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DEL PUEBLO DE LOS ESTADOS  
UNIDOS DE AMÉRICA

**MEXICO**

# AFIRMA QUARTERLY REPORT

PROJECT YEAR 3, QUARTER 2 – January-March 2007

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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USAID Contractor

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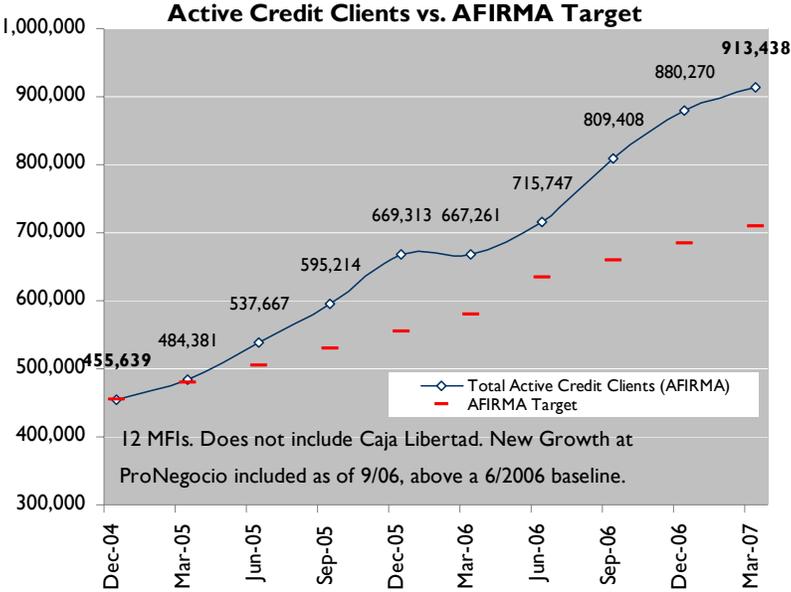
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# EXECUTIVE SUMMARY

The USAID/Mexico-funded AFIRMA Project, implemented by DAI, 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. Work last quarter continued to be most intense in the area of supporting partner microfinance institutions, although activity was intense in training junior professionals in microfinance, and in preparations for the Innovation in Rural and Agricultural Finance small grants fund. Key activities and results during the quarter included:

**AFIRMA’s MFI Partners Attain 100% Growth Over Project Baseline** – AFIRMA continued work with 13 partner MFIs last quarter which, despite a seasonal slowdown common in the first quarter, are now serving a total of 913,438 active credit clients, a 100.5% increase, or 457,799 additional active clients, above the December 2004 baseline. Although much of the growth in terms of numbers of clients is attributable to AFIRMA’s largest partner, Compartamos, other partners have grown more quickly (albeit from smaller bases) on a percentage basis. Furthermore, nine of the MFI partners now maintain financial self-sufficiency, as compared to 5 in December 2004. The project also has continued to support re-design or development of 10 financial products, including savings products, in an effort to help partners better meet client needs. Although only 4 partners take savings deposits, they have grown well and are now serving 722,628 savings clients. Caja Libertad is by far the leader in savings, but FinComún has grown extremely well over the last year.



**Human Resources Development is the Sector’s Single Biggest Challenge** – One of the key limiting factors for partner MFIs continues to be access to a human resource base prepared to enter the microfinance workforce. AFIRMA partners currently employ 7,662 individuals, 105% more than they did in December 2004, and all have aggressive growth plans over the next year. In light of this challenge, AFIRMA continued to work last quarter to expand its Microfinance Professional Development Initiative with the National Polytechnic Institute (IPN). This involved coordinating a planning workshop for curriculum design and teaching approaches, tracking the entry of alumni from the pilot program into the microfinance sector, and facilitating interaction with American universities to analyze potential alliances.

**Increasing Focus Next quarter on Rural and Agricultural Finance** – In addition to continuing to implement the 2007 work plan with the 13 partner institutions, AFIRMA will focus increasingly on rural and agricultural finance activities in the coming quarters. Although part of this effort was dedicated to designing and launching a grant fund, now on hold for administrative reasons described below, efforts will continue and will include analysis of agricultural value chains to better understand the flow of information and finance throughout specific chains and to determine areas where financial intermediaries might offer services to small farmers and other value chain actors.

# 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."*

AFIRMA's scope of work and year three work plan outline five distinct, interrelated tasks:

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

These tasks, their relationship to one another and to the project goals are further outlined in the Performance Monitoring Plan, updated in January 2006 to meet the Mission's adjusted strategic objectives and intermediate results. Progress towards each task over the second quarter of year 3 (January-March 2007) and key priorities for quarter three of year 3 are presented in the next section, followed by a brief description of project management over the quarter, including a summary of project finances.

