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AFIRMA

Acceso a las Finanzas Rurales para
la Microempresa en México

AFIRMA ANNUAL REPORT

PROJECT YEAR 4

October 2007 – September 2008



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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Cover Photo (clockwise): MFI Invertiendo, disbursing a loan in Palenque during FIRA/UNDP diagnostic; MFI Indersa, Cuernavaca, Morelos, visiting a client; Organic mango producer near Tapachula, Chaipas, explaining his irrigation system to the AFIRMA and USAID team.

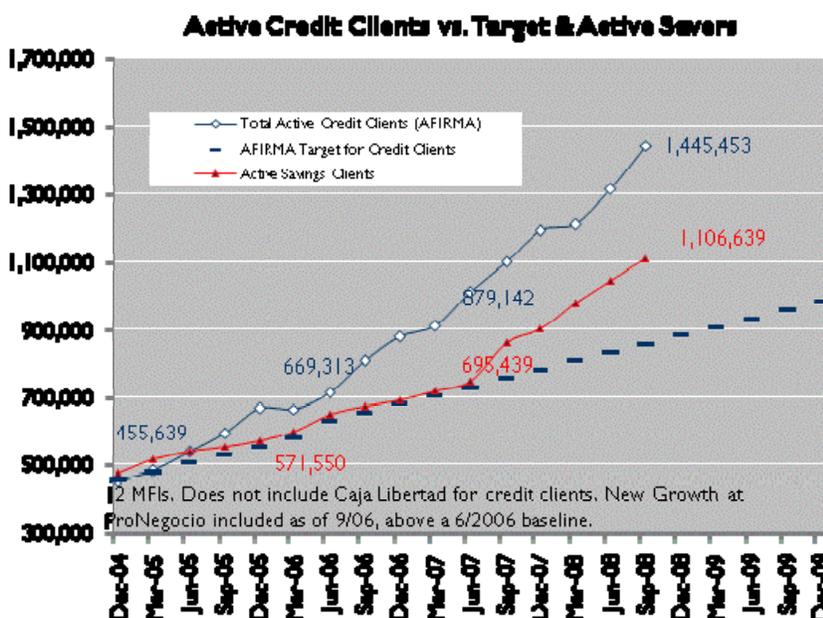
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EXECUTIVE SUMMARY

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. Increasingly, AFIRMA is maintaining an important advisory role with most partners, while also reducing direct investment in support to individual microfinance institutions (MFIs). The project is increasingly focused on strategic sector-wide initiatives, initiatives with public sector institutions where there is a great deal of leverage of USAID funding, and initiatives at the frontier of access to financial services, particularly in rural and agricultural markets.

AFIRMA's MFI Partners Serve over 1.4 Million Active Borrowers and over 1 million Savers – AFIRMA continued to support specific needs of its partner MFIs last quarter focusing to differing degrees of intensity, depending on each partner's situation. Support under this component continues to change in focus to support initiatives aligned with task 3, rural and agricultural finance. AFIRMA partners under the microfinance institution building task now serve a total of 1,445,453 active credit clients, a 217% increase or



989,814 additional active clients above the December 2004 baseline. AFIRMA also continued to support redesign or development of financial products, including savings products. Six partners are now offering savings accounts, and have grown well, now serving 1,106,639 savers.

Linking universities to the microfinance sector – AFIRMA continued to work with 9 of Mexico's leading universities to build the cross-institutional working group on higher education in microfinance through Mexico's Microfinance University Network along with the Microfinance Management Institute.

Rural and agricultural finance – AFIRMA continued to intensify work in agricultural finance and rural through the end of the project, with a focus on initiatives at the nexus between biodiversity, competitiveness, and access to finance. AFIRMA continued to identify areas for collaboration with local actors that have made important strides in sustainable enterprise and/or biodiversity analysis, and ways in which access to finance can help overcome bottlenecks and scale productive activities that mitigate direct threats to Mexico's rich biodiversity. Partners include Conservation International in the Sea of Cortes, as well as Pronatura Sur in Chiapas, to evaluate Mango production in the region and identify strategies to diminish threats to the SOCONUSCO region's immense biodiversity.

Deepening coordination with GoM microfinance programs– AFIRMA continued collaboration with the Secretary of the Economy microfinance program PRONAFIM, as well as FIRA, along with the UNDP, to strengthen FIRA's small loans program. In both cases, the project is leveraging minimal investment towards developing key long term technical assistance programs. Based on this coordination AFIRMA and FIRA are considering joint initiatives in value chain finance.

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 (SO2) for Central America and Mexico – **Economic Freedom: Open, Diversified Expanding Economies**. Under SO2 the Intermediate Result (IR) to which AFIRMA contributes is IR3: **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 four 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. Progress towards each task over the third quarter of year 4 (April-June 2008) and key priorities for the fourth quarter of year 4 (July - September 2008) are presented in the next section, followed by a brief description of project management over the quarter.

AFIRMA WORK PLAN IMPLEMENTATION

I. Task I – Strengthen MFI Capacity

This quarter, the intensity of activity with individual MFI partners continued to decrease, as planned, in an effort to focus increasingly on sector-wide initiatives, policy initiatives, and rural & agricultural finance initiatives for the remainder of the project, as planned with USAID. Individual agreements with MFIs concluded this year, though AFIRMA continues to accompany individual MFI partners and complete support of key strategic initiatives, with an emphasis on lessons drawn for the greater benefit of the sector. Details continue in Table I.

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.

Table I – AFIRMA primary support of partner MFIs, Year 4

MFI	Key Initiatives Supported	Upcoming Initiatives
Finamigo	<ul style="list-style-type: none"> • Crafted and supported Finamigo's implementation of the Loan Recovery Plan 10 x 10, as well HR strategies to reduce high staff turnover rates (W. Escobedo and I. Fertziger) • Support of Savings Product development and implementation (H. Olmos). 	<ul style="list-style-type: none"> • Presentation to the Board of Directors (W. Escobedo and I.Fertziger)
AlSol	<ul style="list-style-type: none"> • Hugo Cruz as operations resident advisor • Continued development of the newly formed Human Talent area (C. Martínez) • Evaluation of MIS options (G. Simon) • Strategic Plan for 2008 - 2012 (FF, NB, IF) 	<ul style="list-style-type: none"> • Hugo Cruz will continue in his role as Resident Operations Advisor. • With AlSol's decision to await the next version of MIFOS, AFIRMA will subsequently help evaluate the new version upon its release.
CrediAvance	<ul style="list-style-type: none"> • Continued support of efforts to improve individual loan methodology, loan portfolio quality, and human resources policy (W. Escobedo). • Portfolio Quality Improvement Plan (W. Escobedo) 	<ul style="list-style-type: none"> • Help orient the new General Director in Microfinance best practices and sector dynamics in Mexico. • Follow-up on loan recovery efforts
Fincrecemos	<ul style="list-style-type: none"> • Support to the Board on strategic decisions, providing memoranda on issues such as Individual Loan implementation and board governance (I. Fertziger). 	<ul style="list-style-type: none"> • Memorandum to the Board on strategies and considerations for offering Non-financial services
AMUCSS	<ul style="list-style-type: none"> • Christophe Paquette, French Microfinance Consultant, completed his support (cost-shared between AFIRMA and AMUCSS) of the consolidation of the Microbancos into one supervised institution with optimal growth prospects. • Loan recovery program implemented in three branches (W. Escobedo) • Individual loan training development (W. Escobedo) • Support development of micro insurance and rural housing initiatives (W. Escobedo) 	<ul style="list-style-type: none"> • Continued support of loan recovery program • Support Strategic Planning initiative • Individual loan training
Financiera Súmate	<ul style="list-style-type: none"> • Hector Cisneros and Nate Bourns assessed options in rural and agricultural microfinance, including initial product design (in conjunction with Task 3) • Gabor Simon helped Súmate define the most appropriate MIS system for the company, which Súmate has purchased and is currently in the process of implementing • Operations Staff Training (H. Cisneros) • Individual Loan Product Development (G. Rojas) • Human Resources Strategy Development (H. Gutierrez) 	<ul style="list-style-type: none"> • Continue to develop rural/agricultural lending product (N. Bourns and H. Cisneros)
Promujer México	<ul style="list-style-type: none"> • Completion of operation assistance from Claudia Ordoñez • Gabor Simon finalized Systems department development. • Competency Training Program (M. Olazabal) • Consultation with Board of Directors (N. Bourns) 	
FINCA México	<ul style="list-style-type: none"> • Completed the process of updating the systematization of administrative and operations processes (Servicios Internacionales de Negocios), currently being implemented by FINCA • Diagnostic of a cost management system (Milagros Chiappe) • Diagnostic of the key risks faced by FINCA and initial risk management strategy design (Enrique Navarrete). • Standardization of Village Banking Operations Procedures 	<ul style="list-style-type: none"> • Complete design of a Risk Management Department • Cost/Benefit analysis of different options for delivery mechanisms that would further expand FINCA's services into rural communities
FinComún	<ul style="list-style-type: none"> • Loan recovery program implementation (W. Escobedo) • Support human resources strategy towards staff remuneration programs (W. Escobedo) • Mexican consultant Atenea Rico designed a distance learning pilot program for operations personnel. • Risk Management Department consolidation and strengthening (Enrique Navarrete) 	<ul style="list-style-type: none"> • Continued Loan recovery program implementation • Contribute towards Human Resources strategy to reduce staff rotation • Support transformation to niche bank • Study tour to Peru to look at technology solutions to reduce costs and expand credit product offering
CAME	<ul style="list-style-type: none"> • Continued support of individual lending product development and staff training (W. Escobedo) • Support of CAME's in house MIS Implementation 	<ul style="list-style-type: none"> • Implementation of Individual Loan product and service adjustments (W. Escobedo) • Continued support of loan recovery efforts (W. Escobedo) • Support efforts to change CAME's regulatory status
Caja Libertad	<ul style="list-style-type: none"> • Continued monitoring of progress with the new MIS implementation, which is limiting advances in microcredit 	<ul style="list-style-type: none"> • Support of individual loan implementation

	implementation	
Créditos Pronegocio	<ul style="list-style-type: none"> • Support efforts to hire individual loan consultants to train staff across the country • Portfolio Quality Recovery Plan (W. Escobedo) 	

With support from AFIRMA, including a minimal level of investment and increased leveraging of internal expertise, partner MFIs achieved important achievements this year. Some highlights include:

- FINCA México reached 100,000 clients at the end of September 2008.
- CrediAvance took important strides to improve and strengthen its individual loan product.
- AMUCSS adjusted its governance structure and developed a new business vision for the organization as well as its 5 primary *Microbanco*s, consolidated into a single regulated entity.
- FinComún achieved significant improvements to its individual loan product, as well as savings services, which grew from 53,550 clients in December 2005 to 148,251 in September 2008.
- CAME redefined its individual lending methodology, including re-training of all staff linked to this growing product.
- Súmate made important strides towards developing an agricultural lending project, with support from AFIRMA's Nate Bourns and consultant Hector Cisneros.
- Finamigo launched the first biometric smart card in Mexico in November 2007, and then proceeded to increase savings accounts to 10,395 in September 2008.

