the remainder of the project.

**Increased MSE Access to Finance
Year 1 Results**

- Completed five due diligence reports on leading MFIs (Aregak, FINCA, Horizon, MDF Kamurj, World Vision).
- Conducted first-ever national credit demand survey of over 700 MSEs.
- Assisted two banks (Converse and Anelik) in developing asset-based lending products and started working with two others (ADB and Armeconombank).

Going forward, MEDI plans to utilize the assessments to determine with which MFIs it should partner for the remainder of the project, with the aim of identifying MFIs that have the potential to expand their reach and scale to achieve both operational and financial self-sustainability, in the interest of increasing access to finance for MSEs.

National credit demand survey of Armenian MSEs. During the second half of year one, MEDI and its local subcontractor, Alpha Plus, conducted the first national demand survey of Armenian MSEs, which reached over 700 non-agricultural MSEs located in all eleven marzes of Armenia. A detailed analysis of the survey's results was presented to USAID in the report entitled *Armenia Microcredit Demand Analysis*.

According to MEDI's research there are about 82,500 non-agricultural active MSEs, of which approximately 50,400 are in need of micro credit. The estimated size of this segment of the microfinance market is approximately \$40-\$50 million. Out of more than 300,000 farmers, approximately 250,000 are in need of micro credit. The estimated size of the agricultural microfinance market is approximately \$60 million. As of end of December 2003, the outstanding microfinance portfolio of Armenian financial institutions was estimated to be at \$34 million. Taking into account the fact that approximately \$4.4 million of the microfinance portfolio outstanding is allocated to market trade and consumer credits, Armenian financial institutions are meeting only about 30% of the existing micro credit demand.

Another way of estimating micro credit demand in Armenia is to compare the ratio of total credit to gross domestic product (GDP) in Armenia with the same ratio in similar countries. Doing so reveals that the credit to GDP ratio in Armenia by the end of 2003 was around 7%.

By comparison, the average of the other members of the CIS was 17%, while in the Central and Eastern European countries, this same average was 29%, and in European Union countries it was 120%.² Thus, if the Armenian economy continues to grow, and the demand for credit increases to just 10% of GDP in 2004, the level of borrowing in Armenia will reach approximately \$355 million (based on a GDP of \$3.8 billion). In other words, the demand for credit should far exceed the \$201 million in available credit reported for 2003. This rough approximation indicates that a considerable pool of latent demand for micro credit exists in Armenia.

Thus, it can be safely stated that Armenian MFIs are only marginally meeting the demand for micro credit by Armenia's MSEs. This is good news when viewed from the perspective of future market development. It also runs counter to the anecdotal evidence often cited by Armenian MFIs that the Armenian micro credit market is saturated. During the remainder of the project MEDI will focus on developing the institutional capacity of select MFIs in order to help them bridge the gap between the supply and demand for microcredit in Armenia.

Banks. Similar to its approach with the MFIs, MEDI, through the support of its subcontractor Crimson Capital, analyzed the capacity of various Armenian banks to serve the MSE market with appropriate financial services. Crimson's findings were detailed in a report entitled *Assessment of the Opportunities for Banks to Enter the MSE Market*. This report was based on Crimson's November 2003 mission to Armenia, and was delivered to USAID in early January 2004 and subsequently circulated to a broad audience including local banks, the Central Bank of Armenia (CBA), and donors. The report identifies new product opportunities for banks interested in serving the financial needs of MSEs mainly in the form of asset-based lending products.

Crimson Capital returned to Armenia to follow-up with local banks in February 2004 to identify: 1) which ones were most interested in moving forward and developing new products, and 2) which ones would be the most suitable partners for MEDI. It was determined that MEDI would begin working with Anelik Bank and Converse Bank, both of which have signed Development Credit Authority (DCA) guarantee agreements with USAID.

