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# AFIRMA QUARTERLY REPORT

PROJECT YEAR 2, QUARTER I – October-December 2005

The AFIRMA Project, managed by Development Alternatives, Inc. prepared this publication for review by the United States Agency for International Development.

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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# I. EXECUTIVE SUMMARY

The Access to Rural Finance for the Microenterprise (AFIRMA) Project, a USAID/Mexico-funded project implemented by Development Alternatives, Inc. (DAI), forms a central part of USAID/Mexico's Results Framework, under the new regional Strategic Objective 2 (SO 2) for Central America and Mexico – **Economic Freedom: Open, Diversified Expanding Economies**. Under SO 2 the Intermediate Result (IR) to which AFIRMA contributes is IR 3: **Broader access to financial markets and services**.

AFIRMA is designed to help build an inclusive, sustainable microfinance sector in Mexico as a means to increase access to a range of financial services and contribute to local economic development. This report describes project activities over the period October-December 2005, the first quarter of project year 2. Below is a summary of AFIRMA activities under each of the project's five main tasks:

- **Task 1: Strengthen the institutional capacity of MFIs.** As planned, work was most intensive under this task, with technical assistance programs tailored to the needs of each of the 12 MFI partners. During the quarter AFIRMA either accompanied or directly facilitated the strategic plans of most partner MFIs, with the goal of ensuring that each partner has clear plans, and that AFIRMA assistance is designed to address institutional priorities. AFIRMA assisted with the re-design or development of \_\_\_ loan products, in an effort to help MFI partners to better suit clients' needs and contribute to institutional sustainability. Additionally, AFIRMA conducted a diagnostic of Pronegocio, the SOFOL that Grupo Banorte has established to serve the microenterprise market.
- **Task 2: Develop a local, commercially-based MFI support services industry.** Over the quarter, AFIRMA worked with [redacted] local firms to. The project also contracted with [redacted] local consultants, working in close coordination with international specialists. In the next quarter AFIRMA will conduct a diagnostic of the supply of support services, building upon the analysis of demand carried out in year 1.
- **Task 3: Support innovations to expand access to rural finance.** The project coordinated with USAID Development Finance Advisor Geoffrey Chalmers to plan the launch of this task in April 2006, through a workshop adapted for the Mexican environment from the Rural and Agricultural Finance workshop materials developed by USAID/Washington.
- **Task 4: Strengthen the capacity of the CNBV and federation committees to supervise microfinance.** AFIRMA was in regular contact with the *Comision Nacional de Bancos y Valores* (CNBV) during the quarter in order to coordinate work in this area. At the request of the CNBV, AFIRMA has planned initial diagnostics and technical assistance for Federations that the CNBV has licensed to supervise the popular finance sector in early 2006, although a change in personnel responsible for implementation of the *Ley de Ahorro y Credito Popular* (LACP).
- **Task 5: Improve the enabling environment for the rural and microfinance industry.** AFIRMA completed a diagnostic of credit information services available in Mexico and the legal and regulatory environment related to credit bureaus, coordinating with the Banco de Mexico (Central Bank) and the two credit bureaus themselves. AFIRMA also supported training events with the MFI association Prodesarrollo and worked with the microfinance program for the *Secretaria de la Economia*, Pronafim to plan and deliver the Fourth National Encounter for Microfinance.

## 2. INTRODUCTION

The Access to Rural Finance for the Microenterprise (AFIRMA) Project, a USAID/Mexico-funded project implemented by Development Alternatives, Inc. (DAI), forms a central part of USAID/Mexico's Results Framework, under the new regional Strategic Objective 2 (SO 2) for Central America and Mexico – **Economic Freedom: Open, Diversified Expanding Economies**. Under SO 2 the Intermediate Result (IR) to which AFIRMA contributes is IR 3: **Broader access to financial markets and services**. AFIRMA is designed to help build an inclusive, sustainable microfinance sector in Mexico as a means to increase access to a range of financial services and the project's main goal can be summarized as:

*"To contribute to the development of a dynamic, effective microfinance sector in Mexico that provides sustainable financial services to under-served urban and rural market segments, helping them manage risk and contribute to local economic growth."*

The AFIRMA Contract Scope of Work (SOW) and Year One Work Plan outline five distinct, interrelated tasks:

1. Strengthen the institutional capacity of MFIs;
2. Develop a local, commercially-based MFI support services industry;
3. Develop innovative products and technologies that expand access to rural financial services and remittances;
4. Strengthen the capacity of the CNBV and federation committees to supervise RFIs and MFIs; and,
5. Improve the enabling environment for the rural and microfinance industry.

These tasks and their relationship to each other and to the ultimate goals of the project are further outlined in the Performance Monitoring Plan, updated in January 2006 to adjust to the Mission's new strategic objectives and intermediate results (above). Progress towards each of the five tasks over the first quarter of year 2 (October-December, 2005) and key priorities for quarter two of year 2 are presented in the next section. Following that is a description of project management over the quarter, including a summary of project finances.

## 3. AFIRMA WORK PLAN IMPLEMENTATION

Consistent with the approved work plan, activity during the quarter continued to be most intense under Task 1 – *Strengthen MFI institutional capacity*, although the project team also undertook activities under tasks 2 and 5. In quarters 2 and 3 of year two, as indicated in the AFIRMA year 2 work plan, the project will launch activities under tasks 3 and 4, while maintaining roughly the intensity of microfinance institution-building activities.

### 3.1 TASK 1 – STRENGTHEN MFI INSTITUTIONAL CAPACITY

In AFIRMA's efforts to support increased outreach, it strives to strike a balance between the breadth of outreach, in terms of the number of new clients served, and the depth of outreach, in terms of the poverty level and geographic location of clients. The project strategy to work with institutions of

various types, sizes and target markets, and the diverse institutional development needs of these institutions, illustrate the potential trade-offs between achieving the greatest number of new clients with access to service (project goal is 500,000) and working with poorer and rural clients, where total growth may be slower and where institutions may require substantial capacity-building before emphasizing growth. As a result, choosing the simplest path to achieve quantitative targets is not an option. Factors such as geographic market, marginalization of target clientele and outreach in terms of providing financial services where they are most difficult to deliver, as well as potential growth in the breadth of outreach are all factors that AFIRMA will continue to consider in prioritizing assistance.

In addition to the factors mentioned above, the principles on which AFIRMA works are:

- The activities AFIRMA supports **must respond to a well-thought-out business plan** for each partner over which the institution feels ownership and which addresses its needs and capacity for sound growth and sustainability.
- AFIRMA takes a **demand-based approach** to working with institutions, responding proactively to the needs of each institution individually within the framework of well-thought-out business plans and within project objectives, while recognizing the need to maintain **flexibility** given that market conditions, and hence institutional needs, can change quickly.
- Related to the previous point, AFIRMA consultants should be **facilitators of change**, but the partner institutions themselves must take ownership of the processes and of the changes themselves for the support to be effective in the long term.
- **Continuing support is based on results**, responsiveness and openness to change within each partner, as well as each partner's demonstrated capacity to absorb assistance.

One of the primary goals for the quarter was to ensure that AFIRMA's planned assistance with each partner addressed the strategic priorities of that institution, consistent with AFIRMA goals.

Below is a summary of AFIRMA support for each partner over the quarter. **Performance indicators as of December 2005 are presented in Annex A.** The indicators represent the first time in the microfinance sector in Mexico that a set of standardized indicators has been constructed over a 1-year period for a group of institutions, and AFIRMA will examine ways to distribute the information to the sector, to GoM decision makers, and to academics interested in microfinance. Furthermore, AFIRMA is preparing a brief individual report for each institution, analyzing performance over the year compared to other AFIRMA partners and international benchmarks, which will be delivered to USAID/Mexico.