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

AFIRMA effort's within this task are focused on related lines of activity to leverage resources and transfer expertise to local actors, thereby contributing to the generation of local microfinance human capital and support service providers in key areas in Mexico.

During year 4, task activities outlined have been adjusted to better focus efforts and resources to increase “outreach” results, upgrading initiatives to sector-wide level and increasing emphasis on building linkages with local actors to ensure permanence beyond AFIRMA. Therefore during recent quarters¹ AFIRMA work concentrated activities under this task in two primary correlated lines of action: (1) promote local service providers use and microfinance specialization, and (2) Microfinance human capital development program and research through University Network Initiative.

Progress, adjustments and plans for each initiative is described below

2.1. Contracting Local Consultants and Firms and Microfinance Specialization

AFIRMA continued working on microfinance specialization where applicable, often linked with other tasks, fostering ties with the Sector and local actors. AFIRMA work with local consultants and firms during this year included:

- **Contracting Local Consultants and Firms:** During this year AFIRMA work with local providers and firms was linked to all the tasks (where applicable) but was reduced, as a result of the general decreased hiring of external technical assistances by MFIs.

During all AFIRMA project, 53 projects were carried out by 41 local providers (including firm, consultants and interns). A Summary of local providers used to date during the AFIRMA project is presented in the following table:

¹ Lines of action outlined on work plan were adjusted on AFIRMA quarter report 3, year 4
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Table 1 – Local Firms and Consultants use and linkage quantitative indicators about use and linkage of local firms and consultants

Type			Use			Frequency		Working in Primary Services		Contracted by Institution		Unsubsidized
Firms	IC	Intern	Institutions served	Projects	+ I Service	+ I Project	+ I Institution	Strategic*	Daily**	As Employee	As Provider	% paid by MFI or Local Actor ***
13	18	10	13	54	4	12	6	6	9	3	2	7

* Management Training, Strategy and Legal Structure / ** IT Systems, Operational Training & Human Resources

*** FINCA, FINCOMUN, ALSOL, SUMATE & PMM, PRODESARROLLO & PRIONAFIM.

- **AFIRMA Mentoring Program:** During this year AFIRMA continued its Mentoring Program which, will be finalized next quarter² (2005 – 2008 program). This program focused on linking trained professionals to the sector, and was incorporated as part of AFIRMA work with universities with good results. Throughout this program AFIRMA has trained 10 professionals and 5 of them are working currently for the sector.
 - Sonia Arriaga’s contract as AFIRMA Junior Microfinance consultant was extended last quarter and will be finalized mid- October. It’s expected after this period Sonia Arriaga will continue working for the sector so AFIRMA team will facilitate information, guidance and linkages for furthering her professional career in the finance popular sector.
- **Microfinance Skills Building and Linkages:** AFIRMA continued working with local providers and facilitating linkages between high quality local providers, universities and researchers and Popular Finance Sector organizations (where applicable). Furthermore, during this year AFIRMA used this work model to implement a group lending program (under a TOT approach) for PRONAFIM, which could be used as model for future efforts with local providers.

AFIRMA plans to continue working with local providers (where applicable) and promoting local firms and consultant specialization throughout the rest of project life period, meanwhile promoting a local initiative to continue AFIRMA capacity building work, linked with public programs who support technical assistance for MFIs.

Next quarter AFIRMA will:

- Finalize the mentoring program. In addition to orienting professional interns who finalized contracts with AFIRMA, to link with Finance Popular organizations, AFIRMA will document the Mentoring model and primary lessons learned.
- Continue working with and promoting local service providers, specialized firms, and university programs to provide important services to the Sector.
- Promote a local initiative to continue AFIRMA efforts for capacity building and human capital development.

2.2. Microfinance human capital development & university research

Due to increasing needs for human capital and sector information and increasing interest of Universities and academics in microfinance and popular finance, AFIRMA worked during 2008 to extend its experience with the IPN program to collaborate with a consortium of universities and create a Mexican Microfinance University network, with the *Instituto Politecnico Nacional* (IPN) and the Microfinance Management Institute (MFMI) as key partners.

² Mentoring program has been developed from 2005 to 2008, based on first effort with MIS junior consultant.

AFIRMA's work with universities included IPN program institutionalization and Microfinance University network start up, efforts that will serve as the basis for a formal network establishment.

- **Microfinance Professional development program with IPN:** During this year AFIRMA's efforts with IPN were focused to support institutionalization and finalize transferring microfinance technical knowledge to IPN professors; both directed to build permanence beyond AFIRMA. Focus on this AFIRMA support IPN included:
 - Support a microfinance center technical proposal to expand the IPN program to other schools
 - Accompany IPN leaders to visit Pretoria University to review a Microfinance Center model
 - Support microfinance specialization for IPN team leaders and professors
 - Implement a transferring process of microfinance course which included:
 - Supported team leaders to assumed the role of daily implementation program in the school context (administrative and logistic process)
 - Facilitate a microfinance course development workshop during October 2007 with IPN leaders and professors involved in this project.
 - Implement third and fourth microfinance introduction course in conjunction with IPN professors
 - Met with new professors interested in Microfinance
 - Facilitate training opportunities for leaders and academics.
 - Evaluate microfinance introduction course and suggest possible models to implement in future (which are considering)
 - Continue supporting microfinance academic events organized by IPN
 - Facilitate linkages with the sector organizations and key actors and supporting IPN program positioning
 - Continue supporting alumni linkages with sector organizations using some lessons learned from the pilot program facilitated by AFIRMA for this purpose. Although the career development center for microfinance wasn't established within economics school, a monitoring system was derived from the initial proposal and finalized by the Economics School, with support from the central office and AFIRMA's Victor Valerio under supervision by Ivana Fertziger.
 - Evaluate IPN Microfinance Program first phase and discuss with IPN leaders institutionalization process requirements.

Unfortunately the planning sessions required to realigned and complete the institutionalization phase were postponed as a result of internal IPN dynamics and University-wide Microfinance Center initiative was suspended (currently still on stand by). However the Economic School and Business and Commerce School leaders continue working to institutionalize microfinance program components such as professional microfinance course and other curricular and extracurricular programs.

In a related effort, AFIRMA facilitated some meetings with UAM and COLCAMI to discuss possible collaboration and alliances to improve and spread (as "shared program") the COLCAMI diploma program for managers. This is a first step for IPN to look for collaboration with other Mexican universities as a possible mode for expanding program offering.

AFIRMA has recommended that IPN leaders implement a planning session to develop a technical proposal to consolidate microfinance project, and look for a partner which could support this effort for at least two or three years.

2.3. University Network Initiative

As a result from increasing university interest in Microfinance and Popular Finance, in addition to expression of interest in similar AFIRMA support by several higher academic institutions, AFIRMA worked with the IPN in early March to support the first meeting with 9 universities working on Popular Finance related topics on different levels.

AFIRMA, along with collaboration from MFMI and IPN, supported the creation of a Mexican Microfinance University Network initiative, to respond human capital and information increasing requirements on this sector.

Main activities to support this initiative included:

- **Four working meeting hosted by four different universities members** (IPN, UAM, COLMEX and COLCAMI) were held throughout the year with representative of key actors in Finance Popular sector. In order to foster ties with the sector, efforts were made during these meetings to promote research and faculty development, and committees were formed to implement specific initiatives. Progress and results are monitored each meeting.
- **Microfinance training activities for academics included:**
 - Conference in Fundamentals of Microfinance for Academics delivered by Claudio Gonzalez Vega on June 19 at the UAM Campus, attended by 30 academics from 8 universities.
 - A University Partnership workshop was held June 23 to 25 in collaboration with the MFMI, hosted by the IPN Continuous Education Center. This workshop was facilitated by AFIRMA technical specialists Claudette Martinez and Fernando Fernandez, as well as Leslie Barcus and Ron Chua from MFMI, and Luis Noel Alfaro from INCAE. 30 academics from 8 universities collaborated to identify key projects and next steps for this important consortium.
 - AFIRMA facilitated scholarships for PRONAFIM programs to attend AFIRMA supported Conferences and other events in the sector. At least 23 academics of 8 universities have participated in at least one event. Even more academics have fostered their ties and positioning in the sector.
 - AFIRMA supported COLCAMI academic director participation in an Observational Study Tour in Peru

Research:

- AFIRMA has supported a call for research (first round), to promote research opportunities in the field. This formal process (tools and formats) would be a base for a network research future fund.
- Researchers received first funding in early July and two of them have presented preliminary advance reports. Results will be presented to the network academics next December (after fifth working meeting).



- Although an agenda to promote and spread research efforts has not been confirmed, AFIRMA has coordinated with CIDE and COLMEX to seek out continued research efforts and opportunities. The CIDE-OSU research round will be such a “second phase” of this effort. It’s expected that new academics would be incorporated into the network through these efforts, and activities would be the basis to a research agenda for next year.