Crimson Capital returned to Armenia for subsequent visits in May and June 2004. Their work during this period has been documented in two reports entitled *Technical Assistance and Training to Select Armenian Banks for MSE Lending*. These confidential reports document MEDI's progress toward helping select Armenian banks develop asset-based lending products, such as purchase order finance (POF) for the MSE sector. Specifically the key accomplishments from these visits included:

- Providing Converse, Anelik, ADB and Armeconom banks with the technical assistance required to launch and offer a professional POF lending facility in the MSE market;
- Working with Converse Bank in setting up its first potential POF transaction with a specific company and established a firm basis for further POF transactions;
- Ensuring that ADB and Armeconombank are ready to launch their 'pilot' POF schemes once suitable MSE customers are identified;
- Collaborating with potential borrowers/MSEs to ensure that they remain conversant with the principles and benefits of POF;
- Obtaining commitment from all parties interviewed to participate in the proposed 'MSE Finance Workshop'; and
- Eliciting the support of key NGOs such as the Chamber of Commerce and Industry of the Republic of Armenia and the Union of Manufacturers and Businessmen

² Source, Datamonitor, central banks, Bank Austria Creditanstalt

(Employers) of Armenia for the development of new trade finance products – initially POF – by the banks as a method of supporting the development of their members.

Armed with a clear understanding of the market from both a supply and demand side perspective as well as strong relationships with several key Armenian banks, MEDI intends to translate its first year accomplishments into significant transactional results. Specifically, it seeks to demonstrate the viability of new asset-based lending products, such as purchase order finance, that are geared toward MSEs by supporting the development of the above-mentioned pilot schemes.

Increased MSE access to business development services (PIR 2). From the outset, MEDI made a commitment to Armenian business service providers (BSPs), associations, and other counterparts that it would methodically approach its strategy to help develop their capacity to assist member and client MSEs obtain greater access to markets. In order to better understand the underlying key constraints and opportunities that business development services (BDS) providers face in Armenia, MEDI conducted a supply and demand survey for BDS services.

In addition, MEDI immediately inaugurated a number of initiatives focused on elevating the skills and knowledge of micro and small entrepreneurs, as well as those individuals hoping to start a small business. MSEs' lack of market economic knowledge and sound business practices was one known obstacle to realizing greater access to markets. In order to overcome this deficiency and to assist BSPs in understanding market dynamics and thus playing a more meaningful

**Increased MSE Access to Business Development Services
Year 1 Results**

- Completed a national survey of approximately 800 MSEs on their demand for credit and BDS.
- Completed a national survey of BDS suppliers around Armenia focused on MSEs.
- Developed and delivered two one week training of trainers programs for 29 young BDS professionals.
- Trained 13 BDS professionals in business fundamentals.
- Certified 10 trainees as MicroPlan trainers.

role in the development of a market-based economy, MEDI began providing MicroPlan training of trainers (TOT) certifications to select BSPs. During MEDI's first year, 10 BSPs were certified as MicroPlan trainers. In addition, MEDI invested in 19 training kits with the goal of having 30 highly qualified trainers providing MicroPlan training to existing MSEs and start-up enterprises by the end of the project.

Overall, MEDI's key technical assistance activities and results in increased MSE access to business development services component of the project included the following:

Initial outreach. MEDI and its subcontractor Making Cents made an introductory presentation to representatives of more than 50 BSPs from throughout Armenia in November 2003. The presentation increased awareness of MEDI's planned activities among BSPs and identified providers now working or planning to work in the MSE sector. Forty-three BSPs expressed their readiness to cooperate with the project.

Training of trainers. MEDI held four training of trainers (TOT) events targeted toward BSPs between April and June 2004.

The first two week-long TOTs took place in April and focused on teaching more than 30 professionals from start-up BSPs the basics of adult learning concepts. MEDI coordinated with the Peace Corps' business volunteers and the Small and Medium Entrepreneurship Development National Center of Armenia (SME DNC) to develop a TOT program for young BDS professionals. The purpose of this program was to develop the basic training capacity

of start-up BSPs so that they could begin to build the foundation of skills necessary to deliver effective BDS in regions where there are currently few providers. In addition to assisting with the training, MEDI utilized established BSPs Apricot Plus, BSC, Millennium, and T&D to deliver the training. In keeping with its mandate to develop a sustainable BDS market, all participants paid to attend the course. (These fees were paid directly to the BSPs delivering the training. MEDI subsidized the event by providing its training room and meals free of charge.)