## AFIRMA WORK PLAN IMPLEMENTATION

### I. Task I – Strengthen MFI Capacity

AFIRMA works with institutions of various types, sizes and target markets, and the diverse institutional development needs of these institutions illustrate 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. Therefore, factors such as geographic market, marginalization of target clientele and outreach in terms of providing financial services

#### Core principles of AFIRMA support of Partners

- **Respond to well-thought-out business plans**, owned by partners, addressing needs and capacity for sound growth and sustainability.
- **Demand-based approach** – respond proactively to the needs of each partner within the framework of business plans and project objectives,
- **Maintain flexibility** to respond to the changing market conditions and partner needs.
- AFIRMA consultants are **facilitators of change**, but partners themselves take ownership of the processes and changes.
- **Continue support based on results**, responsiveness, openness to change, and capacity to absorb assistance.

where they are most difficult to deliver, as well as potential growth in the breadth of outreach are all factors that AFIRMA considers in prioritizing assistance.

Below are highlights of AFIRMA support for each partner over the quarter. In addition to those highlighted, AFIRMA also worked with each partner to determine priority areas for the project to support in 2007. **Key objectives and specific activities for each partner can be found in the 2007 work plan, which covers the period January – December 2007.**

## 2.1. FINAMIGO (formerly FIMEDER)

AFIRMA's primary activity with FINAMIGO last quarter:

- **Commercialization of Savings Products** – During this quarter Bolivian consultant Herberto Olmos conducted the first phase of his consultancy, during which he evaluated existing savings products, processes, and procedures, determined adequate products for the market segment, and established productivity and efficiency parameters. FINAMIGO counterparts are revising the consultants' proposals and will finalize product details, productivity and efficiency indicators, and other related proposed policies so that Mr. Olmos can prepare the next phase of the project, including definition of the commercialization strategy and staff training.

Upcoming priorities identified with FIMEDER:

- Continued support of the FIMEDER School initiative (Eliana Otondo)
- Continued implementation of Savings Product Commercialization (Herberto Olmos)
- Technology Solutions for helping FIMEDER to reach scale and broaden service area (TBD)

## 2.2. AISol

AFIRMA's primary activity with AISol last quarter:

- **Management Information System (MIS)** – Beginning in January 2007, AFIRMA supported evaluation of user needs and options for a new MIS, for which AISol has selected to work with DAI MIS consultant Carlos Paredes and local IT specialist Veronica Corzo. With AFIRMA support, AISol has carried out a complete process to determine user needs, invited MIS providers to respond to those needs and is in the process of selecting an MIS.
- **Training needs assessment** – Claudette Martinez conducted a comprehensive training needs assessment for AISol at all levels, from the board to loan officers. The document was used to propose areas for support through AFIRMA and through Ford Foundation funding.
- **High Level Visit** – On February 13, 2007 Margarita hosted a visit from Undersecretary of State for Public Diplomacy Karen Hughes, US Ambassador to Mexico, Antonio O. Garza, and the Governor of Chiapas, Juan Sabines Guerrero, as well as Geoff Chalmers and others from the USAID mission (see box).

Additional upcoming priorities identified with AISol:

- Operational support through a resident advisor for the operations area

- Board support – Fernando Fernandez, Nate Bourns will continue to provide support of board decision-making, in response to board requests. This may include support from Willy Escobedo to analyze costs and benefits of a structure to mobilize voluntary savings

AFIRMA continues to coordinate with the Ford Foundation, which also supports AISol, to determine specific needs each will support and to avoid any duplication of efforts.

### 2.3. CREDI AVANCE (formerly DESPENO)

AFIRMA's primary activities with DESPENO last quarter:

- **Individual Loans** – Bolivian Operations Specialist Pablo Alborta continued supporting Despeno's individual loan product, and assisted with consolidating the group loan product. DESPENO has been pleased with his work requesting a six-month extension, through June 2007. His primary responsibility would be to serve as Operations Director and manage the commercialization of the individual loan portfolio, as well as the consolidation of the group lending product. Following the six month period, DESPENO would hire Mr. Alborta directly for this position.
- **Sales Training** - Peruvian Training Specialist Mauricio Lerner delivered a course on marketing and conducted a market research study to facilitate the definition of the new organizational title, now determined as CREDI AVANCE.
- **Strategic Plan** - Mexican consultant Héctor Sánchez completed and presented the Director with the results of his work on the Strategic Plan, cost management, marketing and market research. AFIRMA's Nathanael Bourns worked with Mr. Sánchez to define projections for 2007 using the Microfin planning model.
- **Organizational Structure** – AFIRMA staff Fernando Fernández and Willy Escobedo supported efforts to define the new organizational structure, both administrative and operational, including the implementation of two Assistant Directors with qualitative and quantitative goals to be evaluated monthly by the General Director.
- **Presentation of Indicators** – Nathanael Bourns gave an informative presentation of DESPENO's performance indicators through year-end 2006, as compared to the aggregate data for AFIRMA's 13 partnering organization.