Initiatives to strengthen microfinance training programs:

Claudette Martinez, microfinance training specialist supported academic/universities leaders to elaborate work plans for:

- Curricula Development for credit officials and branch managers (UAM & IPN)
- Case Methodology application in trainings (COLCAMI & IPN)
- Pilot of diploma training program under a “semi-virtual” format (COLCAMI & UAM & IPN)

Unfortunately during this quarter initiatives could not be implemented as scheduled, as a result of multiple microfinance events, universities programs commitments and academic schedules. Early 2009, these plans should be reviewed (during strategic planning session) and started implementation (if still relevant).

Next quarter:

- A Fifth working meeting with universities will be hosted by UNAM to follow up on suggested activities and continue facilitating linkage with actor who can support University initiatives going forward. The main topic for this meeting will be research and academic development, so CONACYT representative and public organism’s representatives will be invited for the meeting and the first round results seminar.

2.4. ProDesarrollo

Collaboration with ProDesarrollo on benchmarking has led to the creation of an area dedicated to market intelligence and information, led by Samuel Perez, junior consultant supported and trained by AFIRMA. This will ensure the continuation of AFIRMA supported efforts such as the Mexican Microfinance Sector Report and dissemination of a standard of set of indicators for a growing number of Mexican MFIs. Mr. Perez has led the development with the MIX market to continue annual benchmarking of MFI performance in Mexico. Nate Bourns provided periodic guidance to this year’s report, although authorship will rest fully with ProDesarrollo and MIX.

AFIRMA started to work with ProDesarrollo to analyze human resources as a key institutional risk factor for MFIs today (described further under Task 5).

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

The goal of Task 3 is to expand access to rural and agricultural finance by encouraging innovative business models and technologies for providing financial services. This task is central to AFIRMA’s strategy to expand access to rural and agricultural



finance, and is increasingly requiring more project time and resources.

Activities in 2008 included:

- **Agricultural Value Chain Analysis** –AFIRMA worked closely this year with AMAP/FSKG to further investigate upgrading opportunities for small mango producers in Chiapas, with particular interest in upgrading opportunities that protect the region’s immense biodiversity. Horticulture commercialization specialist, Patrick Hanemann, researched overall value chain bottlenecks and upgrading opportunities, with support from USAID’s Geoffrey Chalmers and AFIRMA’s Nate Bourns and Ivana Fertziger to focus on existing financing dynamics, as well as specific finance bottlenecks that may be limiting upgrading opportunities for producers. Next quarter, the final report will be submitted and reviewed, and presented in a workshop conducted in Chiapas with key value chain actors to receive feedback and verify conclusions. A final analysis of the mango value chain in Chiapas was published following the workshop, as well as an FSKG case study, documenting the application of a set of FSKG developed guidelines for how to include finance in value chain analysis and upgrading strategies, as well as overall learning experiences that may be useful for others conducting similar research.
- **Biodiversity Strategy Development** - In an effort to identify strategies at the nexus between competitiveness, biodiversity, and access to finance, and to ensure compliance with funding issued under USAID’s biodiversity earmark, DAI consultant Christy Owen finalized recommendations for potential AFIRMA strategies to mitigate important threats to Mexico’s vast biodiversity.

“ICT and Microfinance in Mexico”



ICT and Microfinance in Mexico Diagnostic was presented on August 8 by USAID’s Judy Payne (right), with introductory remarks by Geoffrey Chalmers, USAID/Mexico (left) and Rodrigo García Verdú, SHCP (middle)

- **Information and Communications Technology and Access to Finance** – The report produced by USAID’s Nhu-An Tran and Judy Payne was presented last quarter by at a sector-wide event including key public and private actors. With approximately 70 participants, panelists included key actors such as SHCP, CNBV, FIMPE/Boletazo, FinComún, and Banxico. The event generated dialogue regarding public sector support, partnerships, and strategy development for individual MFIs, all oriented towards the use of ICT to expand and deepen access to financial services. Event dialogue and panelist feedback will be incorporated into the finalized document, scheduled to be published next quarter.

- **Mango Production Evaluation** – An identified threat in the targeted marine BSAs is pollution and pesticide use, largely from agricultural run-off. Specifically, agricultural production techniques of mangos grown in the upper watershed area surrounding/in El Triunfo – La Encrucijada – Pala Blanco have been identified as a threat in the *Sistema Lagunar Chiapaneco* by the CONABIO / CONANP GAP analysis. Local firm Pronatura Sur began working last quarter to identify implications for biodiversity of Ataulfo Mango production in the SOCONUSCO region. The evaluation, which will culminate next quarter, will identify initiatives to mitigate, reduce, or eliminate threats to this biologically significant area. Subsequently, AFIRMA will incorporate these findings to identify strategies to protect the region’s biodiversity and increase opportunities for improved value added for producers in the Ataulfo mango chain.

- **Rural and Agricultural Finance** – In conjunction with Task I, Nathanael Bourns and Hector Cisneros assessed market opportunities for developing an agricultural finance product for SUMATE, and proceeded to initiate product development based on the initial assessment.
- **Pineapple variety conversion business case with CrediAvance** - Following field research in Isla, Veracruz, Nate Bourns finalized a business case for Red Rural, a commercialization company linked to MFI partner CrediAvance, who is to develop the MD2 pineapple variety, having identified a potential production window (due to the timing of the rainy season in Isla) that could offer competitive advantage for producing this highly popular variety in Sinaloa/Nayarit. Mr. Bourns will continue to help Red Rural to identify potential options for implementing this project, with particular emphasis on financial options.
- **Strategic partnership development** – In an effort to find strategic partners for collaborating on efforts to expand access to rural and agricultural finance, while also addressing threats to Mexico's biodiversity, AFIRMA's Nathanael Bourns and Ivana Fertziger met with local firm New Ventures, a business accelerator for sustainable enterprises. The firm expressed interest in collaborating with AFIRMA going forward. Initial collaboration with New Ventures client *Aires del Campo*, an organic commercialization company, developed this quarter to identify strategies for financing organic producers in order to supply the company's growing demand for local organic products. Additionally, New Ventures expressed interest in collaborating to further understand the international carbon market and Mexico's place within, as well as identifying opportunities to further incorporate Mexican initiatives in this growing marketplace.

Next quarter, efforts will focus on the following activities:

- Community finance to support alternatives to unsustainable fishing in the Alto Golfo and Marismas Nacionales, Nayarit - In collaboration with Conservation International Mexico (NW Region), AFIRMA will work to expand services and available expertise to strengthen the *Organizaciones Comunitarias Financieras*, following visits to both regions next quarter.
- Mango production evaluation – A local firm will start next quarter to identify implications for biodiversity of Ataulfo Mango production in the SOCONUSCO region.
- Assist Soconusco mango association to examine the feasibility of a biomass-powered juicing plant in the region, including analyzing whether part of the finance could come from carbon credits as a result of methane capture.
- Continue to work with Aires del campo to examine possibilities for facilitating finance to small organic producers in order to increase production and meet the company's growing demand.
- Strategic partnership meeting with the local office of EcoSecurities, a leading international firm in sourcing, developing, and trading carbon credits.
- In conjunction with AFIRMA's Task I, Nathanael Bourns and Hector Cisneros will continue to develop a rural/agricultural finance product for SUMATE.

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

Collaboration with *Comisión Nacional Bancaria y de Valores* (CNBV) authorities and MFI's was reinitiated this quarter, when AFIRMA/USAID sent the CNBV the Money Laundering Report developed by AFIRMA subcontractor, ICC.

MFI's requested AFIRMA's opinion regarding the changes to the *Ley de Ahorro y Credito Popular (LACP)*, for
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which AFIRMA brought in regulatory and supervision specialists Mr. Ramon Rosales and Mr. Miguel Barba of the ICC team to conduct meetings with MFI's, CNBV and USAID CTO. The ICC report was discussed and sent to MFIs and CNBV, and will be part of the proposed changes for LACP and new regulation for microfinance and popular finance sector to be discussed in Congress during the last months of 2008.

Upcoming Task 4 initiatives include meetings with CNBV to discuss sector effects of possible new legislature and regulations.

5. Task 5 – Strengthen the Micro- and Rural Finance Industry

AFIRMA efforts for Task 5 include supporting initiatives to improve the enabling environment for microfinance, including initiatives with GoM agencies, initiatives with private sector stakeholders in micro- and rural finance, and other industry initiatives.

5.1. Initiatives with GoM Agencies

PRONAFIM

AFIRMA and USAID continued to work closely with the National Microenterprise Finance Program (PRONAFIM) within the Secretary of the Economy and its senior leadership. This included, at a **very low level of investment of project funds**, a variety of important activities since late 2007.

Having built a dynamic of trust and collaboration through annual support of the National Microfinance Conference and training and TA programs of PRONAFIM and FOMMUR, AFIRMA Training Specialist, Claudette Martinez, and Chief of Party Fernando Fernandez, worked this quarter supporting PRONAFIM to:

- Assist Jorge Charles Creel, PRONAFIM Training and TA Director, and Blanca Aldasoro, PRONAFIM Training and TA Deputy Director, to complete the design for the 7th PRONAFIM Annual Conference. This included the conceptual methodology, as well as bringing in key speakers like Dr. Claudio Gonzales Vega, Dr. Dale Adams, Dr. Richard Meyer from Ohio State University and other local and international specialist in microfinance and rural finance.
- Continue to support a capacity building pilot project for rural MFIs, focused on strengthening selection and technical assistance processes for PRONAFIM's fund for expanding access to financial services for women (FOMMUR). The second phase continued into this quarter, offering MFI participants integral technical assistance focused on developing institutional capacity in order to expand and improve financial services for rural women microentrepreneurs. With support from AFIRMA, FOMMUR established processes for qualification, selection and technical assistance provision, as well as the administrative mechanism for collaboration with individual institutions. In the next quarter TA programs will be implemented, based on initial diagnostics and strategic planning sessions conducted with support from AFIRMA.