MicroPlan. The third TOT, a follow-on to the TOTs delivered in April, was a week-long training for start-up BDS professionals designed to help them develop a better understanding of fundamental business concepts. The fourth TOT was delivered by MEDI subcontractor Making Cents in June 2004 and was directed at strengthening BSPs from Yerevan and the regions. The curriculum of both trainings was based on MicroPlan, a course developed by Making Cents that focuses on improving the basic business skills of micro entrepreneurs in planning, management and finance. MicroPlan creates a simulated business environment that allows participants to run a business in a market driven economy. This unique approach permits entrepreneurs to think critically, challenge assumptions about business, and apply this knowledge to real situations.

In June 2004, the MEDI team embarked on a “road show” throughout the regions of Armenia where business services were most lacking to identify 15 BSPs (private sector consultants and trainers who serve entrepreneurs) . There was significant competition and finally 15 consultants were selected and required to pay for a week-long course which was held in July 2004, where they learned to facilitate the MicroPlan curriculum.

Of the 15 TOT participants, 10 were certified. During the second year of MEDI’s implementation we will work actively to assist the five trainers who failed to successfully complete the course.

BDS demand survey. MEDI completed a tender process and selected the Armenian consulting firm Alpha Plus to conduct a national BDS and credit demand survey of MSEs. The survey, conducted during spring 2004, included in-depth interviews of over 700 MSEs from around Armenia, 48 percent of which were located outside Yerevan. The intention of the study was to provide the following:

- Elevate MSE awareness of BDS and credit services currently available;
- Identify what BDS and credit services MSEs need/demand;
- Determine the types of BDS and credit services that MSEs prefer;
- Determine how much MSEs are willing to pay for BDS and credit services;
- Understand MSEs’ past experience in using BDS and credit services.

BDS supply survey. MEDI completed its national survey of BSPs in July 2004. In total, MEDI interviewed approximately 80 BSPs from at least seven Armenian marzes. The supply survey results were compared with the results from the BDS demand survey in order to identify gaps between the supply and demand of BDS. This enabled MEDI to efficiently target its technical assistance and expedite its goal of facilitating the development of a demand-driven and sustainable BDS market geared towards elevating MSEs ability to access markets.

BDS supply and demand gap analysis. MEDI completed a gap analysis based upon the BDS supply and demand surveys. Key findings included:

MSEs largely demanded BDS but also wanted specific, profit-driven services. The top five reasons MSEs cited for desiring BDS were:

1. To decrease costs and increase efficiency

2. To solve a specific problem
3. To expand customer base
4. To boost sales
5. To provide updated information

This demand was in sharp contrast to BSPs' perception of the top five reasons MSEs should use BDS which included:

1. Technical improvement / upgrade
2. To solve a specific problem
3. Service was recommended
4. Self – improvement
5. Service is free or subsidized

Excluding reason two “to solve a specific problem”, the BSPs largely seemed to see BDS as a medium- to long-term solution for business problems (such as technical upgrades, self-improvement) or as a free service.

Some BSPs claimed that MSEs did not represent a market for their services; however, the MSE survey found that 126 (16% of a sample of 765) of the respondents who had never used BDS were interested in trying to do so. Their interest rested along broad lines of services including:

1. Advertising support services
2. Accounting services
3. Legal support services
4. Marketing consulting
5. Distribution services

In general, the gap analysis between BDS supply and MSE demand showed that there was insufficient awareness and understanding about BDS among MSEs. This lack of awareness could be attributed to BSPs' view that MSEs do not represent a valid market for their services; however, some lack of awareness could be attributed to the relatively immature and unknown BDS market in Armenia. The good news for BSPs is that, generally speaking, MSEs are willing to pay for value-added BDS services. However, BSPs must know that these MSEs largely cite short-term, immediate BDS solutions to their problems as the most valuable services.

Improved enabling environment for MSEs (PIR 3). Creating a favorable enabling environment for MSEs is a necessary condition to stimulate the growth of sales, jobs and investment and to increase financial intermediation. During year one, and as highlighted below, MEDI effectively facilitated dialogue and brokered solutions to improve policy and regulations and positively impact the MSE sector.