#### Visit from Undersecretary Hughes

In February, AFIRMA partner AISol and one of the institution's client groups hosted a visit from Undersecretary of State for Public Diplomacy Karen Hughes (shown here), US Ambassador to Mexico, Antonio O. Garza, and the Governor of Chiapas, Juan Sabines Guerrero. The visit allowed AISol to showcase its work with indigenous women of Chiapas



*"It's wonderful to see for myself the important work AISol is doing to empower the women of Chiapas... The United States of America is very proud to be your partner in helping you to achieve a better life for the families and children of Chiapas."*

- Undersecretary of State Karen Hughes

- **Individual Loan Philosophy** – Willy Escobedo conducted a presentation on individual microcredit technology and philosophy for key personnel.

Additional upcoming priorities identified with Crediavance:

- Institutional Growth Diagnostic (A. Silva)
- Implementation of a new lending model with Credit Officers supported by *Promotores* and *Gestores* (W. Escobedo)
- Selection of Human Resources Manager (E. Otondo)
- Support of new MIS implementation (H. Sánchez)
- Support in reducing portfolio at risk (P. Alborta)

## 2.4. CADEMI

AFIRMA's primary activity with CADEMI last quarter:

- **Ongoing coordination** - Ivana Fertziger and USAID CTO Geoffrey Chalmers conducted a visit to Cademi, including a meeting with the Board of Directors, to discuss technical assistance priorities and the level of AFIRMA support going forward. During this visit Cademi indicated that the future institutional strategy was dependent on its ability to reach growth and portfolio quality goals by April 30, 2007. AFIRMA offered to support Cademi's efforts to reach those goals with accompaniment, guidance, and technical assistance from Ms. Fertziger, and then to determine additional technical assistance once their institutional strategy going forward was determined. AFIRMA has scheduled a meeting with Cademi for next quarter to determine levels of support.

## 2.5. AMUCSS

AFIRMA's primary activity with AMUCSS last quarter:

- **Operations** - Local consultant Alejandro Fernandez continued to support AMUCSS' efforts to standardize manuals, credit operations, branch administration, and the generation of statistics and indicators, among other efforts.
- **Strategic Meetings:** Willy Escobedo has had 4 meetings with Christophe Paquette to develop a new legal structure for AMUCSS that would unite the *microbancos* under one single company.
- **Human Resources Tax and Employment Liabilities** - Local Consultant José Antonio Benítez completed his work to advise on HR operations, particularly regarding staff hiring, tax payment, potential tax liabilities, as well as other related issues. Mr. Benítez was able to clarify various questions regarding taxes and the employment relationship between staff of the *micobancos* and AMUCSS.
- **MIS Diagnostic and consolidation** – Peruvian consultant Carlos Paredes conducted a diagnostic of current MIS weaknesses regarding reporting capabilities. In addition, AFIRMA facilitated support of local consultant Omar Flores to consolidate the MIS for three months through the MIS provider.

- **Individual Loan Philosophy** – Willy Escobedo conducted a presentation on individual microcredit technology and philosophy for key personnel.

Additional upcoming priorities identified with AMUCSS:

- Study Tour for A. Fernández to familiarize himself with various microfinance operations throughout Latin America.
- A resident General Director to manage AMUCSS under the new corporate structure.

## 2.6. Fondo 5 de Mayo

AFIRMA's primary activity with Fondo 5 de Mayo (F5M) last quarter:

- **Management Information System (MIS)** – AFIRMA supported evaluation of user needs and options for a new MIS, for which F5M selected to work with DAI MIS consultant Gabor Simon. With AFIRMA support, F5M has carried out a complete process to determine user needs, and the next steps will be to invite MIS providers to respond to those needs and begin the selection process.
- **Ongoing operational staff training** – AFIRMA resident advisor Hector Cisneros of El Salvador continued to support and train operational staff in the adjusted credit methodology and to improve the process of identification, orientation and training of loan officers. He also worked intensively with F5M's Training Coordinator, who has taken on the training functions set up by Mr. Cisneros. This area continues to be at the core of F5M's aggressive growth. Mr. Cisneros will complete his current SOW next quarter. F5M management, in a meeting with Geoff Chalmers and Nate Bourns, expressed the institution's high evaluation of the performance of Mr. Cisneros, requesting that he continue to support the institution, with an increased focus on individual lending and training. AFIRMA is likely to consider a follow-on SOW along these lines, with a higher cost-share for F5M.
- **Ongoing Consultation on Institutional Transformation** – Nate Bourns continued to support decision-making on transformation to a regulated SOFOM and the merger with *Financiera Mercurio* (which is in the process of selling its current portfolio in order to focus 100% of operations on microfinance). Geoff Chalmers and Nate Bourns also participated in, and presented to, an all-staff meeting in Tlaxcala at which the change program was outlined.