- PRONAFIM/USAID held an international "Risk management" seminar on August 12-14th., with additional collaboration and investment from FIRA. AFIRMA team and consultants participated in this seminar, with experiences shared based local and international cases, many include MFIs supported by USAID and DAI in Mexico and the region.
 - AFIRMA advisors John Magill and Andrew Ross worked with CIDE and Pronafim to introduce innovative potential for utilizing mapping technology for the microfinance sector. Additionally, Magill and Ross presented at the USAID/AFIRMA ICT conference, where collaborative interest was expressed by various sector actors, including SHCP, Bansefi, Banxico, and SAGARPA (Patmir).



AFIRMA Consultant Enrique Navarrete addresses a broad public of MFIs, Government Agencies, microfinance service providers, and others.

FIRA

During this quarter, USAID/AFIRMA continued to collaborate with UNDP (United Nations Development Programme) and FIRA (Fidecomisos Instituidos para la Agricultura) to strengthen Small loans program of FIRA.

Based on the competitive program to strengthen a small group of MFI (6-8), with design support from the USAID/AFIRMA team, AFIRMA and UNDP supported 8 institutional diagnostics this quarter for MFIs primarily using the AFIRMA long-term team's capacity, and led by the Chief of Party. A very low level of project funds was invested in this initiative, leveraging investment by FIRA and UNDP, demonstrating the strong commitment on behalf of both institutions to strengthen FIRA's small loans program. AFIRMA also held various planning meetings with FIRA for this program.

FINANCIERA RURAL

Apart from aforementioned collaboration with Financiera Rural to train junior consultant Sonia Arriaga alongside AFIRMA's Willy Escobedo, the team also met with Financiera Rural on several occasions to discuss relevant microfinance issues, including scoring models for evaluating MFIs (for which AFIRMA provided feedback on the model developed by Financiera Rural), portfolio at risk, and strategic opportunities for Financiera Rural going forward. Additionally, Nate Bourns provided a session with Financiera Rural staff on best practices in monitoring indicators for microfinance.

5.2. Other Industry Initiatives

- **Human Capital and Institution Risk** – Upon Prodesarrollo's request to help analyze human capital as a key institutional risk factor identified by the network's MFI members, AFIRMA began

implementing this initiative. This will help MFIs to identify factors that are contributing to high staff turnover, elevated portfolio at risk, and in many cases, restricted growth. This quarter, AFIRMA sponsored consultant Carlos Rodríguez (Bolivia) and Patricia Kurczyn as well as coordination by Francisco Carbajal, while Prodesarrollo is sponsoring a local Human Resources consultant (TBD) as well as coordination and consolidation of individual consultant reports into one final product.

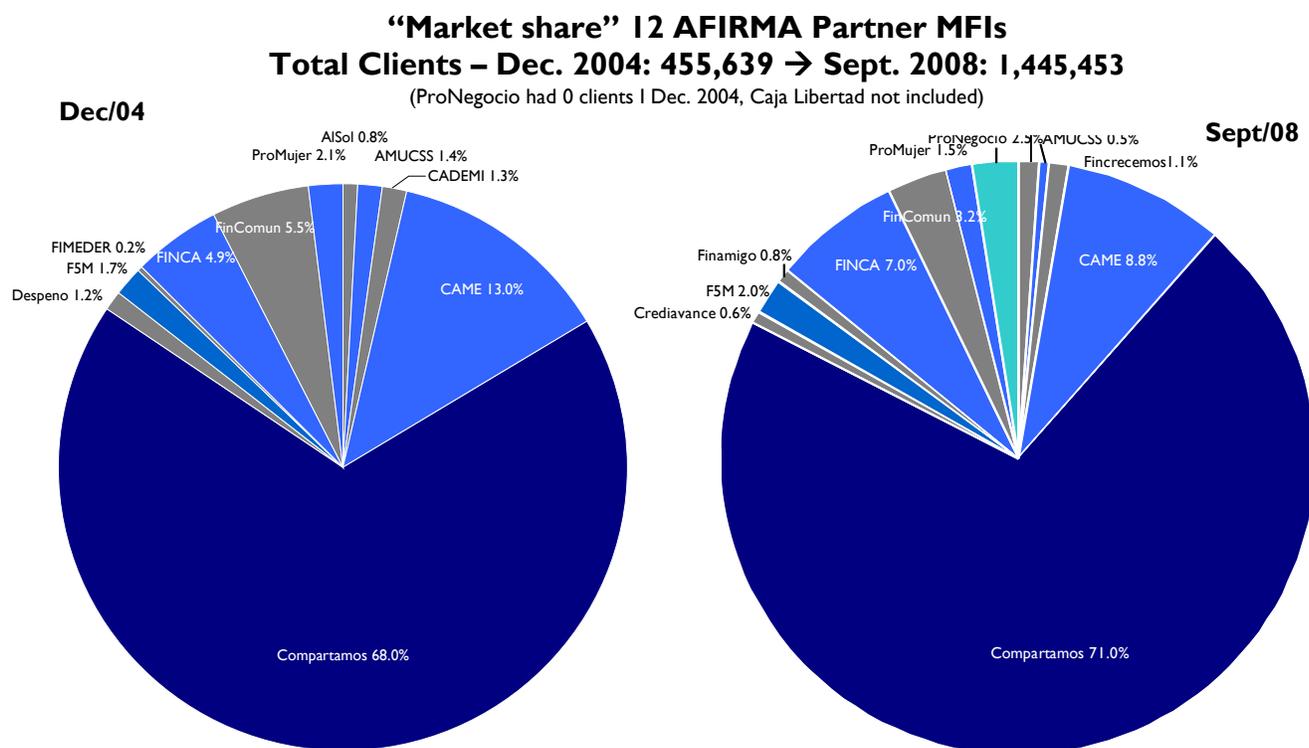
- **Documentation of AFIRMA Lessons Learned** – This summer, two interns from Masters programs in the United States completed work with AFIRMA's Ivana Fertziger to document key lessons learned during the life of the project to date. Erin Hopkins documented AFIRMA's sector-wide initiatives in Credit Information Services, Regulation/Supervision, and collaboration with local development agencies such as Pronafim, FIRA, and Financiera Rural. Radhika Pradu worked to synthesize lessons learned within task 1, including both AFIRMA and individual MFI experiences in the implementation of a technical assistance program such as AFIRMA. This is particularly relevant, given that key local actors such as Pronafim, FIRA, and Financiera Rural are looking to AFIRMA for recommendations on how to adjust and implement their own technical assistance programs going forward. Following internal revision by AFIRMA and USAID, these documents will be published next quarter.

Upcoming Task 5 initiatives include the following

- Continue to assist FOMMUR-PRONAFIM in its new rural Institutional Strengthening program. This AFIRMA activity will continue throughout 2008.
- Support to prepare a follow-up "Risk and Emergency Seminar for MFI's" for Nov 2008 with PRONAFIM
- Strengthen PRONAFIM's training and TA program, including support for planning 2009 initiatives and strategies, such as:
 - 2009 Annual International Risk Management seminar.
 - Risk diagnostic for PRONAFIM prepared by AFIRMA consultant Max Errazuriz
- Continue to support PRONAFIM to prepare their Strategic Planning that was initiated in December 2007.
- Continue working with FIRA y PNUD, including presentation of final diagnostics and discussions of next steps and upcoming collaboration.
- Continue collaboration with Financiera Rural, as requested by the institution
- Finalize initiative to analyze human resources as a key risk factor for MFIs today.
- Finalize case documents of AFIRMA experiences.

ANNEX 2: ANALYSIS OF TASK 1 FINANCIAL AND OPERATIONAL INDICATORS

As shown in the “market share” charts below, Compartamos has grown dramatically over the course of the project and maintains two-thirds of all microcredit clients among the 12 MFIs for which data is included.³ Overall, the 12 MFIs were serving **644,033 additional active credit clients in September 2007 as compared to the December 2004 baseline** (baseline for ProNegocio is June 2006).



Over the December 2004 baseline, the total growth in credit clients was 217% as of September 2008. On a trailing-twelve-month basis (Sept. 2006-Sept. 2008) growth was 30%. The charts below show partners’ growth over the course of the project and over the last 12 months. Clearly, Compartamos has grown by far the most in total numbers of microcredit clients, with an increasing percentage of those clients coming from the solidarity Group and individual loan products which Acción has supported through AFIRMA. FinAmigo has had the highest percentage growth but this is not surprising, given that the baseline was just over 1,000 clients. Meanwhile AISol, FINCA (from a substantially larger base) and Financiera SÚMATE (Fondo 5 de Mayo) have grown exceptionally well in percentage terms. CrediAvance has recuperated from a decline begun in late 2004. The baseline for Creditos ProNegocio, set in June 2006, is 27,320 active clients.

Data for Caja Libertad is not included in the figures cited here for number of clients. CL will do a full portfolio segmentation in connection with implementation of the new MIS, which has been much slower than anticipated. Caja Libertad estimates that 20% of its active loan clients are microenterprise clients. If this is an accurate estimate, the number as of Sept. 2008 would be 69,515.