### 3.1.1 FIMEDER

In 2005 FIMEDER grew very quickly, albeit from a small base of clients, and was able to improve its financial viability, although much work remains to be done to improve performance in 2006. During the quarter, AFIRMA supported FIMEDER with five different initiatives:

- **Human resources** – AFIRMA is working with FIMEDER to strength the system for selection and training of staff, and creating the minimum requirements to develop an internal “school” through which the FIMEDER can ensure that it has the necessary tools to select, orient, and train personnel necessary for the planned expansion. Local banking HR consultant Vayda Sosa completed her diagnostic and designed HR manuals for recruiting, personnel profiles, recruiting

processes and procedures, orientation, training, and career paths development. Ms. Sosa also gave courses on ethics, values, and internal communication. Work is planned to continue next quarter with Bolivian Microfinance HR Specialist Eliana Otondo.

- **Individual lending** – FIMEDER has had problems in the past with its individual loan product, but views it as a vital future offering. Following a product diagnostic to determine areas for improvement, AFIRMA consultant Vicente Avalos of Peru prepared and delivered training courses for loan officers in individual lending and trained internal trainers. Mr. Avalos then worked with FIMEDER to redesign, pilot and begin to roll out the individual lending product. He has worked with FIMEDER to develop new credit applications, identified pilot branches, train existing and new branch managers, and construct projections to examine how the product can contribute to FIMEDER's long-term sustainability.
- **Training in Marketing and Sales for microfinance** – AFIRMA brought in Mauricio Lerner, a microfinance marketing and training specialist from Peru, to train trainers and FIMEDER loan officers in tools for improving sales techniques for microfinance. Mr. Lerner created an instructor's manual for the sales courses he gave so that FIMEDER can replicate the training in the future.
- **Strategic Planning** – AFIRMA consultant Max Errazuriz worked with FIMEDER to develop the institution's strategic plan for 2006-2010 as well as the operational plan and budget for 2006. The FIMEDER board of directors approved the plan, which will give the institution a more clear orientation focusing on expansion and increased sustainability based on its competitive advantages.
- **Study Tour with Members of the Board of Directors** – AFIRMA's senior microfinance specialist Willy Escobedo took four board members to Ecuador and Peru to visit successful MFIs. Board President Jesús Villaseñor, Vice President Miguel Mancera<sup>1</sup> and two other board members. In Ecuador, Mr. Escobedo took the group to visit the USAID-funded SALTO Project, implemented by DAI, Banco Procredit, and Banco Pichincha. In Peru, the group visited MiBanco, Caja Rural del Sur, Caja de Municipal de Arequipa, Edpyme Crear, and Nueva Visión. The trip allowed the board to focus on FIMEDER, and to develop new perspectives on the potential of sustainable microfinance and these changes are reflected in the strategic plan for 2006-2010.

Finally, it is worth noting that FIMEDER aggressively requested AFIRMA assistance in 2005 and, in line with the need to gain complete confidence among partners at the project's outset, AFIRMA responded with intensive assistance in areas where the project and FIMEDER agreed were of greatest need. AFIRMA believes to have mobilized highly capable consultants, but the assistance may not all have been well absorbed. One of the lessons learned through this work is the need to more carefully match the pace and volume of assistance with an MFI's capacity to absorb it. In the future AFIRMA will ask all partners to carefully consider their technical assistance requests and the project will work with them to ensure the appropriate prioritization and timing to ensure project resources are invested where and when they are likely to have the greatest results.

Upcoming priorities that AFIRMA has identified with FIMEDER are:

- Finalize internal training program

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<sup>1</sup> FIMEDER's Board includes recognized Mexican business leaders, and in the case of Mr. Mancera, the former president of Banco de México

- Roll-out adjusted individual loan product
- Follow-up workshop with the Board of Directors to develop the tools for sound governance in microfinance
- Determine infrastructure for savings and savings products (long-term)

### 3.1.2 AISol

AISol closed out 2005 having completed, by far, its most successful year in terms of expanding outreach to rural clients in Chiapas, and in terms of steadily improving financial results (see Annex A for details) including improved client retention and portfolio quality. Throughout 2005, AISol responded very positively to AFIRMA assistance from the two consultants – Vivianne Romero and Reuben Summerlin. In both cases, AISol took full advantage of having experienced microfinance consultants provide guidance during short-term assignments, and pro-actively worked to implement recommendations when the consultants were not on-site.

During the quarter, Mr. Summerlin worked with AISol to:

- **Conduct strategic and operational planning** – This involved completely re-working AISol’s plans for the future which were in various stages of definition. In particular, based on planning and recognition of limited current administrative capacity, plans to transform to a SOFIPO<sup>2</sup> and to take voluntary savings have been postponed given the need to greatly improve internal controls prior to managing voluntary savings. Mr. Summerlin worked with AISol to re-do the organizational chart based on newly defined priorities and worked with the board of directors to re-think its role and level of commitment. This was the first time AISol conducted a complete business planning process, the institution has taken the process seriously, and AFIRMA will support AISol’s implementation of the plan.
- **Recommend operational adjustments** – Mr. Summerlin, who also had as part of his SOW the review of operations, highlighted the need for much greater internal control, and has made specific recommendations to improve controls and focus activities on the core business. He will continue to work with AISol in late February 2006 to continue the implementation of operational adjustments and begin to support implementation of the business plan.

AISol’s feedback on both AFIRMA consultants has been highly positive. Nevertheless, AISol General Manager Katia Corroy has signaled the need for to assistance with implementation of the recommendations that the consultants have made, and to accompany the institution more closely. In part, close accompanying of progress will be the responsibility of DCOP Nate Bourns, but given other time commitments and distance, ideally this would involve a resident advisor with solid experience in microfinance operations, with whom the project could coordinate. In early 2006, AFIRMA will examine possibilities for such assistance. Other priorities for 2006 that AFIRMA plans to support include:

- Audit standards and improvement of internal controls
- Continued operational adjustments and training of a new Manager of Financial Services
- Evaluation of the management information system
- Analysis of the appropriate future legal structure for AISol given the institutional priorities

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<sup>2</sup> Sociedad Financiera Popular – the new legal figure for MFIs that mobilize savings from the public under the *Ley de Ahorro y Credito Popular* (LACP – Popular Savings and Credit Law)

- Creation of a Human Resources function within the Administrative area and training on human resources management.

### 3.1.3 DESPENO

DESPENO had a challenging year in 2005, as they continued the transition from a Procrea credit distributor of funds from FIRA (the GoM trust fund for rural lending) to a more traditional microfinance institution with continued interest in serving rural clients. Poor financial results at Despeno reflect the transition from highly subsidized (and profitable) rural lending operations with higher credit volume per client, to a higher cost structure relative to the smaller volume of the lending portfolio to urban and rural microenterprises. Although 2005 was a disappointing year, performance in late 2005 was positive and AFIRMA will work with Despeno to ensure that 2006 marks a turnaround for Despeno with improving outreach and financial results.