Additional upcoming priorities identified with F5M:

- Continue MIS work (Gabor Simon)
- Operational assistance (Hector Cisneros)
- Human Resources consultant, and possible direct hire following the AFIRMA supported consultancy (Henry Gutierrez)
- Individual loan consultant, and possible direct hire following the AFIRMA supported consultancy (TBD – Jessica Pacheco previously identified by F5M for the work, backed out when her current employer in Peru increased her salary)

## 2.7. ProMujer Mexico

AFIRMA's primary activity with ProMujer Mexico (PMM) last quarter:

- **Management Information System** – Following support from AFIRMA consultant Gabor Simon in which he supported a comprehensive, technical evaluation process to determine user needs and available software, PMM began implementation of the locally built and supported MIS, DATACOMP.
- **Structure of the Information Systems Area** – Recognizing the changes that the IT area at PMM needed to undergo, PMM management requested assistance from Gabor Simon in establishing the roles and scope of a new Information Systems Area to support operations and management going forward. Gabor Simon began work on this SOW during the quarter.

Additional upcoming priorities identified with ProMujer:

- Finalize work on the structure of the Information Systems Area (Gabor Simon)
- Training and Non-financial services - Strategy for linking financial and non-financial services, Related profiles and human resource needs and adjustment (Maria Olazabal)
- Human Resources Area - diagnostic of specific HR needs for future growth, techniques for internal communication and working climate improvement, strategy for HR developed with management, profiles, and approaches to filling needs (TBD)

## 2.8. FINCA Mexico

AFIRMA's primary activity with FINCA Mexico (FINCA) last quarter:

- **Observational Study Tour** – AFIRMA supported a study tour to Bolivia for field personal that demonstrated the best progress in portfolio growth and quality upon the organization reaching the 50,000 client mark. Staff visited two successful Bolivian MFIs, CRECER and FIE, both to familiarize themselves with Bolivian village banking and to expose themselves to a wider gamut of financial services. Upon their return, participants wrote a summary of their experiences and findings that was published in the quarterly FINCA Mexico newsletter.
- **FINCA University** – Continued implementation of the *Diplomado Gerencial* designed by AFIRMA Training Specialist Claudette Martinez and then USAID-sponsored Advisor Ivana Fertziger continued during this quarter, with overall satisfactory results. Courses taught by local firms FINDES y GIEM were particularly well received and positively evaluated by participants. The Diploma will conclude early next quarter, including an evaluation conducted by Claudette Martinez.
- **Management Information Systems** – During this quarter Carlos Paredes completed the year-long implementation of the primary structural and physical adjustments to the systems department designed to improve communication, control systems and data transmission, as well as overall information security measures. Mr. Paredes and FINCA staff presented final results to USAID-CTO Geoffrey Chalmers and AFIRMA Director Fernando Fernandez early this quarter, and Ivana Fertziger is currently documenting this consultancy in a case study that indicates a positive strategy for supporting an MFI's efforts to strengthen and consolidate its systems department without overhauling the MIS.

- **Individual Loan Product Pilot** – Consultant Luis Echarte continued to implement the Individual Loan Pilot project this quarter, though the costs are now fully covered by FINCA México. Although challenges were presented with loan officer rotation and identifying the appropriate recruiting and selection processes, the pilot is progressing and FINCA is confident in the technical expertise of Luis Echarte and his team, and that results will improve early 2007.
- **Standardization of village banking operations processes** - Ivana Fertziger worked with Operations Manager, Johnny Velasco, the new Internal Controls Coordinator, Rosario Armas, to detect variations in the village bank methodology implemented in FINCA's various field offices. Next quarter Ms. Fertziger will continue this process, working with the newly formed Internal Controls (operations) and Processes and Procedures (administration) areas to document the processes and conduct a standardization workshop with key FINCA personnel. This project intends not only to standardize village banking processes, but also to strengthen and train FINCA staff that will continue monitoring these processes going forward.
- **Presentation of Indicators** – Nathanael Bourns gave an informative presentation of FINCA's performance indicators through year-end 2006, as compared to the aggregate data for AFIRMA's 13 partnering organization.

Upcoming priorities identified with FINCA include:

- Updating the systematization of administrative and operations processes (Servicios Internacionales de Negocios)
- Reformulation of FINCA Mexico's Strategic Plan (R. Fernandez)
- Evaluation of the FINCA's *Diplomado Gerencial* (C. Martinez).

## 2.9. FinComún

AFIRMA's primary activity with FinComún last quarter:

- **Individual Lending Technology** – Michael Steidl completed his work supporting FinComún with courses to train the company's primary trainers in order to improve credit policies and delinquent loan recovery.
- **Strategic Plan** – Guatemalan consultant and INCAE Professor Luis Noel Alfaro completed his work on FinComún's Strategic Plan through 2010.
- **Strategic Meetings** - AFIRMA staff held two meetings with the General Director to discuss issues of governance and regulation.
- **Training systematization/learning** – Mexican consultant Atenea Rico began design and development of a distance learning pilot program for operations personnel. To complement this project, Willy Escobedo has evaluated distance learning programs at a variety of companies.
- **Bimbo Alliance** – Michael Steidl consulted on FinComún's efforts to develop a project for lending via Bimbo's mobile delivery units, an ambitious project with the potential to put FinComún on the cutting edge of lending technology.

- **Individual Loan Philosophy** – Willy Escobedo conducted a presentation on individual microcredit technology and philosophy for key personnel.
- **Presentation of Indicators** – Nathanael Bourns gave an informative presentation of FinComún's performance indicators through year-end 2006, as compared to the aggregate data for AFIRMA's 13 partnering organization.