Creating a legal and regulatory environment for microfinance. One of MEDI's primary tasks is to create a legal and regulatory environment for microfinance. Toward this end, in October 2003, Timothy Lyman of MEDI subcontractor Day, Berry & Howard Foundation began, with the support of

Improved Enabling Environment Year 1 Results

- Made significant progress towards lobbying the government to pass MFI legislation:
 - Inclusion of microfinance legislation in World Bank conditionality matrix.
 - Amendment to Central Bank of Armenia Regulation No. 14 relaxing prudential regulation standards for commercial MFIs.
 - Invitation to participate in MFC Conference in Poland and write *Policy Monitor* article.
- Assisted SME DNC in developing a strategic action plan that was passed by their board of directors.
 - Established donor working group with GTZ and UNDP which led to the leveraging of \$200,000 from UNDP for the SME DNC.
- Helped to catalyze significant institutional changes at the Financial Banking College Foundation (FBC) as a result of MEDI's institutional assessment of the FBC.

MEDI's legal specialist and finance team, to update a diagnostic survey that he had conducted two years ago on the MFI legal and regulatory environment in Armenia. This process involved interviewing representatives of key stakeholders including MFIs, banks, CBA, the Ministry of Finance and Economy (MoF), the State Tax Service and the Justice Ministry. Detailed recommendations on aligning Armenia's legal and regulatory framework to international best practices, thus providing a foundation for the development of a robust and sustainable microfinance industry, were presented in a final report that was delivered to USAID in January 2004 as well as circulated to various stakeholders.

In early February 2004, MEDI hosted a forum to discuss the current and future state of the legal and regulatory environment for microfinance in Armenia. The forum was targeted at policy makers from the MoF and CBA to build awareness of best practices with regard to the regulation and supervision of microfinance. Approximately thirty people attended including the heads of supervision from the CBA and MoF and representatives from the MFI practitioner and donor communities. USAID Mission Director Keith Simmons delivered opening remarks to the forum, legal expert Timothy Lyman presented a summary of CGAP's guidelines on the regulation and supervision of microfinance as well as conclusions from MEDI's survey, and the MFC's Legal and Regulatory Program Coordinator Marcin Fijalkowski shared results from their recent mapping study, which helped place Armenia's microfinance industry in a broader regional context.

The forum was successful in that it was a significant first step toward establishing a general consensus on how microfinance should be regulated in Armenia. In follow-up, Mr. Lyman returned to Yerevan in April 2004 to moderate an organizational meeting between representatives from the CBA and MoF to start drafting legislation that would establish a clear legal and regulatory status for microfinance in Armenia. Unfortunately, subsequent to Mr. Lyman's visit, it became apparent that it would be impossible to empower this MEDI-convened working group until the Government of Armenia had officially selected either the CBA or MoF to be the primary regulator of microfinance. This political deadlock is unfortunate especially in light of the fact that both the CBA and MoF agree that Armenian microfinance should be regulated in accordance with global best practices as espoused by CGAP. To help mitigate this situation, MEDI is cooperating closely with the World Bank which has offered to make improving the enabling environment for microfinance a conditional of its upcoming Poverty Reduction Support Credit agreement. Such a conditional would presumably break the political deadlock by providing the leverage necessary to encourage the government to select a microfinance regulator in a timely manner.

In the meantime, MEDI is continuing to bolster its efforts to promote microfinance legal and regulatory reform in Armenia. Toward that end, it facilitated a microfinance video conference in May 2004 that was sponsored by the World Bank, CGAP and MFC. Broadcast in Armenia, Kazakhstan and Kyrgyzstan, the video conference was the first in a series of training sessions on microfinance regulation, designed to train and engage government officials from NIS countries. Representatives from the CBA, MoF, Ministry of Justice and the State Tax Service participated in the event, at which MEDI legal advisor Timothy Lyman was one of the featured speakers.