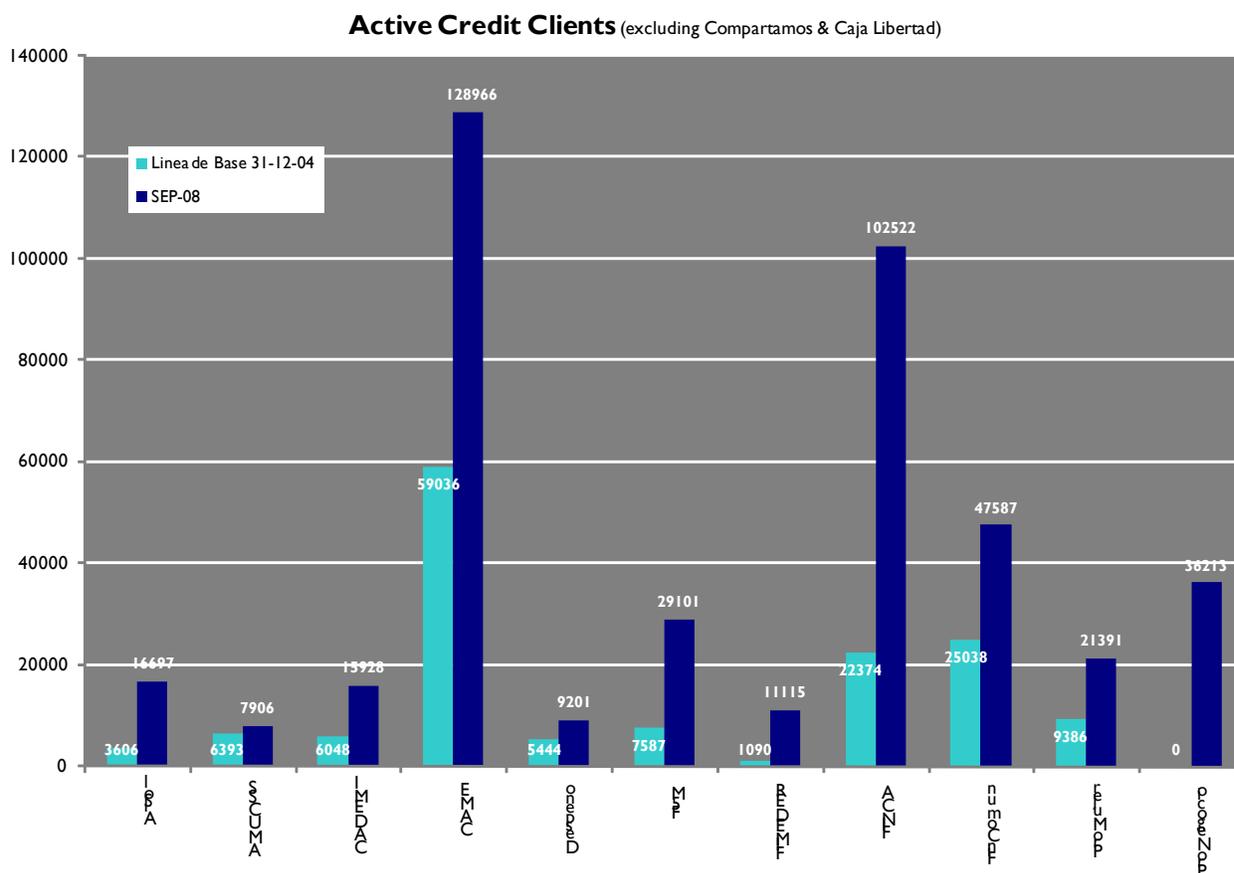
³ Data for Caja Libertad is not included in the figures cited here for number of clients.

Total Growth – Life of Project				
	Dec-04	Sep-08	Difference	%
AI Sol	3,606	16,697	13,091	363%
AMUCSS	6,393	7,906	1,513	24%
Fincreemos	6,048	15,928	9,880	163%
Caja Libertad	219,669	347,575	127,906	58%
CAME	59,036	128,966	69,930	118%
Compartamos	309,637	1,046,146	736,509	238%
CrediAvance	5,444	9,201	3,757	69%
Súmate	7,587	29,101	21,514	284%
Finamigo	1,090	11,115	10,025	920%
FINCA	22,374	102,522	80,148	358%
FinComun	25,038	47,587	22,549	90%
ProMujer	9,386	21,391	12,005	128%
Pro-Negocio	27,320	36,213	8,893	33%
TOTAL	675,308	1,820,348	1,108,827	164%

**ProNegocio baseline added as of June 2006, which accounts for higher baseline than presented in previous reporting.*

Growth: Trailing Twelve Months				
	Sep-07	Sep-08	Difference	%
AI Sol	13,155	16,697	3,542	27%
AMUCSS	8,451	7,906	-545	-6%
Fincreemos	10,900	15,928	5,028	46%
Caja Libertad	282,170	347,575	65,405	23%
CAME	82,610	128,966	46,356	56%
Compartamos	630,061	1,046,146	416,085	66%
CrediAvance	5,163	9,201	4,038	78%
Súmate	18,095	29,101	11,006	61%
Finamigo	7,287	11,115	3,828	53%
FINCA	68,844	102,522	33,678	49%
FinComun	34,589	47,587	12,998	38%
ProMujer	15,582	21,391	5,809	37%
Pro-Negocio	45,707	36,213	-9,494	-21%
TOTAL	1,176,907	1,820,348	607,228	52%

The graph below excludes Compartamos in order to better show the growth in number of credit clients among the other AFIRMA partners which have not grown as much in absolute terms, but have grown as quickly (in some cases more quickly) in percentage terms.



In terms of **active savings clients**, fewer partners are authorized to mobilize savings, but those that are, shown in the table below, have grown extremely well in savings, most with assistance from AFIRMA and others are examining the possibilities of becoming regulated in order to offer savings as a service and as a source of funding.

FinComún has dramatically increased its active savings clients over the life of the project, having grown by 262% (Dec. 2004 baseline). FinAmigo's growth has been recent and rapid, growing to over 11,676 clients during 2008 (a 484% increase from 2007, while Caja Libertad has grown steadily over the course of the project and is now reaching over 910,000 savings clients. The AMUCSS microbancos have also grown steadily in savings to over 16,000 clients, following a drop in savings and credit clients when two microbancos withdrew from the AMUCSS network.

Savings Client Growth – Life of Project				
	Dec-04	Sep-08	Growth	%
FinComún	24,187	167,480	143,293	592%
AMUCSS	10,262	16,117	5,855	57%
Caja Libertad	415,694	910,658	494,964	119%
FinAmigo	0	11,676	11,676	N/A
TOTAL	450,143	1,105,931	655,788	146%

AFIRMA partners have expanded their **points of service** significantly since December 2004. The total number of points of service of AFIRMA partners increased from a baseline of 302⁴ to a total of 789, an increase of 161%.

Most partners have added points of service and Compartamos has grown its structure very quickly from 100 to 307.

Table 5 – AFIRMA Partners' Points of Service

	Dec-2004	Sept. 2008
AlSol	2	7
AMUCSS	25	21
Fincreemos	3	6
Caja Libertad	72	110
CAME	32	63
Compartamos	100	307
CrediAvance	6	13
Súmate	11	37
Finamigo	5	17
FINCA	3	12
FinComún	25	77
ProMujer	15	22
ProNegocio*	3	97
TOTAL	302	789

*PN Baseline of 6/06 is 39 points of service, so official baseline is 338.

⁴ The official baseline is 338 when ProNegocio's 39 point as of June 2006 are added to the original 299 points of service.

Seven of twelve partners have improved their **financial self-sufficiency**⁵ ratios over the course of the project while CADEMI/Fincrecemos, Compartamos, DESPENO/CrediAvance, FINCA, and Fincomún decreased. FINCA and Fincomún continue to be profitable and the decline is likely based on investments in expansion that should yield greater growth in future periods. Similarly, Compartamos has made significant infrastructure investments to adapt branches to new image as Banco Compartamos, as well as bank operations. Despeno/Crediaavance's financial results deteriorated significantly as it adjusted its operations and structure to a new market (microfinance vs. subsidized agricultural lending as described above) but have improved over 2008.

Table 6 – Financial Self-Sufficiency

	Dec-2004	Sept. 2008
AI Sol	62.40%	160.58%
AMUCSS	N/A	63.52%
Fincrecemos	119.90%	110.61%
Caja Libertad	78.30%	130.38%
CAME	99.90%	103.00%
Compartamos	166.90%	157.21%
CrediAvance	106.20%	75.50%
Sumate	67.10%	93.06%
Finamigo	10.90%	83.99%
FINCA	142.70%	103.17%
FinComún	104.30%	96.28%
ProMujer	59.00%	98.28%
ProNegocio	3.50%	57.15%
Average (excl. PN)	92.50%	102.52%

AMUCSS data, which was unavailable at the baseline, has become available due in part to AFIRMA's support in developing the MIS and accounting systems. Although the sustainability figure itself is not good, the fact that it can be calculated is an important advance.

AI Sol broke even in 2006 and improved steadily over 2007, currently showing the best sustainability among AFIRMA partners. F5M/Súmate had been profitable in 2006, but had a number of one-time expenses associated with the transformation from an NGO to a regulated institution, as well as significant growth in points of sale and infrastructure, and therefore is unlikely to show a profit in 2008. The baseline set for ProNegocio in June 2006 was 97%, and it has declined substantially due to the adjustment that AFIRMA makes for loan loss provisions, given the poor portfolio quality at ProNegocio. For the purpose of standardization, that adjustment is made despite the fact that ProNegocio has a guarantee to cover loan losses, and therefore is able to provision at a much lower rate than would otherwise be necessary and still meet CNBV standards.