Additional priorities with FinComún for the following quarter include:

- Microinsurance (J.I. Bustamante)
- Regulation and regulatory challenges (R. Rosales)
- New Operations Technology (TBD)

## 2.10. CAME

AFIRMA's primary activity with CAME last quarter:

- **Systems** –Mexican consultant Omar Flores continued supported FinMas implementation with the collaboration of two students from the *Instituto Politécnico Nacional*, José Luis Valencia and Rafael Cerritos, who participated in the pilot training program and are processing the operations realized in various branches, both in FINMAS and the existing MIS. AFIRMA is planning to hire 5 more IPN students to support the conversion process in 2007.
- **Ongoing coordination** – Willy Escobedo held regular meetings with CAME's executives in order to evaluate the organization's technical assistance needs, as well as challenges faced in operations, systems, governance, among other issues.

Upcoming initiatives with CAME will focus on continuing to support the MIS implementation and stabilization process, with:

- New consultant to continue supporting the FinMas implementation process (J. Medina).
- Audit of Information Systems (TBD)

## 2.11. Caja Libertad

While external consultants were not hired for Caja Libertad during this quarter, Willy Escobedo and AFIRMA staff advanced on various issues listed below, primarily oriented towards Caja Libertad's renewed interest in microcredit as an alternative to the company's existing products. The Board of Directors has agreed to implement the product, and has charged Operations Director with this important project, now expected to fully launch in 2007.

- Several meetings with Operations Director Pablo Lezama to discuss next steps for implementing the individual loan pilot launch.
- Willy Escobedo developed research centers at two key regional offices, designed to facilitate the individual loan implementation process.

- Willy Escobedo revised and adjusted individual loan manuals, policies, applications, and guidelines.
- Defining the profile for a Resident consultant to support in the implementation of individual loans.
- Nathanael Bourns gave an informative presentation of Caja Libertad's performance indicators through year-end 2006, as compared to the aggregate data for AFIRMA's 13 partnering organization.

Additional initiatives with Caja Libertad for the following quarter include:

- 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
- Support in the Individual Loan Pilot Launch in at least one regional office.

## 2.12. Compartamos

Last Quarter, AFIRMA's primary activity with Compartamos, implemented by its partner Acción International led by Monica Brand was:

- **Efficiency and Productivity** – Acción Consultant Wilmer Guevara continued supporting the Commercial Area in improving expansion of the individual and solidarity group loan products. Compartamos has grown well in these new products, although much of the recent growth has come through adding loan officers, so Mr. Guevara's work is focused increasingly on improving loan officer productivity.
- **Scoring** – Derly Duran has worked with the marketing and IT areas to develop parametric models to predict client desertion and clients that demand services beyond the standard GDI product.

Additional priorities with Compartamos for the following quarter include:

- Continue supporting consolidation of the efficiency and productivity program in solidarity and individual loans (Wilmer Guevara)
- Support launch of products for housing improvement, insurance, and incorporate new products into the incentives schemes (Monica Brand and Acción Team)
- Possible support on examining options in remittances (Nate Bourns and Ivana Fertziger)
- Micro-insurance product refinement (Monica Brand and Gabrielle Tomchinsky)

## 2.13. Creditos ProNegocio

AFIRMA support to ProNegocio slowed last quarter while PN underwent changes in leadership. AFIRMA has since met with the new director and will determine whether it is necessary to modify existing plans. The main activity last quarter was:

- **Operations** –Willy Escobedo and ProNegocio defined a work plan for 6 pilot offices, which will allow for implementing continuous improvements until an optimal operations model is achieved

in individual loan technology. The Work Plan covers staff recruiting, training, policies, and includes the presence of three resident experts. Mr. Escobedo also worked with ProNegocio staff to finalize the Individual Loan Manual.

Upcoming Initiatives with ProNegocio will be determined following a meeting with key ProNegocio directors scheduled for early next quarter.

## 2. Task 2 – Develop Local, Commercially-based MFI Services

During year 2, Task 2 activities were linked with Task 1 support of MFI partners, matching qualified local firms and consultants who would benefit from specialization in certain areas with international specialists on certain assignments. The year 3 work plan aims to build upon this link through increased use of local consultants and training programs for technical assistance and training providers (firms and individuals). Progress, adjustments and plans for each initiative is described below .