Relaxation of CBA regulations governing credit organizations. MEDI's awareness building efforts yielded its first tangible results in July 2004 when the CBA introduced amendments to Regulation N14 on the Regulation of Activities and Economic Normatives of Credit Organizations. These amendments significantly relaxed the regulatory regime for credit organizations, which do not take deposits from the public and, as a result, pose no systemic risk to the financial system, and therefore do not need to be prudentially regulated. Specifically, the CBA, in close consultation with MEDI, chose to start regulating credit organizations that do not take public borrowings (i.e. they do not issue bonds or take loans

from legal entities based on public offer) in a non-prudential manner. Specifically, for credit organizations, the CBA has:

- Removed the demand assets/demand liabilities ratio;
- Altered the size of minimum total capital and compared it to the size of minimum statutory capital;
- Exempted credit organizations that do not publicly attract deposits from all prudential normatives, except the minimum statutory and minimum total capital.

These changes are extremely significant in that they mark a change in the CBA's attitude toward credit only institutions, including the only regulated MFI in Armenia, World Vision's Small Enterprise Fund (SEF). While significant work remains to be done to bring CBA regulation of microfinance in line with global best practices, MEDI is confident that it can work with the CBA to accomplish this objective, provided that they are formally assigned by the government to regulate microfinance.

Facilitating the establishment of a private credit bureau. MEDI has worked closely with the World Bank to facilitate the establishment of a private, national credit bureau for all Armenian banks, credit organizations and MFIs. In May 2004, MEDI delivered a report entitled *Legal and Regulatory Basis for a Private Credit Information Market in the Republic of Armenia* to USAID and relevant stakeholders from the Armenian public and private sectors as well as the international donor community. The report provides an in-depth analysis of Armenian legislation concerning bank secrecy and personal data, the civil code, and the adequacy of personal data privacy, data accuracy and commercial secrecy protections, framed within the context of relevant EU and US legislation, and recommends changes to Armenian legislation necessary to make the development of a private credit information market viable.

Increasing advocacy for improved policy and regulatory development. During its first year of operations, MEDI has worked closely with both the government and private sector to increase advocacy, both to improve the environment for business services and financial intermediation.

On the business support side MEDI has substantially supported SME DNC through an institutional assessment and strategic planning. This assistance has enabled SME DNC to better connect with its constituency and, presumably, to better advocate on behalf of MSEs. Additionally, MEDI is in the process of finalizing an *Entrepreneurs Roadmap for Business Registration*. Once completed, the roadmap will support SME DNC's efforts to facilitate the business registration process for MSEs. During year two, MEDI plans, in cooperation with SME DNC, to organize a series of national road shows to disseminate the roadmap to interested businesses.

To minimize overlaps and gaps in assistance to SME DNC, MEDI has played a lead role in facilitating donor coordination and successfully leveraged UNDP and GTZ ProSME resources for SME DNC. As a result, the UNDP provided approximately \$200,000 to the SME DNC to acquire space and repair regional offices, equipment, website, and other coordinated activities, and GTZ ProSME is providing technical assistance to SME DNC.

In addition to working with SME DNC, MEDI has facilitated roundtables and working groups for Armenian MFIs to build consensus around key issues and advocate on behalf of the sector. This has resulted in a more unified voice vis-à-vis legislators and policy makers. For example, the CBA appointed MEDI to organize a working group of MFIs to develop recommendations for non-prudential regulations for the Credit Organizations law. Several MFIs indicated that without MEDI's support they would have found it very difficult to unite and speak to the CBA with one voice. Based on the success of the working group and

roundtables, and the MFIs' own informal organization – the credit forum – MEDI will assist the MFIs to create a microfinance association.

Coordination Council for Support of Small and Medium Entrepreneurship in Armenia. In April 2004, MEDI became an inaugural member of the SME Coordination Committee, which was established by the government to coordinate donor efforts in the SME sector. Several working groups have been established and MEDI is currently a member of the working group focused on coordinating donor efforts toward SME DNC. As noted previously, MEDI has been cooperating with the UNDP and GTZ's Pro SME project to coordinate activities related to SME DNC.