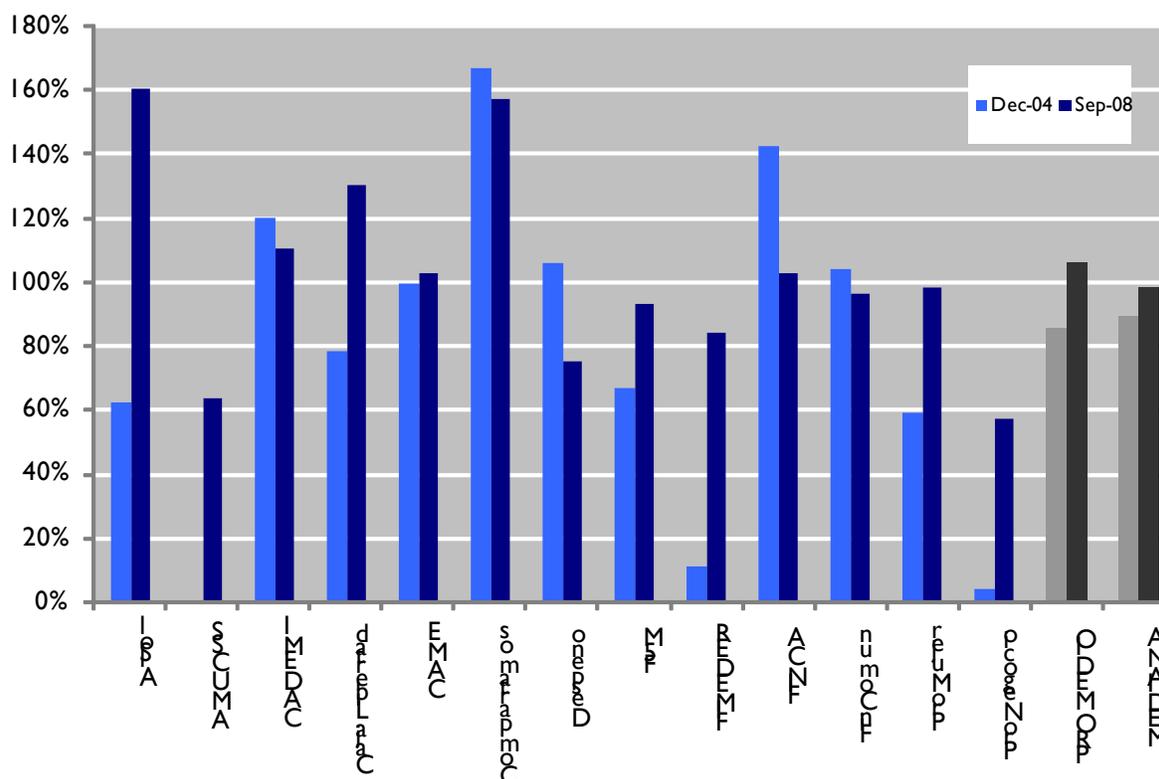
Because standard calculations are used for this indicator, in which a single “market” rate of funding is applied to funding liabilities,⁶ the adjustment varies depending upon the structure of the balance sheet and the actual cost of funding of each institution. For instance, this adjustment affects Caja Libertad the most because they mobilize funds at a rate significantly below the “market” rate AFIRMA uses, and this adjustment along with an adjustment for loan loss provisioning⁷ results in a lower level of financial self-sufficiency.

⁵ The standard CGAP definition is applied: operating revenue (excluding donations) is divided by adjusted operating expenses, where adjustments are made for inflation, subsidized cost of funds, insufficient provisions, and in-kind donations.

⁶ AFIRMA uses the average asset price percentage rate TIEE 28 published by the Banco de Mexico, 7.31% annual as of September 2006.

⁷ CL provisions at rates lower than the CNBV standard for SOFIPOs and has a portfolio-at-risk over 30 days of 8%.

Financial Self-Sufficiency



As the financial self-sufficiency chart shows, variance remains among the partners in terms of their ability to cover adjusted operating expenses with operating revenues, although recent trends are generally positive across most partners. High levels of financial self-sufficiency have been attainable in Mexico due to continued **high levels of portfolio yield**, as shown in the portfolio yield ratio table below and the chart on the following page.

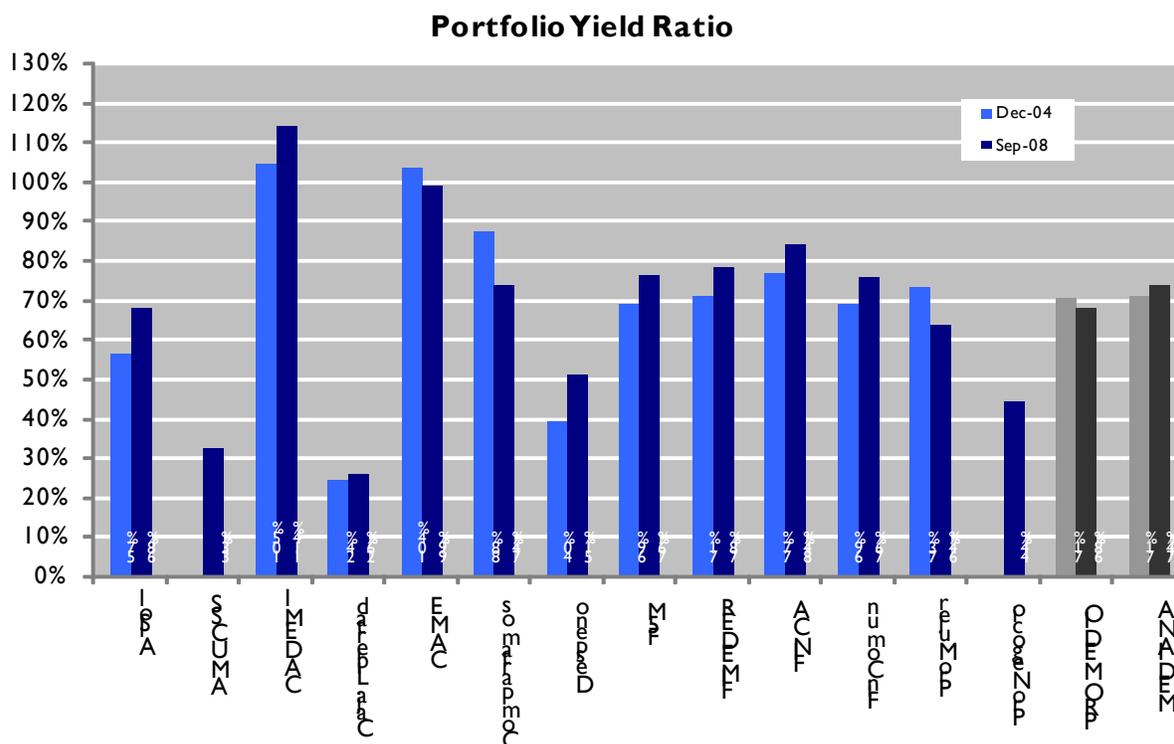
High portfolio yields reflect the high average interest rates charged to microfinance clients in Mexico, as compared to other countries in the region, where competition has reduced rates dramatically in recent years. The 30 MFIs that MicroRate tracks in Latin America had, on average, a portfolio yield of 37.6% as of December 2004, well below the average of 70.6% among 12 AFIRMA MFIs in December 2004. This rate is pulled down by Caja Libertad, a credit union that charges lower interest rates and has higher levels of non-performing loans (and considerably larger average loan sizes) which lowers the yield ratio. CrediAvance, AMUCSS, ProNegocio, and Finamigo/Fimeder all carry relatively high levels of non-performing loans on their books, which if written off would reduce the size of the portfolio

Table 7 – Portfolio Yield

MFI	Dec-2004	Sept. 2008
AISol	56.60%	68.33%
AMUCSS*	N/A	32.76%
Fincreemos	104.80%	114.35%
Caja Libertad	24.40%	25.98%
CAME	103.80%	99.20%
Compartamos	87.70%	74.03%
CredAvance	39.70%	51.07%
Súmate	69.30%	76.44%
Finamigo	71.10%	78.31%
FINCA	76.70%	84.26%
FinComún	69.30%	75.79%
ProMujer	73.40%	63.62%
ProNegocio	-	44.31%
Average (Excl. PN)	70.60%	68.3%
Preliminary AMUCSS data as of Dec 2007 shown here Despeno/CredAvance data as of June 2008		

thus increasing the yield ratio substantially. All 3 charge rates comparable to other AFIRMA partners. Also, it is worth mentioning that the MicroRate averages are boosted by Compartamos and FinComún, the only representatives of Mexico among the MicroRate 30, which have the two highest portfolio yield ratios among that group.

ProMujer and AISol represent notable contrasts to the norm, as both maintain relatively high quality portfolios, and the lower-than-average portfolio yields represent lower interest rates charged to clients.



The high portfolio yields continue to cover expensive cost structures relative to loan sizes, as reflected in the operational efficiency chart below, although efficiency improvements have led to the increased profitability mentioned above. Seven of 11 improved their efficiency as of September 2008, with AISol, ProMujer, and Finamigo making major improvements. Súmate has also improved substantially as the portfolio has grown, although the efficiency indicator rose this year, as the SOFOL completed sale of the SME lending portfolio, decreasing the denominator. The average operational efficiency (personnel and administrative expenses divided by average gross portfolio) of 50% remains well above (less efficient than) the regional average reflected in the MicroRate 30 of 19.1% as of December 2004. As with the portfolio yield ratio, the average operational