### 2.1. Contracting Local Consultants and Firms

Last quarter AFIRMA worked in close coordination with 8 local independent consultants, two professional interns and with the local firm FINDES. Each project is briefly described in the following table ordered by AFIRMA partner & task:

MFI/Task	Project	Local Firm or Consultant
AMUCSS	Operations	<b>Alejandro Fernandez</b> , continued working on operations under the supervision of Willy Escobedo. A study tour to Bolivia or Peru, planned for this quarter to complement his mentoring, will be rescheduled according institutional needs. He will continue with AMUCSS through August, covered by AFIRMA, and thereafter on full-time staff with the institution.
ALSOL	MIS Evaluation Process	Information technology specialist <b>Veronica Corzo</b> worked in coordination with MIS specialist Carlos Paredes, in Management Information Systems evaluation to identify a short list of systems which meet ALSol information requirements. During next quarter, she will accompany ALSol visits to Mexican MFIs, to verify how pre-selected MIS work in daily operations.
CAME	Team in MIS implementation	<b>Juan Omar Flores</b> , MIS junior consultant supported CAME at system implementation and stabilization with the collaboration of two students from the <i>Instituto Politécnico Nacional</i> , <b>José Luís Valencia and Rafael Cerritos</b> , who participated in the microfinance pilot training program. Next quarter, he will be working as full-time staff with CTI (SI-Bancs MIS provider), and he will recommend a new junior MIS consultant to support MIS implementation process with CAME.
CREDIAVANCE (DESPENO)	Planning	Local project manager <b>Hector Sanchez</b> completed and presented the Director with the results of his work on the Strategic Plan, Cost management and marketing. Next quarter, he will support the MIS implementation process.
FINCA	FINCA University - Training Program	Early 2007, local firm <b>FINDES</b> delivered financial modules within the mid-level managers training program with good results and positive evaluation by participants and FINCA's training coordinator.
FINCOMUN	Distance Learning program	<b>Atenea Rico</b> , team leader for Inovatec (specialized training firm) began working to design and deliver FinComún's first distance training program for operations personnel. Next quarter, AFIRMA will continue working with Inovatec to finalize this project.

AFIRMA Task 2	IPN Mentoring program – Second Phase	<b>Luis Heriberto Garcia Muñiz</b> worked with AFIRMA training specialist, coaching and supporting IPN microfinance leader, Graciela Portillo to increase institutional interest and extent efforts to other Schools within IPN for second phase. During next quarter, he will continue working to support a planning session with IPN and AFIRMA.
ProDesarrollo	Benchmarking	<b>Samuel Perez</b> finished and applied a new format for collecting information for the benchmarking report that is aligned with accounting criteria under LACP regulation,. He supported institutions' efforts to fill out this new form and delivered an informal training workshop in Chiapas and in-situ support with two MFIs from Veracruz. Mr. Perez will continue his on job-training to support a Mexican sector report to be developed between ProDesarrollo, Mix Market and AFIRMA. <b>Fernando Palmos</b> , working closely with AFIRMA team to improve his microfinance understanding, in order to deliver a tailored workshop to Prodesarrollo Staff of accounting standards established under LACP regulation,
AFIRMA	Mentoring Program	<b>Rafael Cerritos</b> , who participated in the IPN microfinance pilot training program and carried out a professional internship at CAME, was selected as AFIRMA intern and started working as a junior microfinance consultant. During this quarter he will continue working in practical assignments with the AFIRMA technical team, under the supervision of Willy Escobedo, AFIRMA Senior Microfinance Specialist.

Next quarter, AFIRMA plans to work with the following local consultants:

- **Julio A. Medina**, a MIS consultant to support CAME in the MIS stabilization process, specifically with CAME centers.
- **A research team** to carry out a rapid selection and initial analysis on Mexican agriculture value chain in order to guide the AFIRMA project's future actions on this subject. Team is integrated by *Jose Luis Mota as team leader, José Luis Ramirez, as middle-level researcher and three junior professional assistants*, who participated in the IPN microfinance pilot training program.
- **Servicios Internacionales de Negocio (SIN)**, a local firm which previous experience working with FINCA, will update FINCA's systematization of administrative and operations procedures according to specific objectives defined during this quarter by FINCA and AFIRMA.

**Table 2 – Projects developed by local firms and consultants**

Projects		Type of Project			Areas								
Task I	Other Tasks	TA	Training	Diagnostics / Research	Systems	HR	Internal Control & Process	Accounting	Legal Structure	Operations	Marketing	Strategy	Others
26	10	19	10	7	8	8	6	3	3	1	1	1	5

## 2.2. Microfinance Specific Skills-Building and Linkages

AFIRMA continued working to improve local firms' knowledge of microfinance-specific topics, working closely with the project and partnering with international specialists, as well as through efforts to strengthen MFI capacity to contract services directly through information sharing and coordination.

In order to evaluate the results of this effort, Microfinance Training Specialist Claudette Martinez, in coordination with Adriana Cedillo, summarized information about use, development, and feedback results obtained via an evaluation tool filled out by institutions working receiving support from local consultants and firms working with AFIRMA Project

**Table 3 – Quantitative indicators about use and development of local firms and consultants**

Type		Use		Frequency			Working in Primary Services		Working in Other Component	Contracted by Institution	
Firms	IC	# Institutions served	# Projects	+ I Institution	+ I Project	+ I Service	Strategic**	Daily***		Employee	Provider
10	13	9*	36	5	9	4	5	3	6	1	1

\* 8 MFIS: AMUCSS, ALSOL, CADEMI, CAME, DESPENO, FINCA, FIMEDER (FINAMIGO) & PRODESAROLLO

\*\* Management Training (including in HR area), Strategy and Legal Structure / \*\*\* IT Systems & Human Resources

Significant results from MFI evaluations of 11 local providers' included:

- 10 local providers were positively evaluated by institutions
  - Considered useful and relevant their technical work and deliverables, and of significant help to the institution in general.
- 8 institutions would recommend local providers and consider hiring them again in the future.
- Most positively evaluated aspects of the work conducted by local providers included technical quality, as well as their needs-oriented approach.
- 64% of Institutions consider that technical providers could improve their knowledge of microfinance; however they do not consider this to be a significant weakness.
- In general, local providers' results were evaluated positively, considering their experience and technical profile.