During the quarter, AFIRMA assistance focused on the following activities:

- **Adjustments to the credit product** – Due to Despeno’s positive response to prior work of DAI microfinance specialist Claudia Ordóñez, AFIRMA expanded upon the scope of work to refine and re-launch the microcredit product. USAID approved 30 additional days for Ms. Ordóñez, focused on methodological adjustments and conducting a full pilot program for the adjusted solidarity lending product and accompanying credit manual.
- **Training and Human Resources** – Building upon efforts to improve the credit product and methodology, AFIRMA brought in microfinance human resource specialist Eliana Otondo to re-design the approach to human resource management, with emphasis on recruitment, selection, orientation and training of loan officers (as opposed to the prior arrangement of independent contractors as loan officers). As part of this work, in November Ms. Otondo worked with Ms. Ordóñez to organize, design and deliver a training course for 20 Despeno employees (new and existing) from all branch offices, on the adjusted methodologies and processes.
- **Pilot launch of adjusted product** – As a result of the activities mentioned above, in December, Despeno began to pilot the adjusted solidarity lending product. Although Despeno had problems with the quality and shrinking size of their loan portfolio relative to their cost structure since late 2004, by the end of 2005 due in part to launching of the new adjusted product and intensive training, Despeno has greatly improved client retention and portfolio at risk for the new portfolio. Still, AFIRMA will need to accompany to monitor progress closely. Further detail on the pilot is included in the consultants’ report submitted to USAID.
- **Strategic Planning** – As part of the TA program, AFIRMA assisted with the adjustment of Despeno’s Strategic Plan, facilitated by DAI microfinance and banking consultant of Ignacio Estevez, who helped Despeno develop their main goals and projections and will serve as a tool to monitor future progress.
- **Audit and internal control training follow-up** – As part of DESPENO’s participation in the ProDesarrollo Audit and Internal Control Training Rafael Tejada of AFIRMA subcontractor Quisqueya did a brief site visit and review of internal controls.

Priorities for AFIRMA support in 2006 include:

- Ongoing monitoring and follow-up assistance with the adjusted solidarity group loan product
- Study tour for the new Coordinator
- Develop an individual lending product
- Evaluate the current institutional image and assist with improvements

#### 3.1.4 CADEMI

In 2005, CADEMI grew well in terms of total active credit clients, although increasing operating costs relative to the loan portfolio, drove down profitability. Last quarter, AFIRMA began 3 new technical assistance initiatives with CADEMI:

- **Credit Product and Methodology Refinements** – In November Ramiro Carrasco of AFIRMA subcontractor Quisqueya, began work revising and adjusting CADEMI's the group lending methodology. Mr. Carrasco first analyzed the product and recommended adjustments. Once CADEMI begins implementing the adjustments, this work will continue, most likely in early 2006.
- **Human Resources** – Microfinance human resources specialist Eliana Otondo, conducted a diagnostic of HR functions within CADEMI, detecting major weaknesses in their selection and training of loan officer. Ms. Otondo made recommendations including a detailed plan to improve the selection, recruitment and training of loan officers. AFIRMA has recommended that CADEMI define a staff member as responsible for this area, and that person would be the project's main counterpart for strengthening the HR area.
- **Review of tax status** – In December, through a purchase order with the local tax and accounting firm Anjona, AFIRMA helped CADEMI analyze their tributary and legal situation as a non-profit NGO (*Asociacion Civil*), a necessary step in CADEMI's plans to transform to another legal status (potentially a SOFIPO or S.A. de C.V.). The report reveals that CADEMI has important pending tax liabilities. Following review of the report with USAID Development Finance Advisor Geoffrey Chalmers, AFIRMA sent a letter to CADEMI indicating that the project's program would be suspended until the tax situation was resolved.

Next quarter, based on CADEMI's response, AFIRMA will work with USAID to determine whether to continue technical assistance with CADEMI.

#### 3.1.5 AMUCSS

Last quarter AFIRMA continued to provide intensive technical assistance to AMUCSS, and work with the institution continued to demand significant project management attention in addition to substantial level of effort for consultants due to its current administrative, operational and financial situation. Through regular meetings, AFIRMA has worked with AMUCSS management to set clear priorities for the project's technical assistance. Project initiatives over the quarter focused primarily on accounting and planning:

- **Accounting, Internal Control and Initial Compliance with LACP** - First on the list of priorities with AMUCSS is the need to establish reliable accounting and internal control systems, and AFIRMA continued to support AMUCSS through local resident internal control specialist Martín Yedra, who has worked along with Rafael Tejada of AFIRMA subcontractor Quisqueya to gradually improve accounting and control systems, and to produce reports previously

unavailable to management. AFIRMA also hired local accountants Alfonso Bustos and Jose Flores, as well as local accounting consultant Rene Garcia to support the work of Mr. Tejeda and Mr. Yedra. The team has worked with AMUCSS to develop financial statements of the seven Regional Networks of MicroBancos, which although clearly preliminary in nature, allowed AMUCSS to affiliate with the FEDRURAL Supervisory Federation<sup>3</sup> and request an extension for legal conversion to a SOFIPO, an obligatory step under the Popular Savings and Credit Law (LACP – *Ley de Ahorro y Credito Popular*) since AMUCSS mobilizes voluntary savings. Assistance therefore fulfilled one of the high-priority short-term objectives that will allow the Redes de Microbancos to continue to operate.

- **Management Information Systems** – In parallel and close coordination with the accounting work described above, AFIRMA continued to support, through a purchase order with Consultants in Tecnologia Integral, S.A. (CTI), implementation of the Rana management information system (MIS) in two Micro-banks (Hueuetla and La Uno) that had not yet installed the software. The assistance has been very well received within the microbancos and in AMUCSS in general and has allowed for greater financial transparency where implemented. AFIRMA has also sponsored training on managing the software so that AMUCSS is not bound to the software provider for every necessary change or adjustment.
- **Strategic Planning and definition of the organizational structure** – As an important part of determining an overall direction and sustainable organizational structure for AMUCSS and its affiliated networks of micro-bancos, AFIRMA brought in DAI Senior Microfinance Specialist John Magill to facilitate the planning process for 2006-2008. The organizational structure will be based on the strategy and is yet to be fully defined. Mr. Magill facilitated a planning meeting with the managers of the networks of micro-banks – the workshop entitled “*Quinto Encuentro de Instituciones Financieras Rurales, AMUCSS*” co-financed with Financiera Rural. The meeting resulted in, among other things, the formation of two internal work groups: one to analyze options for the ideal legal and organizational structure of AMUCSS, and the other to focus on improving the financial position of AMUCSS.

Future AFIRMA support for AMUCSS will be coordinated with USAID and conditioned based on a clear definition of the institution’s administrative, operative and financial, situation and future priorities. Likely areas for further assistance that AFIRMA has identified with AMUCSS include:

- Human resource management
- Support with credit operations
- Ongoing support to improve Internal controls and accounting

### 3.1.6 Fondo 5 de Mayo

In 2005, Fondo 5 de Mayo grew more quickly than in the past and completed its first year of financial self-sufficiency<sup>4</sup> since the institution was established in 1999. F5M took full advantage of AFIRMA support in 2005 and both the support and the institution’s reaction to the support are reflected in positive results for the year and aggressive future plans.

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<sup>3</sup> FedRural has been approved for delegated supervision under the *Ley de Ahorro y Credito Popular* (LACP – Popular Savings and Credit Law).

<sup>4</sup> The standard CGAP definition is used, as with all standard ratios that AFIRMA calculates. See Annex A for definitions and ratios.

During the last quarter AFIRMA supported F5M to:

- **Finalize adjustments to the lending methodology and manual** – DAI Microfinance Specialist Robin Young continued to work with F5M management and operational staff to adjust the solidarity group methodology and finalize the credit manual and accompanying documentation. Ms. Young's efforts have also laid the groundwork for the individual lending product to be developed in 2006.
- **Develop the strategic and business plans** – AFIRMA contracted with senior microfinance specialist Alex Silva, former manager of ProFund (the most successful regional microfinance investment fund) to work along with Robin Young to help the F5M president and senior management determine the future direction of the institution. Ms. Young coordinated with F5M operational staff and management to develop specific operational plans, and financial projections and a budget. Mr. Silva's perspective, based on experience investing in institutions in similar situations, helped F5M conduct a critical analysis of all of options open to the institution. The F5M Board will use these inputs to take a formal decision on the long-term plan and institutional structure at their meeting on February 22, 2006.
- **Operational staff training** – AFIRMA contracted microfinance specialist Hector Cisneros of El Salvador to train operational staff in the adjusted credit methodology and to improve the process of identification, orientation and training of loan officers. Mr. Cisneros will continue to work with F5M in 2006 as a resident consultant, under the conditions for such assistance agreed upon with USAID in September 2005.