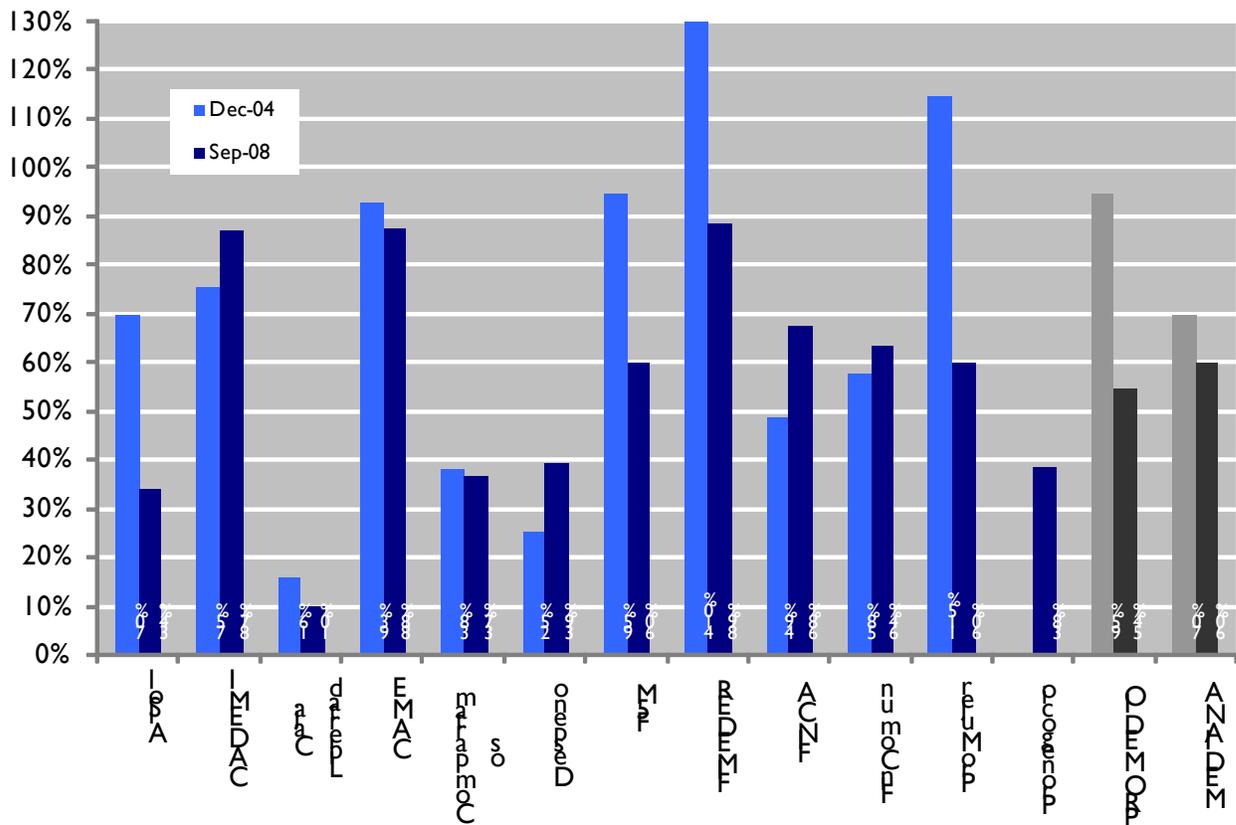
Table 8 – Operational Efficiency

MFI	Dec-2004	Sept. 2008
AISol	69.90%	34.1%
AMUCSS*	N/A	34.5%
Fincrecemos	75.40%	87.1%
Caja Libertad	16.00%	10.1%
CAME	93.00%	87.8%
Compartamos	38.20%	36.7%
Credivance	25.10%	39.2%
Súmate	94.90%	60.1%
Finamigo	409.60%	88.6%
FINCA	49.00%	67.7%
FinComún	57.80%	63.7%
ProMujer	114.90%	59.9%
ProNegocio	24.10%	38.4%
Average (Excl. PN)	97.40%	54.5%
Preliminary AMUCSS data as of Dec 2007 shown here Despeno/Credivance data as of June 2008		

efficiency ratio is pulled down by Caja Libertad, with its large portfolio and lower cost structure consistent with credit unions. Many of the other partners use the village banking methodology, which carries higher operating costs relative to the loan size than individual lending now predominant in the rest of the region.

This indicator will improve over time as partners gain scale, as greater emphasis is given to competition on service and cost, and, importantly, as staff productivity figures increase. Efficiency may become a key competitive factor in 2009 as increased competition among MFIs and with the many new entrants into the base of the pyramid niche may finally begin to pressure lending rates downward, and could potentially lead to deterioration in loan portfolios that are not well managed.

Operational Efficiency Ratio



An important factor influencing the low levels of operational efficiency among AFIRMA partners is the **low average loan balance per client** in Mexico. One efficiency indicator that takes loan size out of the equation is the **cost per average active client** that the MFI serves.⁸ Various partners have efficiency figures more in line with international standards (MBB figures below) when measured with this indicator. AISol stands out in the table at right, which demonstrates why it can be profitable while serving clients with very small average loan balances. In peso terms the MicroBanking Bulletin (MBB) averages for this indicator in Latin America, as reported in the August 2005 edition of the MBB are:

- All 52 MFIs: 1,597 pesos
- 8 Small MFIs (low income niche): 753 pesos
- 13 Large Financial Intermediaries: 2,544 pesos

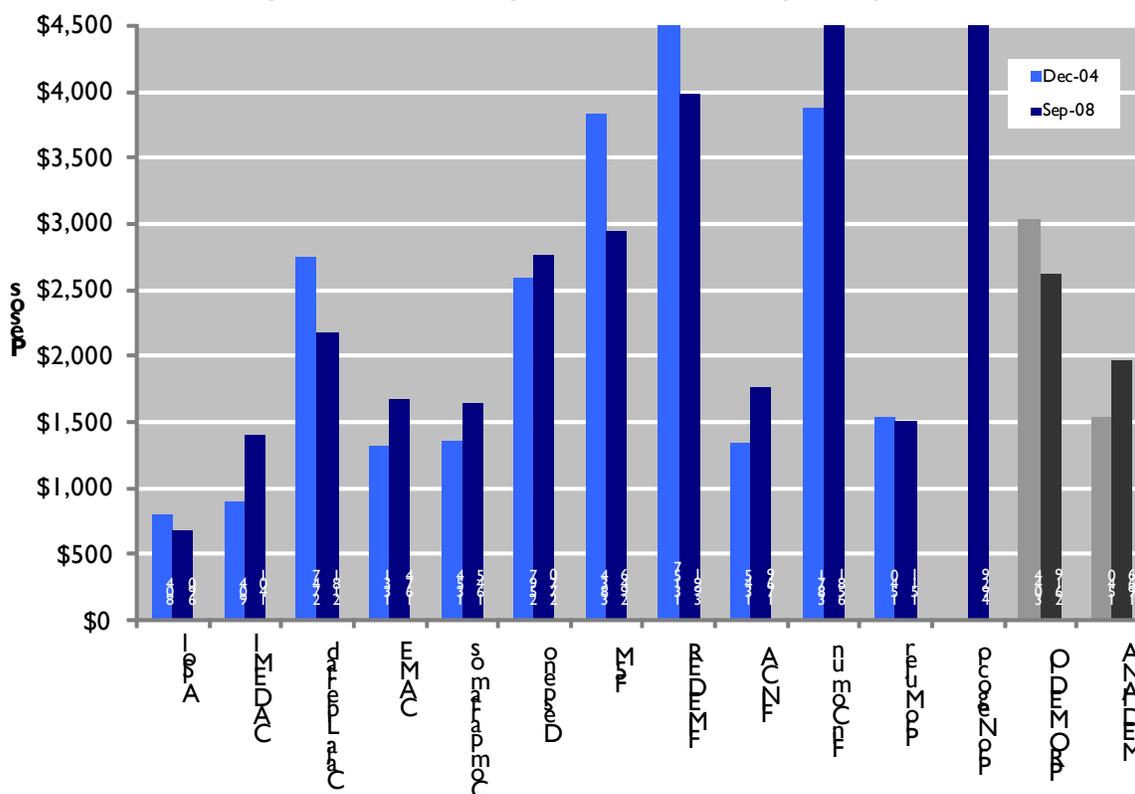
Table 9 – Cost Per Client (pesos)

MFI	Dec-2004	Sept. 2008
AISol	804	690
AMUCSS*	N/A	1,966
Fincreemos	904	1,401
Caja Libertad	2,747	2,181
CAME	1,331	1,674
Compartamos	1,354	1,645
Crediavance	2,597	2,770
Súmate	3,834	2,946
Finamigo	13,157	3,991
FINCA	1,345	1,769
FinComún	3,871	6,581
ProMujer	1,540	1,511
ProNegocio	-	4,929
Average (Excl. CL)	3,044	2,619

Preliminary AMUCSS data as of Dec 2007 shown here
Despeno/Crediavance data as of June 2008

It is important to mention that FinComún and FinAmigo have very high costs per loan client, but that they also mobilize increasing amounts of savings, which cuts financial costs and can help compensate for the higher administrative costs.

Operational Cost per Active Client (Pesos)



⁸ Operating and administrative costs divided by the average number of active clients during the period.

As shown in the **loan officer productivity** chart, still few of the AFIRMA partners reach international standard levels of loan officer productivity, although some have improved significantly and the high level of hiring for growth over the last 3 years deflates the productivity numbers. The average for the MicroRate 30 was 309 clients per loan officer as of December 2004, while the AFIRMA average was 200 as of September 2008 (not including Caja Libertad).

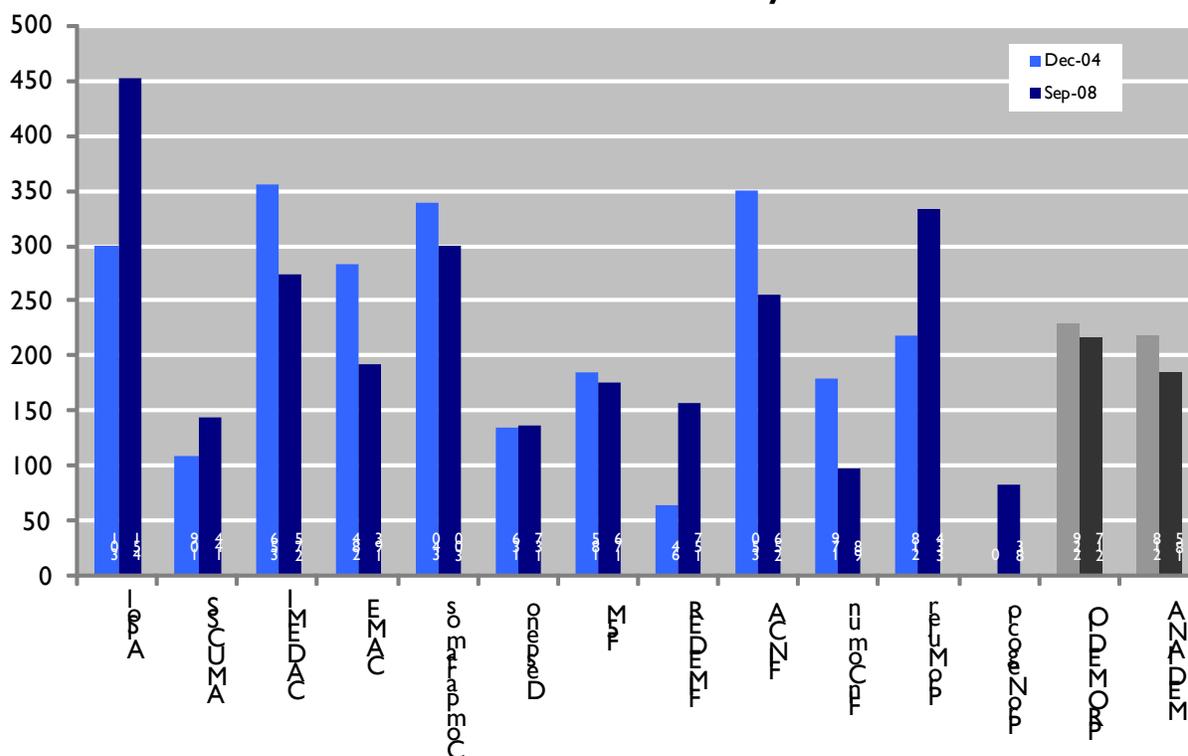
Productivity improvements at AISol, ProMujer, and Finamigo/Fimeder partly offset declines elsewhere as FINCA, Compartamos, Súmate and others are all in the process of hiring and training new loan officers that will take time to attain desired levels of productivity.