Next quarter AFIRMA team will meet with Eliana Otondo to discuss primary challenges in HR areas and to evaluate the feasibility of a pilot-program<sup>1</sup> for developing domestic professional capacity in HR for microfinance.

## 2.3. Mentoring and professional development program with IPN

During last quarter, AFIRMA's work with the IPN microfinance professional development initiative included:

- **Review and discuss expanded MOU:** In March, AFIRMA COP Fernando Fernandez met with the director and staff of IPN's "Linkages Coordination Department" (*coordinación de vinculación*), which is responsible for alliances and collaboration with external institutions & organizations.

<sup>1</sup> A more complete description is provided in the AFIRMA Year 3 Work Plan.

Topics discussed included pilot results and potential collaboration with AFIRMA for specialized training program for professors (*not only from the Economics School*) on “Microfinance Topics”.

- **Work with IPN team leader to help her assume her new role in this project.** Heriberto Garcia and Claudette Martinez, worked closely with Graciela Portillo, who was designated as team leader for this project in early 2007. They have been coaching and supporting Graciela to assume the project leadership and defining following activities and efforts to extend the initiative within institute.

As a strategic activity to institutionalize the program, a planning workshop with IPN directors, professors and students was designed with the objective of adjusting the work plan and expanding outreach potential.

- **Facilitate interaction with American universities to analyze potential alliances:** Early quarter Ivana Fertziger, AFIRMA Microfinance Specialist, developed and distributed a concept paper for the professional development in microfinance project (IPN&AFIRMA). Columbia University, Lehigh University, and UC Davis expressed interest in potential alliances with IPN at some point in the near future.

Ivana Fertziger, with the collaboration of Claudette Martinez, supported Graciela Portillo’s efforts to interact and coordinate with Columbia University and Notre Dame, analyzing possibilities for applying to the TIES program.

As a key action to increase substantial interest in this project, IPN leader Graciela Portillo requested institutional support for an alliance proposal with Notre-Dame University to USAID’s TIES program, which was submitted during the last week of March.

- **Monitor and follow-up young professionals who attended first program:**

During this quarter, three students started working in the microfinance sector, with ProNegocio, CNBV and the AFIRMA project. Other students received job offers within the sector, which demonstrated significant potential development opportunities for professionals within this sector.

Claudette Martinez, project coordinator, made follow-up calls with students who attended the first training program, identifying 6 additional alumni interested in working within this sector. Willy Escobedo, AFIRMA Microfinance Specialist Senior, interviewed candidates to evaluate their profile and facilitate interaction within MFIs.

Next quarter priority activities for this component include:

- Facilitate and support a planning workshop with IPN directors, professors & students to adjust work plan for institutionalization of the program
- Based on planning session deliverables, define activities and a timetable for this project.
- Facilitate interaction with MFIs, associations and other actors, to analyze potential contributions and participation.
- Deliver a microfinance training course & workshop for designing a “*training for trainers’ certificate program*”. Primary results for this session include the approach and objectives for this program. It is expected to be delivered around December 2007.

## 2.4. ProDesarrollo

Last quarter, during the leave of absence of ProDesarrollo Director Marcella Gessaghi, AFIRMA's contributions to support ProDesarrollo, the private microfinance association, increased significantly. Specifically, AFIRMA supported the following initiatives:

- Fernando Fernandez continued to participate as independent advisor to the advocacy committee of the ProDesarrollo Board of Directors.
- Nate Bourns continued to provide technical guidance to the benchmarking and industry analysis initiative and to Samuel Perez, the junior resident consultant currently paid by AFIRMA through August 2007, at which point he would formally join the permanent staff of ProDesarrollo.
- Claudette Martinez provided technical guidance to Ana Laura Medina, ProDesarrollo coordinator to design the second regional meeting in Veracruz. In addition, Fernando Fenandez and Nate Bourns participated as presenters during this meeting and facilitated the involvement of AISol's director and finance manager to share their experiences with other MFIs.

AFIRMA and USAID will also continue to coordinate assistance to ProDesarrollo with the Ford Foundation, which is likely to continue to provide operational grants to the association.