F5M has broken from a relatively conservative path and developed a very aggressive plan for 2006-2010, with projected growth in total active clients of nearly 100% for 2006. AFIRMA will continue to provide, support especially given plans for aggressive growth and major re-organization. Specifically, the project plans to support the following activities:

- Finalize long-term strategic planning, including definition of organizational form and structure
- Train operational personnel in the adjusted credit methodology
- Define needs and options for a new management information system
- Study tour for middle managers to visit one or more large, successful, MFIs

### 3.1.7 ProMujer Mexico

ProMujer Mexico (PMM) began 2005 with significant systems challenges, which led to adjustments in the number of active clients and difficulty in obtaining individualized savings account information for voluntary savings of PMM clients (held at FinComún). Despite these challenges PMM managed to improve performance significantly in late 2005 and was able to close out the year in good shape, with trends towards improvement in financial and outreach results.

During the last quarter, work with ProMujer focused on finalizing the market study and beginning to implement results from the study, supporting the planning process, and defining priority areas for AFIRMA support:

- **Market Study** - DAI microfinance specialist Hillary Miller-Wise, along with junior microfinance consultant Brooke Jones, collaborated closely with the local research firm, Serta (hired under a cost-shared purchase order), to ensure the quality of intermediary and final deliverables. Due to

the complexity and volume of the statistical data, coupled with Serta's unfamiliarity with the target market, the collaboration demanded a high level of managerial oversight on behalf of the consultants. Because of the complexity, Serta's delivery of the market research was pushed back until late December 2005. Despite delays, ProMujer was pleased with the quality of the deliverable. In January 2006, Ms. Miller-Wise officially concluded the study with a presentation of the market analysis to ProMujer's management, president and to USAID. The marketing strategy for 2006 is set to be complete in early 2006. Although not included in the SOW for this support, advice from Ms. Miller-Wise was instrumental in adjusting PMM's loan product to increase on-going demand for the service and eliminate perverse repayment incentives, which contributed to positive trends towards the end of 2005.

- **Strategic planning** – AFIRMA DCOP Nate Bourns participated in part of ProMujer's strategic planning process in order to give the project's perspective on risks and opportunities that AFIRMA sees for microfinance in general and with PMM specifically, and to ensure that AFIRMA support is directed towards assisting PMM with priority initiatives.

Based on the planning and upon findings from the qualitative stage of the market study, focus groups and process mapping, AFIRMA revealed several weaknesses related to operational policies and procedures, decentralization of said policies, and overall organizational management and controls. Therefore, AFIRMA will bring in Peruvian microfinance consultant Leopoldo de la Jara and local consultant María Olazábal to support PMM's efforts to decentralize their operations. The work plan includes a diagnostic of current operational policies and procedures, evaluation of internal controls, and, ultimately, formalization of decentralized policies, procedures, and internal controls. Additional key areas for support include training middle management and definition of needs for a management information system.

Given that General Manager Armando Laborde will depart PMM in late February, AFIRMA will keep close contact with PMM President Maria O'keefe in order to fully define the additional areas for support.

### 3.1.8 FINCA Mexico

FINCA Mexico had an excellent year in 2005, growing steadily and profitably throughout the year while also making major investments in future growth. AFIRMA continued to provide intensive assistance in response to FINCA Mexico's needs during the quarter, and according to the FINCA Mexico General Manager, USAID assistance has played an important role in the positive results. The main activities supported in the last quarter were:

- **Operations** – Johnny Velasco, an Operations Specialist from Bolivia who AFIRMA had previously contracted for work with FINCA Mexico began his one-year scope of work as Resident Consultant. The primary objectives of his work are to support FINCA in consolidating the operational area, helping improve operational efficiency, client retention, and financial results, and examining ways to reduce lending interest rates. This work should translate to portfolio growth and improved portfolio quality and volume, but should also contribute to broader impact in the Mexican microfinance market as FINCA gains a leadership position in the market becoming a successful example for others to follow.
- **Systematization of Administrative Procedures** – AFIRMA continued to support systematization of administrative procedures through a second phase with the local firm SIN, (*Servicios Internacionales de Negocios*) led by SIN consultant Felipe Sandoval. This activity has

resulted in the development of a set of manuals documenting and systematizing (in electronic format) each of FINCA Mexico's operational processes. For 2006, work will continue in training personnel on how to use and update the new manuals. This work is resulting in clear policies, procedures and forms for standardized operations and improved internal controls. AFIRMA will consider hiring SIN for similar work with other partners (while taking measures to ensure protection of proprietary information).

- **Management Information Systems** – AFIRMA also supported analysis of the capability of its Management Information System (MIS) SIEM 7, to adapt to the administration and control necessary for the planned expansion. AFIRMA IT consultant Carlos Paredes continued work with FINCA Mexico to determine requirements for communication, control systems and reliability of data transmission. His work determined that the current MIS has urgent deficiencies that must be resolved in 2006 given rapid expansion and plans for continued aggressive growth.

AFIRMA has also worked with FINCA Mexico and USAID-sponsored MDAP Advisor Ivana Fertziger to determine the following priorities for 2006, based on FINCA's business plan:

- MIS security
- Finalize the Systematization of Operational and Administrative Procedures (ongoing with SIN)
- Train Operations Manager (through ongoing work of Johnny Velasco)
- Develop individual lending product
- Strengthen Human Resources area
- Training in problem loan recovery
- Legal options to become a regulated MFI
- Study tour for leading loan officers
- Begin to develop savings products (late 2006)

### 3.1.9 FinComún

Last quarter FINCOMUN obtained from the CNBV the authorization to become a *Sociedad Financiera Popular* (SOFIPO), the first institution to become regulated under Mexico's *Popular Savings and Credit Law*, (with delegated supervision granted to the federation FINE) making operational a law that had been on the books for 4 years without having previously regulated a single entity. FinComún has offered to share the experience and necessary formats with other AFIRMA partners for free, as long as participants agree not to take advantage of the information for commercial purposes. AFIRMA will coordinate with FinComún on their offer.

Last quarter AFIRMA held regular meetings with FinComún senior management to assist with a series of strategic decisions in diverse areas, address the performance of the loan portfolio (with particular emphasis on portfolio quality) discuss implementation of a risk management area (as recommended previously by AFIRMA consultant Max Errazuriz) and problem loan management, and discuss areas for further AFIRMA assistance. Specifically, AFIRMA supported the following work:

- **Costing System** – In order to help FinComún gain a better ongoing understanding of its cost structure and ultimately to improve efficiency, AFIRMA brought in Bolivian microfinance costing specialist Milagros Chiappe. The objective of the work was to help FinComún evaluate the present cost structure and define a tool that would meet the institution's information requirements at various levels and adapt to the MIS being implemented (supported through

Bansefi). Following the diagnostic Ms. Chiappe, AFIRMA and the FinComún counterparts, determined a suitable costing system for FinComún, defined the required human and other resources and provided a detailed work plan. *This work has had an impact beyond FinComún*, causing the MIS provider (supported through Bansefi's project with the World Bank, and planned to be replicated in other MFIs) to review the accounting software to ensure compatibility with a costing system that can help MFIs understand and better manage their own costs. In 2006, this work will finalize with the implementation of the costing system Ms. Chiappe has designed.