Strengthening the capacity of the Financial Banking College Foundation (FBC). One of MEDI's primary tasks was to help develop the capacity of the FBC to provide relevant, demand-driven training services to Armenia's financial sector. Toward this end, in January 2004, MEDI subcontractor Crimson Capital, with support from the MEDI finance team, delivered its evaluation of the FBC's potential long-term sustainability and training capabilities in a report entitled *Preliminary Assessment of the Financial Banking College Foundation*. The assessment revealed a number of significant organizational weaknesses including:

- Inadequate bookkeeping and financial control systems.
- No strategic vision or clearly articulated business strategy.
- Lack of cohesion amongst FBC managers about the organization's future direction.

Based on its preliminary assessment, MEDI recommended that the FBC:

- Engage an independent auditor to reconcile its books and records for 2001, 2002 and 2003, with sufficient detail and breakdown to allow analysis by funding source, activity and department, including trends.
- Implement a permanent bookkeeping and financial control system that would allow accurate, consistent and timely tracking and reporting of all revenues, expenses and activities for management decision-making, budgeting and forecasting, and for reporting to funding sources and supervisory bodies.
- Undertake a professional market demand assessment of its potential client base to accurately determine the types of products and services the market really needs and wants and for which clients are willing to pay, including advanced areas of banking and finance training.
- Develop a strategic vision and direction that will allow it to profitably exploit true market opportunities and achieve self-sustainability by a targeted date. This strategic vision should be developed in conjunction with the FBC's management and supervisory bodies, and consensus and management cohesion around the strategic direction should be achieved before the FBC moves forward.
- Develop a concrete business plan that it can implement to proceed in its agreed-on strategic direction.

While MEDI attempted to work with the FBC's executive director to determine how best to implement the assessment's recommendations, the FBC's board of trustees decided that a change in management was needed in order to move the foundation forward. As a result, it chose to replace the FBC's executive director early on in 2004. Since then, a new executive director has been appointed. Additionally, the FBC's chairman, who is also the chairman of the CBA, provided a letter to MEDI stating the board's commitment to developing the FBC into a leading provider of demand-driven training to Armenia's financial sector. In light of this, MEDI has decided to finance market research on behalf of the FBC in order to specifically determine, among other things, what types of training courses the market – particularly Armenia's banks – demands and what it would be willing to pay for them. A

tender is currently being developed to select the appropriate consulting firm to undertake this assignment, the results of which will directly feed into the FBC's new strategic plan which will be presented to the board for approval in late September 2004.

Dissemination of project results. MEDI has sought actively to share its experience in the policy arena with other donors and practitioners. Toward that end, MEDI attended the MFC annual conference in Warsaw, Poland in May 2004 along with more than 500 representatives from donor agencies, finance practitioners, and investors from around the world, and delivered a presentation entitled *Comprehensive Approach to Reforming the Microfinance Related Legal Framework – Armenia as a Case Study*. In addition, MEDI published two articles in the May 2004 issue of the MFC's bi-annual *Policy Monitor*, a leading industry publication with regard to microfinance best practices in the policy arena, entitled *A Brief Discussion on Credit Bureaus and Armenia: Test Case for Building a "Best Practices" Legal Environment*.

CHAPTER THREE: Cross Cutting Initiatives

During its first year of operations, MEDI laid the foundation for three major cross cutting project initiatives in the areas of monitoring and evaluation, a targeted grants program, and communications.

Monitoring and evaluation. In November 2003, monitoring and evaluation specialist Karen Otto visited Yerevan to develop project indicators for MEDI's performance monitoring plan (PMP). The draft indicators that were submitted to USAID will form the basis for MEDI's PMP, which will be finalized in year two of the project, after MEDI has identified its counterpart institutions and confirmed their capacity to provide necessary indicator data.

Targeted grants program. MEDI, with the assistance of Chemonics home office grants specialist John Hardies, developed its internal and external grants manuals for its \$400,000 Targeted Grants Program. These manuals were delivered to USAID in April 2004 and have been formally approved.

Communications strategy. Chemonics' home office communications specialist John Woods traveled to Armenia for two weeks in February 2004 to help MEDI develop its internal and external communications strategy. This strategy, which features utilizing a multi-faceted approach to project outreach including a project website, newsletter, success stories and project brochure, was submitted to USAID and is being implemented by MEDI.

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