Table 10 – Loan Officer Productivity

MFI	Dec-2004	Sept. 2006
AISol	301	451
AMUCSS	109	144
CADEMI	356	275
CAME	284	193
Compartamos	340	300
CrediAvance	136	137
Súmate	185	176
FinAmigo	64	157
FINCA	350	256
FinComún	218	98
ProMujer	218	334
ProNegocio	0	83
Average (Excl. CL)	197	200

Caja Libertad, which had 1,274 credit clients per loan officer as of September 2007, is excluded from the average and from the table above since the traditional credit union lending methodology used there is not considered comparable with the other 12 partners.

Loan Officer Productivity



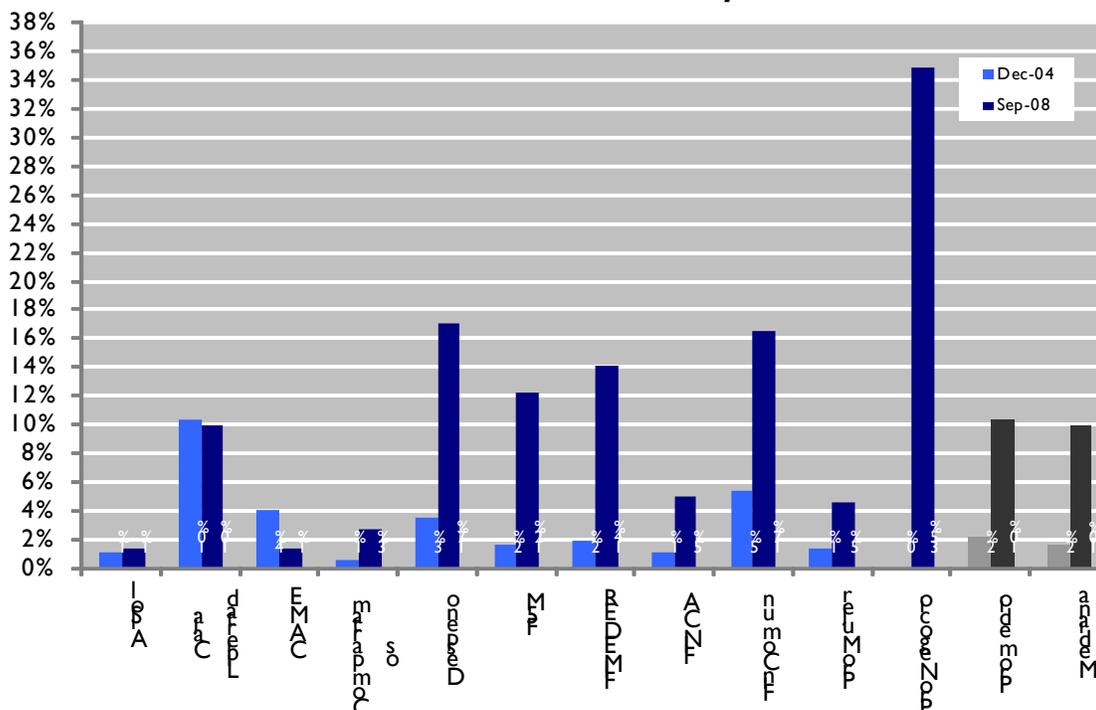
Loan portfolio quality is a key area of concern as the quality in all cases has deteriorated (to varying degrees) in the last year, although many partners continue to maintain high quality portfolios. Specifically, ProNegocio, FinAmigo, Súmate, y FinComún have had repayment problems, while CrediAvance has yet to write off old loans that would more accurately reflect quality of the current portfolio, and AMUCSS has yet to get the **portfolio at risk over 30 days**⁹ under control (although the fact that it's being tracked is an improvement). Of particular concern, the quality of the ProNegocio portfolio (due to the ratio and the overall size and geographic reach) reached a critical point during 2008, which has provoked various internal changes that AFIRMA hopes will allow for better quality of credit analysis and portfolio management.

Table II – Portfolio-at-Risk > 30 days

MFI	Dec-2004	Sep - 2008
AISol	1.12%	1.36%
AMUCSS	N/A	20.92%
CADEMI	N/A	4.20%
Caja Libertad	10.33%	9.95%
CAME	4.04%	1.39%
Compartamos	0.56%	2.70%
CrediAvance	3.47%	17.05%
Súmate	1.58%	12.17%
FinAmigo	1.92%	14.11%
FINCA	1.03%	4.99%
FinComún	5.44	16.52%
ProMujer	1.28%	4.55%
ProNegocio	0	34.93%
Average (Excl. PN)	2.10%	11.14%

This is an area of concern not just among partners, but also in the market in general, as consumer lending has expanded very rapidly and loan quality has deteriorated among many of the financial institutions for which data is publicly available. AFIRMA will monitor developments in portfolio quality carefully.

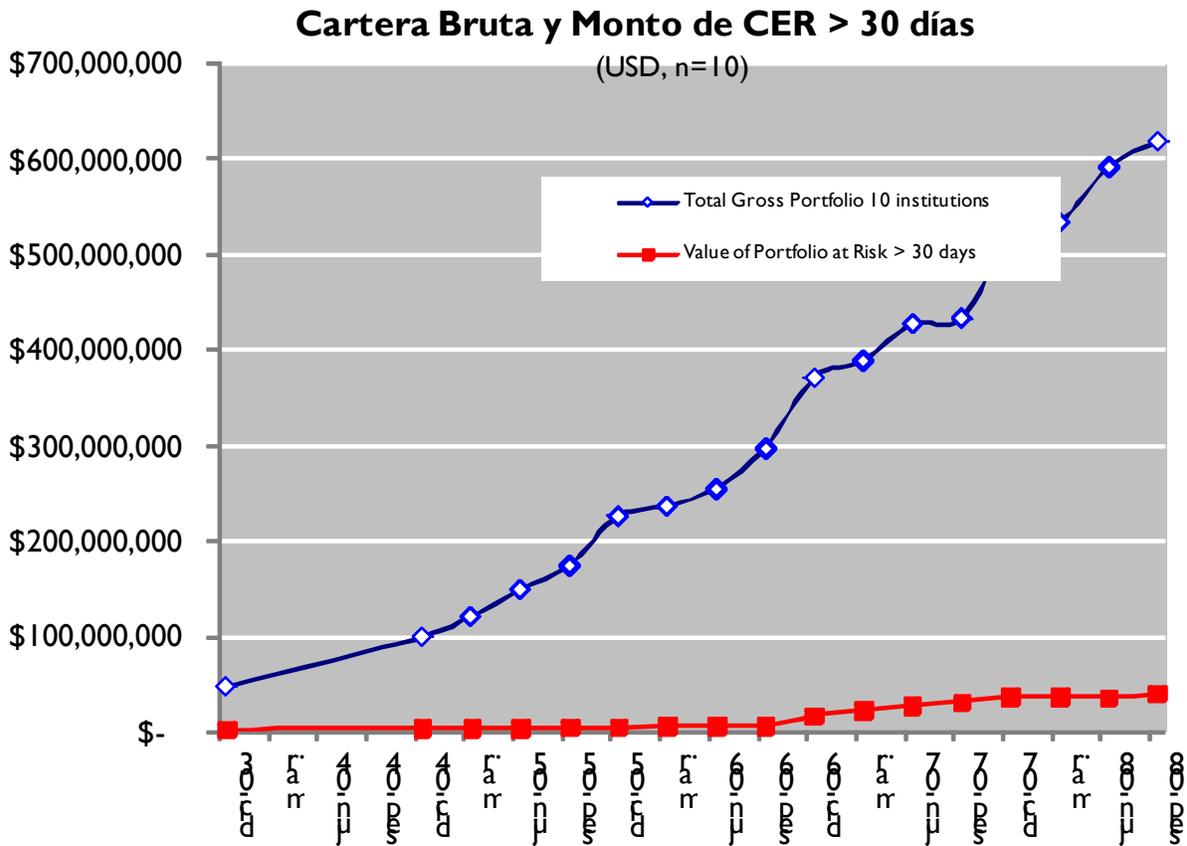
Portfolio at Risk > 30 days



⁹ Total balance of loans in arrears over 30 days divided by the gross loan portfolio.

AFIRMA partners have, for the most part, avoided having to write-off significant portions of their portfolio, CrediAvance (Despeno) and Finamigo have yet to write off non-performing loans.

The chart below also shows the entire portfolio of 12 AFIRMA partners (Caja Libertad is excluded) compared to the total value of the portfolios at risk over 30 days of those partners. The total value of the loan portfolios in September 2008 among these institutions was \$636 million (USD), more than 355% higher than in December 2004. Although the figures continue to be driven by Compartamos, which represents 79% of the total portfolio when Caja Libertad is not counted (39% when CL is counted). The chart reflects the high repayment rates consistent among clients of the project's partners, while also reflecting the influence of the deteriorating portfolio quality at ProNegocio.



The aggregate portfolio at risk of the 12 institutions (not including Caja Libertad) was 11% in September 2008, as compared to 2.1% as of the baseline. Although most partners maintain high portfolio quality, the decline in portfolio quality is noteworthy across the board. In the particular case of Pronegocio, the fast growth in lending and high delinquency rates, which represents 30% of the gross portfolio at risk as of Sept 2008, and the ongoing lack of consolidated credit information (across credit bureaus, for instance), compounded by increased competition in many markets, suggest that portfolio quality trends must be monitored very carefully.

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