- **Product and Methodology Adjustments** – AFIRMA agreed to support FinComún with needed adjustments to loan products and methodologies in use. In order to obtain a clear evaluation of the challenges AFIRMA brought in German credit specialist Michael Steidl, who conducted an in-depth evaluation and recommended significant modifications to the individual microenterprise lending methodology and training modules. Mr. Steidl reviewed the policies, operational procedures, and personnel aspects of the methodology, to propose client-focused improvements the administration of the product, in order to improve repayment incentives and decrease overall risk in the loan portfolio. The work revealed a series of deficiencies in the credit operations, including that the loan officer analysis was weak and was one of the main causes of deteriorating portfolio quality. For 2006 AFIRMA and Mr. Steidl have prepared a re-training plan for operational personnel, with particular emphasis on the individual loan product.
- **Strategic and Business Planning** – AFIRMA also facilitated the important task of formulating a Strategic Plan for 2006-2010, bringing in a recognized planning expert, Luis Noel Alfaro, professor of INCAE in Costa Rica. Mr. Alfaro's work with the Board of Directors, senior management, staff, and external advisors to facilitate a long-term strategy, and help FinComún clarify future objectives. He also worked with FinComún to develop financial and operational projections by product and by branch.

Based upon FinComún's priorities stemming from the business plan for 2006, AFIRMA plans to provide support in the following areas:

- Finalize long-term planning
- Final implementation of a Costing System in the new MIS
- Training in credit analysis for individual lending and update FinComún training modules for all products
- Assist with reorganization of support areas

### 3.1.10 CAME

CAME continued to grow quickly in 2005, expand coverage of its main village banking credit product and open new branch offices. In support of this expansion, with interest in implementing the internal adjustments necessary to sustain the expansion, AFIRMA and CAME held monthly meetings and last quarter the project supported the following activities:

- **MIS Implementation** – In late 2005 AFIRMA continued to support CAME with implementation of the FINMAS Management Information System through technical assistance from Bolivian systems consultant Miguel Garcia. Mr. Garcia's work last quarter focused on pilot testing FINMAS installation in two branches, which despite some deficiencies and obstacles, produced successful results. In 2006 AFIRMA will support CAME with the full implementation of the new

system in all branches, potentially to include assistance with other applications such as the savings module.

- **Microfinance Operations** – CAME requested project assistance with improving the overall functioning of the institution's operational area, and strategic and operational planning of the growth of the credit portfolio, including growth and productivity goals. For this work, AFIRMA identified Bolivian microfinance expert Liliana Bottega, former Operations manager at *Caja los Andes*, and more recently Women's World Banking consultant. Ms. Bottega has recommended adjustments to the village banking methodology as implemented at CAME and in 2006 will build upon this work to examine possibilities for an individual lending product.

AFIRMA has had at least one monthly meeting with the main directors and executives of CAME, in order to understand key needs and areas where the project can help CAME meet its goals. AFIRMA also provided indirect support to CAME's strategic planning process and management training, both of which were paid directly by CAME and contracted with a third party. AFIRMA assisted with terms of reference, products to be delivered and interviews of potential service providers.

Based upon CAME's priorities for 2006, AFIRMA plans to support in the following areas:

- Full implementation of FINMAS
- Systematization of operational processes
- Develop individual loan product
- Analyze options for legal transformation to a SOFIPO
- Examine options for new sources of funding

### 3.1.11 Caja Libertad

Work with Caja Libertad to design and launch a microcredit product has advanced more slowly than originally hoped, due primarily to delays in decision processes within the Caja related to the new product. Assistance to Caja Libertad last quarter focused on:

- **Microcredit Product Development** – During the quarter, AFIRMA continued to assist Caja Libertad in the design of a new microenterprise loan product and build internal consensus at different levels within the Caja on the implications that the implementation of a new loan product for the microenterprise segment. DAI banking and microfinance specialist Robin Bell continued work in coordination with Cesar Izurieta, the Caja's designated counterpart for AFIRMA, to develop first draft of the product, along with the policies that would have to be approved in order for the product to be launched. Ms. Bell also developed a draft business plan for the product. The deliverables mentioned above are under review by Caja Libertad's board and management and depending upon their feedback, Acceptance of the product prototype will complete the current phase of assistance and AFIRMA would determine priorities for assistance next quarter. If approved, the business plan includes a microcredit pilot in the second (calendar) quarter of 2006 in at least 4 branches selected for their market potential.

Additional assistance has been discussed with Caja Libertad and AFIRMA will consider supporting:

- Study tour for the main members of the board of directors and senior management to see credit unions that have been successful implementing microcredit products
- Implementation of a risk management area

- Systematization of processes and procedures for the individual lending product

### 3.1.12 Compartamos

Compartamos had another successful year of rapid growth in 2005, winning MFI of the year honors at the IDB's ForoMicro in October and clearly reinforcing its position as a regional leader in overall outreach in terms of number of active microenterprise credit clients.<sup>5</sup> Notwithstanding excellent results, the operations of Compartamos continue to involve primarily the *Generadores de Ingresos* village banking credit product and its cost structure remains relatively expensive, even given the institution's scale. AFIRMA is helping Compartamos address these points through assistance led by partner Acción International.

Monica Brand, Vice President of Marketing and Product Development at Acción, continued to focus on installing the capacity to develop products and services and on improving overall operational efficiency and productivity.

- **Product Development** – To transfer the product development methodology, the Acción team trained the counterpart team at Compartamos in Acción's systematic product development process and tools.<sup>6</sup> In December 2005 Acción and Compartamos developed the prototype of the home improvement loan product, and conducted joint field monitoring of the basic pilot microinsurance product. Compartamos financed trips for field market research for the development of the of home improvement loan product. Through the development of the pilot microinsurance product and the design and development of the home improvement loan product prototype, the team customized Acción's Generic Manual for Product Development to the processes and procedures of Compartamos. Acción delivered a draft Product Development Manual, including the steps and tools to be used for any product development process. In 2006 Acción will work with Compartamos to adjust the manuals based upon the pilot experiences with the home improvement loan product and the basic insurance product.
- **Efficiency and Productivity** – The main component of this activity, managed by Monica Brand and developed by Acción Consultant Wilmer Guevara, are:
  - Develop Management Tools – Mr. Guevara developed MIS requirements to provide proper reports and tools to manage individual and solidarity group loans.
  - Develop credit manuals for individual and solidarity group lending – Mr. Guevara worked with the operations area to restructure the sales force from a specialized loan officer to a Multi-product loan officer and develop the credit manuals, forms and tools.
  - Modify credit policies based on the new methodology.
  - Develop incentive plans in two phases, first through categorization of loan officers and then through a refined calculation model for operational personnel.
  - Transfer the new credit methodology – this activity was intensive due to the major changes contemplated in the new methodology and the present scale of Compartamos. Mr. Guevara has: (1) prepared a pilot training program and training of trainers; (2) rolled-out of the methodology to the branches that administer the product; (3) trained

<sup>5</sup> Although Compartamos is commonly considered the largest MFI in the region in terms of number of active credit clients, if other services are considered, Caja Popular Mexicana is significantly larger and in roughly the same (or at least overlapping) market segments.

<sup>6</sup> This project was paused temporarily in August, due to the needs of Compartamos to focus on the MIS installation (Temenos) and obtaining a banking license. As a SOFOL, Compartamos needed the approval of the regulatory authorities to offer house improvement loans and insurance.

managers and operational personnel in the credit methodology; (4) trained personnel in the branches that administer the product; (5) outlined follow-up activities for the full branch implementation; (6) formed an internal "PYE" (productivity and efficiency) team with the purpose of transferring and monitoring the implementation of the project and developed tools for the team.