Next quarter priority activities under this component include:

- ***Comprehensive Microfinance Sector Performance Report*** – Nate Bourns will work with ProDesarrollo to coordinate a draft of the first comprehensive Mexican microfinance sector report in coordination with the Mix Market and ProDesarrollo, to be finalized in August 2007. The somewhat delayed release (to be based on December 2006 data) has been a point of discussion with MIX given the rapid rate of change in Mexican microfinance, although MIX maintains that the process cannot be sped up due to its internal needs to incorporate large volumes of audited financial data from around the region.
- ***Support the Training Coordination Function within ProDesarrollo*** – Claudette Martinez will Support selection and training of the new training coordinator, as well as, with assistance from Ivana Fertziger, develop the concept paper for the microfinance training institution that ProDesarrollo plans to establish.

### 3. Task 3 – Support Innovations to Expand Access to Rural Finance

Task 3 has been designed to involve 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 and small farmers. Last quarter, AFIRMA finalized design of the grant fund and all supporting documentation. However, due to budgeting constraints within USAID, the grants portion of this task has been indefinitely postponed. Given the importance of the rural and agricultural finance, following consultation with USAID Development Finance Advisor Geoff Chalmers, the activity will move forward through other initiatives, while maintaining the goal of:

***“Expanding access to rural and agricultural finance by encouraging innovative business models and technologies for providing financial services.”***

In addition to preparation of the grants fund, activities under this task last quarter focused on the following activities:

- ***Proposal to the CGAP Technology Fund*** – following a joint presentation of the proposed i-FAR grant fund to visiting CGAP staff, AFIRMA worked with Geoff Chalmers to develop a proposal in response to CGAP's Technology Fund request for proposals. Although the AFIRMA activities are more focused on rural and agricultural finance than on technology *per se*, IT is seen as one way to reduce costs, test new models, and expand access in rural areas and in agricultural value chains. This area of overlap between the two initiatives was the focus of AFIRMA's proposal to CGAP.

Next quarter, efforts will focus on the following activities:

- ***Agricultural Value Chain Analysis*** – Nate Bourns will lead a team of local agricultural specialists to conduct rapid analysis of selected agricultural value chains, with an emphasis on understanding information and financial flows through competitive value chains in rural Mexico.
- ***Follow-up with CGAP*** – Nate Bourns and Geoff Chalmers will continue to coordinate with CGAP to determine whether there is scope for coordination through the CGAP Technology Fund, despite operational changes (mentioned above) in the manner in which AFIRMA will address Task 3.

Although the grant fund is on hold, implementing Task 3 will require increasing time and resources over the coming quarters as it is central to the project's strategy in expanding rural and agricultural finance.

### 4. Task 4 – Strengthen the Regulatory Environment for Micro- and Rural Finance

AFIRMA continued to coordinate with its counterparts at the *Comisión Nacional Bancaria y de Valores* (financial supervisors), although the pace of initiatives, set by the CNBV counterparts with AFIRMA essentially responding to requests, remained slow. The main activities over the quarter included:

- ***Presentation on Performance Indicators for Microfinance*** – In February, USAID Development Finance Advisor Geoff Chalmers, AFIRMA COP Fernando Fernández, DCOP

Nathanael Bourns, Training Coordinator Claudette Martinez, and Indicator Analyst Francisco Carbajal, met with the CNBV to present the methodological framework of performance indicators used with participating AFIRMA institutions.

- **Ongoing coordination** – Upon CNBV request AFIRMA provided candidates for junior supervisor positions within the popular finance unit of the CNBV. The CNBV ultimately hired one of the two recommended candidates, an alumnus of AFIRMA’s pilot microfinance class at the IPN.
- **Work planning** – Although ongoing consultations continued and progress had been made in terms of coordination on work plans with the popular finance team at the CNBV, prior to launching planned technical assistance, the project’s counterparts at CNBV were notified that any such assistance has to be approved by the International Relations area of the CNBV.

Next quarter, Fernando Fernandez is scheduled to meet with the International Relations area to discuss the potential implementation of the training and technical assistance program at the CNBV.

## **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. In general, initiatives with GoM agencies were less intense than normal due to the GoM presidential transition.

### **5.1. Initiatives with GoM Agencies**

#### **PRONAFIM**

In March, AFIRMA COP Fernando Fernandez and Training Coordinator Claudette Martinez met with PRONAFIM directors to discuss a potential training program for administrative staff on “Basic Concepts in Microfinance”. In addition, the possibility was raised for a team of IPN professors and students to conduct diagnostics of institutions receiving support from PRONAFIM. Although this is yet to be fully designed, AFIRMA could play a role in training and advising diagnostic teams.

#### **Banco de México**

During this quarter, Prodesarrollo and Comacrep have requested AFIRMA support to update the Credit Bureau study conducted by consultant Miguel Llenas, as well as a meeting to discuss this issue further. A Scope of Work has been drafted for this project, and AFIRMA is awaiting confirmation of the meeting in question. Once further defined, these efforts will be coordinated with the Banco de Mexico.

**AFIRMA Project**  
**Homero 203, piso 7 of. 703 y 704**  
**México, Distrito Federal, DF | 1570**  
**México**