- Provide feedback to the HR area on the selection and training process for personnel and proposal of manual of functions and the profile for the position of loan officers

Results for the "Efficiency and Productivity" initiative have been very positive, contributing to a doubling of the size of the portfolio for the individual and solidarity group products (both in terms of volume and number of credits) and increasing by 50% the productivity of loan officers. Nevertheless, increasing delinquency rates in these two products will present challenges for these initiatives in 2006. Still, given the scale of Compartamos, these 2 products are unlikely to have a major impact on the excellent overall quality of the Compartamos gross loan portfolio.

The two activities outlined above will continue into the third quarter of FY2006. AFIRMA and Acción will work with Compartamos to identify key priorities for future assistance to ensure the positive trends continue. Assistance would, again, include a substantial counterpart contribution from Compartamos given their capacity (profitability) to finance a good portion of their technical assistance.

### **3.2 TASK 2 – DEVELOP A LOCAL, COMMERCIALY-BASED MFI SUPPORT SERVICES INDUSTRY**

A local support services industry is critical to the growth of rural and microfinance in Mexico, and AFIRMA will build upon and improve the supply of training, technical assistance, audit, research, product development, and other services that MFIs demand. In year I, in order to better understand the market for local services to MFIs, microfinance specialist Ricardo Calvo of Acción International and USAID/AFIRMA intern Virginia Brandon carried out a survey of the demand for local support services among partner MFIs and confirmed results with other industry stakeholders. The areas of greatest strategic importance, according to the 11 MFIs responding to the survey were, in order of importance:

- Planning and strategy
- Product design and adaptation
- Management Training
- Credit Analysis
- Legal Structure
- Operational Training

The primary services currently needed for daily operations were, in order of importance:

- Operational and Management Training
- IT Systems
- Product Design and Adaptation
- Credit Analysis
- Human Resource Management

Furthermore, the surveys highlighted that developing this industry will require focus on both supply and demand, in the sense that MFIs will have to be more demanding of quality service and design results-based contracts with service providers.

During the AFIRMA retreat in December, participants reaffirmed the need for Task 2 activities to be linked with Task 1 support of MFIs partners, matching qualified local firms and consultants who would benefit from specialization in certain areas with international specialists on certain assignments.

In year 2 AFIRMA's activities under Task 2 will focus on three lines of action: creating a consultant's database and developing two separate training programs for technical assistance and training providers (firms and individuals), progress and plans for each of which is described briefly below.<sup>7</sup>

### 3.2.1 Contracting Local Consultants and Firms

Task 2 was originally budgeted as a grant fund, but as indicated in the first AFIRMA contract modification, the activities will be run primarily through purchase orders with local firms. Given that the potential demand for local consultants is also high, AFIRMA recommends examining the possibility of using these resources to contract individual consultants as well, and will discuss this possibility with USAID. Activities with individual consultants contracted normally through SOWs with AFIRMA's Task 1 partners are outlined below in addition to the work contracted through local purchase orders. Main general results under this activity included:

- AFIRMA helped strengthen ties between MFIs and local firms and consultants, while also helping local consultants to gain better understanding of microfinance through close consultation with the project and partnering with international specialists.
- AFIRMA provided good examples of how to contract firms, using clear terms of reference, competition (in compliance with good practice and USAID regulations) and technical and price criteria for selection, to increase the probability that services meet the needs of MFI partners. Results thus far have generally been good in terms of MFI satisfaction, quality of deliverables and timing compliance.
- AFIRMA has identified some consulting and training firms to evaluate next quarter, as part of the Microfinance Training of Trainers program design described below.

Work with each local firm or independent consultant is briefly described in the following table ordered by AFIRMA partner supported:<sup>8</sup>

**Table I – AFIRMA use and development of local firms and consultants**

MFI	Project	Local Firm or Consultant
AMUCSS	Second phase MIS implementation	<b>CTI</b> is a small firm based on Mexico City, which provides technical assistance in management information systems.
AMUCSS	Team members in the accounting work	Local consultants <b>Martin Yedra, Alfonso Bustos, and Juan Flores</b> worked under the guidance of senior international microfinance consultant Rafael Tejada of AFIRMA sub-contractor Quisqueya.
AMUCSS	Elaboration and/or validation of the financial statements of Micro-banks	<b>Rene García</b> worked with an International Consultant Firm (Fundacion Alemana de Cajas de Ahorro para la Cooperacion Internacional), providing technical assistance to Cajas Solidarias in order to be regulated under the Ley

<sup>7</sup> A more complete description is provided in the AFIRMA Year 2 Work Plan.

<sup>8</sup> A more complete description of each project is provided as part of AFIRMA support for MFI partners section (Summary of Task 1 activities )

	and their Regional Network	<i>de Ahorro y Credito Popular (LACP)</i> . Currently, he is working as an independent consultant. His participation in this project has been relevant because his experience and LACP knowledge combined with his microfinance understanding gained through interaction with international consultants.
CADEMI	Tax & Legal Advise	<b>Desarrollo Empresarial Anjona (DEA)</b> is a small firm based on Mexico City, which provides accounting, audit & tax support and advisory services to AFIRMA, and now to microfinance institutions.
FIMEDER	Human Resources	<b>Vayda Sosa</b> has over 10 years of experience working as an HR and training specialist with large banks. During this assignment, she worked in coordination with AFIRMA Microfinance Specialist Willy Escobedo to improve human resources management within FIMEDER. Deliverables from this assignment demonstrate increased specialized capacity.
FINCA	Administrative Process systematization – Second phase	<b>Servicios Internacionales de Negocio (SIN)</b> is a small firm based on Puebla that provides technical assistance and training on process systematization and quality certification (ISO 9000). Work will continue next quarter with phase 2 of the project to systematize administrative manuals and given the high quality of work thus far, AFIRMA will look to use SIN in the future for similar work.
ProMujer	Market Study	<b>SERTA</b> , the local marketing firm, continued work in late 2005 and delivered a draft market study. Although the final product that PMM required more input and analysis from DAI consultants Hillary Miller-Wise and Brooke Jones than originally hoped, and SERTA was, at times, not completely responsive to PMM, nor to AFIRMA, the results and database from the qualitative and quantitative studies were useful for developing a market strategy.

In early 2006, AFIRMA has begun a systematic evaluation of the supply side of the market for microfinance support services with Ricardo Calvo of Acción Internacional and independent consultant Katie Kohlstedt a junior American microfinance specialist who lives in Mexico City, as an input for the training described below. Also, the decentralization work with ProMujer mentioned above will pair an experienced microfinance consultant from Peru, Leopoldo de la Jara, with Maria Olazabal, a Mexican consultant with solid experience in training and change management but limited exposure to microfinance.

### 3.2.2 Microfinance Training of Trainers Program

Mexico has substantial general human resources and consulting capacity, but limited specialized consulting capacity for microfinance, and significant differences in quality of services from one region to another. One of AFIRMA's key goals under Task 2 is to strengthening consulting and training firms, universities and research firms in areas outlined above as priorities for AFIRMA partner MFIs.

To the extent possible, efforts under this activity will be linked with Task 1, will be coordinated with ProDesarrollo wherever possible (taking into account their plans, workload and capacity to coordinate additional efforts) and will focus initially on designing and delivering a training-of-trainers program. To this end, during the following quarter AFIRMA, in coordination with Acción Internacional, will:

- **Evaluate consulting and training firms** – This initiative will build upon the initial survey AFIRMA conducted in August 2005, focusing primarily on the current supply of support services.

Acción senior consultant Ricardo Calvo, in coordination with Katie Kohlstedt junior expatriate microfinance consultant, who is resident in Mexico and has knowledge of the local services providers in Mexico through her experience with Planet Finance Mexico, will interview various training firms, technical assistance providers, independent consultants and specialized microfinance consulting firms. Based on this evaluation, AFIRMA Microfinance Training Specialist Claudette Martinez will work with Acción to design a training program (curriculum and training toolkit) to satisfy needs of current local suppliers.

- **Contract local firms** – Additionally, AFIRMA will define other possible strategies to link high-quality providers with partners under Task 1. Ms. Kohlstedt will complement the effort outlined above with brief institutional evaluations of each provider, which will help with selecting potential providers, conducting simple competition among them and contracting services in 2006.

### 3.2.3 Mentoring Program

There is no shortage in Mexico of intelligent, educated, young professionals who, with the right training, could fill positions in AFIRMA partner institutions or work as microfinance consultants. Some such training is specific to each job, but part of the general training that is missing in Mexico is an intensive, practical course that can give young professionals the tools required to add value within the sector.

AFIRMA's approach to addressing this challenge will focus on strengthening independent consultants, trainers, and potential employees of MFIs in the theoretical foundations and practical application of microfinance in Mexico through a microfinance education program for junior consultant trainees. The program will include classroom work and practical application through paid field work (possibly pairing with the GoM required *Servicio Social* work) for qualifying students.

During the next quarter AFIRMA will work to finalize the following activities under this component:

- Design the program operational manual in coordination with the USAID-funded OSU-CIDE TIES program, including guidelines for program participants and trainers/partner institutions (e.g. AFIRMA, TIES, CGAP, MFMI, GoM Programs) for the activity and submit it to USAID for approval.
- Carry out first application and selection process for prospective course participants.

## 3.3 TASK 3 – SUPPORT INNOVATIONS TO EXPAND ACCESS TO RURAL FINANCE & REMITTANCES

Implementation of Task 3 involves a grants-based approach to stimulating the introduction of new technologies, approaches, distribution channels, or other elements that facilitate rural clients' and small farmers' access to appropriate financial services, and to improve institutions' capacities to reach underserved populations, especially rural clients.

The USAID/Washington contracts office determined in project quarter 4 of year 1 that grants may be issued under an AMAP task order, clearing the way to launch Task 3. In early 2006 AFIRMA will focus on understanding the possibilities for spurring innovation in the design and delivery of financial services in Mexico, particularly in rural value chains. As discussed during the one-day AFIRMA planning retreat, an adjusted Rural and Agricultural Finance (RAF) workshop, based on those delivered through the

USAID/Washington Office of Microenterprise Development (especially the workshop to be held in Peru in March to be delivered in part by DAI), will form the start-up activity for this task, followed by design and launch of the innovation fund, as described briefly below.<sup>9</sup>

### **3.3.1 Rural and Agricultural Finance Workshop**

Next quarter AFIRMA will work with USAID Development Finance Advisor Geoffrey Chalmers in coordination with USAID/Washington to plan the initial RAF workshop, determine specific target audience, roles and responsibilities, and resources to be dedicated to the training. In order to implement the workshop in Mexico, AFIRMA will coordinate with USAID to:

- Adjust RAF workshop material for Mexico
- Deliver modified RAF workshop to 15 -20 participants and generate a short-list of possible actors and initiatives to further develop this task
- Design program plan, potentially to include draft design of the innovation fund, and a “stakeholder’s workshop” as one initial intervention in RAF.

The workshop is tentatively scheduled for the week of April 24. Following the RAF workshop, AFIRMA will determine interest and feasibility in shorter adaptation of the workshop to be held with audience comprising financial institutions, value chain actors, government officials, aimed at facilitating discussion and understanding between these actors.

### **3.3.2 Design and Launch Innovation Fund**

AFIRMA will build upon lessons from the RAF to:

- Design the AFIRMA Innovation Fund, with assistance from DAI consultant Doug McLean, who has substantial experience setting up grants to expand access to financial services.
- Launch the Innovation Fund, which will involve a presentation of the concepts behind the Innovation Fund, as well as the evaluation process and criteria, and will make available a simple format to follow for interested parties to present short descriptions of proposed innovations.
- Review technical proposals – a review committee (representatives from USAID, AFIRMA, and an external reviewer) will use established criteria to review proposals and select initiatives to support towards the end of Project Year 2.

### **3.3.3 Identify Areas for Intervention related to the Enabling Environment for RAF**

AFIRMA’s work on the enabling environment under Tasks 4 and 5 is, for the most part, limited to the regulatory and supervisory framework under the LACP, federation strengthening, and collaboration and support for industry initiatives, to the exclusion of legal and policy issues such as collateral laws, contract enforcement, branch restrictions, etc. This is mostly related to a need to prioritize scarce resources, and the reality of what AFIRMA would be able to accomplish on such complicated and large-scale issues. However, as Task 3 is further developed during and after the RAF workshop, such issues may need to be addressed, since they tend to be more important when discussing rural and/or agricultural finance. Following the RAF workshop AFIRMA and USAID will reassess whether any legal/policy issues related

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<sup>9</sup> A more complete description is provided in the AFIRMA Year 2 Work Plan.

to RAF have emerged as high-priority obstacles worthy of consideration for USAID/AFIRMA intervention, most likely in close coordination with other donors and the GoM.

### **3.4 TASK 4 – STRENGTHEN THE REGULATORY ENVIRONMENT FOR MICRO- AND RURAL FINANCE**

Under this task, AFIRMA will work with the *Comisión Nacional de Bancos y Valores* (CNBV) and Federation Committees to improve microfinance supervision. AFIRMA subcontractor International Consulting Consortium (ICC), a firm specialized in financial regulation and supervision in Latin America will play an important role in implementation of this task. Throughout the last quarter, AFIRMA COP Fernando Fernandez kept in close touch with the project's counterpart at the CNBV, Luis Felipe Mariscal, reiterating AFIRMA's openness to assist where appropriate. AFIRMA has offered assistance with supervision and regulation of microfinance and Mr. Mariscal expressed interest, but emphasized that his staff and the federations fully occupied with implementation of the LACP until early 2006, at which point specific activities could be planned.

In December, Mr. Mariscal announced his departure from the CNBV and in February will make introductions to his current supervisor, who will be in charge of implementation of the LACP. Although priorities may change following the meeting assistance is tentatively scheduled to will begin in 2006, initially to involve:

- **Work plan with the CNBV** – Next quarter the Project will coordinate with the CNBV to develop technical assistance and training plans with the Federations.
- **Training program for Federations** – Based on initial diagnostics of the needs of federations, the project will mobilize ICC's Ramon Rosales, former Bank Superintendent in Peru and Miguel Barba, ICC Senior Legal Advisor, to work with the CNBV to design and deliver a training program for supervisors to whom the CNBV has delegated authority.

Based on planning with the CNBV in early 2006, the project will define further activities.

### **3.5 TASK 5 – STRENGTHEN THE MICRO- AND RURAL FINANCE INDUSTRY**

AFIRMA efforts for Task 5 include supporting initiatives with GoM agencies, private sector stakeholders in microfinance, and other industry initiatives such as improved access to various types of market information. Over the course of 2005 AFIRMA promoted microfinance sector initiatives along with stakeholders within the Mexican Government, such as Pronafim, Banco de Mexico (Central Bank), and Financiera Rural, as well as with the private sector member associations ProDesarrollo.

Initiatives over the last quarter are divided into three basic categories: initiatives with GoM agencies, Initiatives with private sector stakeholders in micro- and rural finance, and other industry initiatives. In 2006 activities under Task 5 will be along four main lines: market research, support of ProDesarrollo, support and work with GoM microfinance initiatives, and credit information services.

### **3.5.1 Initiatives with GoM Agencies**

#### **PRONAFIM**

One of the most relevant activities for Mexican microfinance in recent years was the Fourth National Encounter for Microfinance organized by PRONAFIM, the National Program for Microenterprise Finance (*Programa Nacional de Financiamiento al Microempresario*) within the Secretary of the Economy. PRONAFIM invited AFIRMA COP Fernando Fernandez and Senior Microfinance Specialist Willy Escobedo to participate in the planning committee for the event, which allowed the AFIRMA team to work with PRONAFIM to elevate the level of content to be presented and to modify the format of the event. AFIRMA proposed a number of panels involving internationally recognized microfinance specialists from DAI, OSU, and MFIs from throughout the region and in Mexico, including Claudio Gonzalez-Vega, Juan Buchenau, Robin Young, Willy Escobedo, Johnny Velasco, representatives from AFIRMA partners ProMujer Mexico, FINCA Mexico, Fondo 5 de Mayo, FIMEDER, CAME as well as of Banks, Credit Bureaus and other institutions from Bolivia, Peru, Ecuador, Central America and Mexico.

The assistance was highly valued by GoM representatives, and in event participants (through the standard PRONAFIM evaluations) gave it the highest marks of all of the PRONAFIM events since the program was created. PRONAFIM has since requested AFIRMA assistance with preparations for the next event to be held in May 2006 and the COP will begin coordinating with PRONAFIM next quarter.

#### **Credit Information Services**

During the quarter AFIRMA Credit Bureau Expert Miguel Llenas worked with COP Fernando Fernandez and DCOP Nathanael Bourns in coordination with Development Finance Advisor Geoffrey Chalmers of USAID to complete a diagnostic of Credit Bureaus in Mexico. AFIRMA also coordinated efforts with ProDesarrollo, both existing credit bureaus (*Buro de Credito* and *Circulo de Credito*) and with *Banco de Mexico* (the Mexican Central Bank). Mr. Llenas presented the diagnostic and AFIRMA distributed the written report at the project's bi-annual meeting January 27, 2006. The diagnostic represents an important step in the process of improving of the credit information system in Mexico, so that information can be generated and shared on entire portions of the population currently un-served by the financial sector, in order to facilitate their access to services and reduce the risk of over-indebtedness in the market as microfinance and consumer lending both expand quickly.

Next quarter, AFIRMA will begin supporting the two private credit bureaus through customized technical assistance programs based on the needs of each one, both of which will involve the design of products and services for current and potential MFI clients of the bureaus. AFIRMA will also coordinate closely with the Banco de Mexico initiatives to improve of the regulation and supervision of credit information services, with the objective of increasing transparency of credit information in the Mexican market and reducing overall risks.

#### **FOMMUR**

Also within the framework of coordination microfinance activities with the GOM, on December 2, 2005, COP Fernando Fernandez presented at the Third National Symposium of Financial Intermediaries of FOMMUR (Rural Women's Microfinance Fund), on the panel "MFI Institutionalization".

### **3.5.2 Initiatives with private sector stakeholders in micro- and rural finance**

#### **ProDesarrollo**

In November, AFIRMA supported the Third Conference on Leadership in Microfinance, organized by ProDesarrollo. Significant contributions by AFIRMA included:

- AFIRMA worked closely with ProDesarrollo in the redesign of the conference.
- AFIRMA contracted international microfinance experts to deliver various modules of the program. The experts included:
  - Claudio Gonzalez of Ohio State University
  - Susana Barton of Acción International
  - Juan Buchenau an expert in individual lending technologies, and
  - Sharon D'Onofrio, a specialist in financial analysis.
  - Rochus Mommarts, an expert in individual lending from Germany
- AFIRMA sponsored Latin American MFI Managers to present successful experiences and share lessons learned with the training participants.

Due to the efforts of ProDesarrollo, supported by AFIRMA, the number of participants increased by nearly 100% over last year's event and results obtained from participant evaluations show a clear improvement in conference preparation and content.

AFIRMA will also support ProDesarrollo's strategic planning process, hiring Jack Burga and Jose Lombardi from COPEME, arguably the most successful association of microfinance institutions in Latin-America, to facilitate the planning process. AFIRMA has identified this TA is one of the most important contributions the project can make to ProDesarrollo's development.

### **3.5.3 Other Industry Initiatives**

AFIRMA subcontractor The Ohio State University, led by Dr. Claudio Gonzalez-Vega delivered written drafts of the rapid assessment of the breadth and variety found in rural financial markets in Mexico, begun in the final quarter of Project Year I. The assessment was conducted by a team of researchers from the Rural Finance Program at OSU between June and November of 2005, with follow-up interviews in January 2006 in order to finalize the reports. AFIRMA and Geoffrey Chalmers of USAID provided detailed feedback on the draft reports, which is being integrated into the final documents. Dr. Gonzalez-Vega presented the team's initial findings at the AFIRMA bi-annual meeting on January 27, 2006. Following presentation of the reports, AFIRMA and USAID will work with OSU and other stakeholders to determine what if any other areas require investigation.

AFIRMA also continued to coordinate with the USAID-funded TIES program in coordination with OSU and the Mexican University CIDE (one of their tasks will be to develop a microfinance curriculum). On January 26, AFIRMA COP Fernando Fernandez presented the project's perspectives on the state of microfinance in Mexico at the TIES launch meeting for this topic.

## 4. PROJECT MANAGEMENT

Major developments in project management last quarter included:

- **Administrative re-organization** – Based on experience from AFIRMA’s first year, and due the workload and intensity of activities during the past 3 quarters AFIRMA management decided to examine its internal operations in order to adjust approaches to administration that will help continue to ensure compliance with USAID regulations while clarifying roles and responsibilities. This involved adjusting staff responsibilities (within the original contract SOW) to meet the needs for 2006 while playing to the strengths of each member of the team, and modification of the project’s organizational chart.
- **Technical backstopping support from DAI Microfinance Specialist Robin Young** – While Hillary Miller-Wise was on maternity leave, Robin Young took over technical backstopping support for AFIRMA, supported AFIRMA’s planning process at the Annual retreat and provided guidance on technical and project management issues. Ms. Miller-Wise returned as technical backstop in January 2006.
- **Support from DAI Home Office Associate Brooke Jones.** In addition to her technical work with ProMujer, in coordination with Ms. Miller-Wise and SERTA, Ms. Jones assisted local staff with process mapping of the main administrative functions, working with Claudette Martinez to develop a project manual and training staff on use of DAI’s Oracle ERP system that went live January 1, 2006.
- **AFIRMA retreat and planning process.** AFIRMA held a 2-day retreat in Cuernavaca to plan for 2006. The first day was spent on project management and administrative issues, and resulted in the re-organization described above. The second day, on which USAID CTO Geoffrey Chalmers participated, focused on technical issues, analysis of the performance of AFIRMA partners, and general plans for assistance with each partner. The retreat was particularly useful from a management standpoint, in order to have greater clarity on priorities for calendar year 2006.

AFIRMA COP and DCOP will work with USAID Development Finance Advisor Geoffrey Chalmers over the next quarter to adjust programming to the envisioned funding levels for 2006.

### 4.1 AFIRMA BI-ANNUAL PARTNER MEETINGS AND TECHNICAL WORKSHOPS

In 2006 AFIRMA will organize the following meetings:

- January 2006 AFIRMA bi-annual meeting – Claudio Gonzalez-Vega and Marcelo Villafani will present findings from the OSU market study, Miguel Llenas will present the credit information services activity, and Nathanael Bourns will present the performance monitoring information.
- Technical Workshops - based on interest and recommendations obtained at the January bi-annual meeting, AFIRMA will consider holding one or more workshops on technical topics of interest/importance to partners.
- AFIRMA Bi-annual meeting and planning Workshop. In July 2006, AFIRMA will hold a group planning workshop to prioritize industry-level initiatives for year 3.