



**USAID**  
DEL PUEBLO DE LOS ESTADOS  
UNIDOS DE AMÉRICA

## **AFIRMA**

**Acceso a las Finanzas Rurales para  
la Microempresa en México**

# **AFIRMA QUARTERLY REPORT**

**PROJECT YEAR 5, QUARTER I: October – December 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

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

Cover Photo: Fishermen in the Marismas Nacionales Region of Sinaloa, near Escuinapa (by Ivana Fertziger).

# CONTENTS

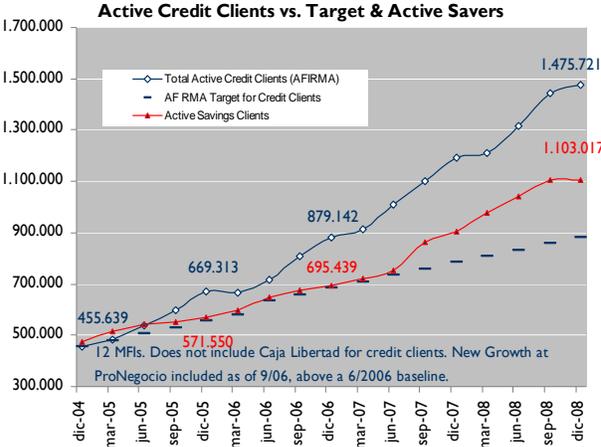
- Executive Summary ..... 1**
- Introduction ..... 2**
- AFIRMA Work plan Implementation ..... 2**
  - 1. Task 1 – Strengthen MFI Capacity ..... 2
  - 2. Task 2 – Develop Local, Commercially-based MFI Services ..... 3
  - 3. Task 3 – Support Innovations to Expand Access to Rural Finance ..... 4
  - 4. Task 4 – Strengthen the Regulatory Environment for Micro- and Rural Finance ..... 6
  - 5. Task 5 – Strengthen the Micro- and Rural Finance Industry..... 6
  - 6. Project Management ..... 9
- Project Indicators..... 10**

# 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. AFIRMA has 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 and in connection with activities to reduce threats to Mexico’s vast biodiversity.

**AFIRMA’s MFI Partners Serve over 1.4 Million Active Borrowers and over 1 million Savers –**

AFIRMA partners under the microfinance institution building task now serve a total of 1,475,721 active credit clients, a 224% increase or 1,020,082 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 1,103,017 savers. AFIRMA is finalizing support for specific needs of its partner MFIs, with a few activities to continue into 2009, shifting emphasis towards rural and agricultural finance and biodiversity initiatives.



**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 rural and agricultural finance, focused on developing new experience with agricultural microfinance in Mexico with one of the project’s long-term partners, and will continue with this activity through the end of the project.

**Addressing Biodiversity Threats** – AFIRMA has collaborated with local actors making 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 (North West region) in the Sea of Cortes and Marismas Nacionales (Sinaloa and Nayarit), as well as ProNaturaleza Sur in Chiapas, to evaluate Mango production in the region and identify strategies to diminish threats to the SOCONUSCO region’s vast biodiversity, and support sustainable productive activities in the region and within the mango value chain.

**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 approach to microfinance. Within FIRA this has resulted in the establishment of a specialized microfinance unit that will have coordination with and representation from each of FIRA’s areas, in order to develop policies specific to microfinance that are workable within the institution. Based on this coordination AFIRMA and FIRA are also considering joint initiatives in agricultural value chain finance. In each initiative with the Mexican Government, AFIRMA is leveraging minimal investment towards developing key long term technical assistance programs.

# 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 Strategic Objective 2 (SO2) – **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 a more inclusive, sustainable financial sector in México, increasing access to a range of services. The project's goal is:

*"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 five 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, while addressing threats to biodiversity
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 outlined in the Performance Monitoring Plan. Progress towards each task over the fourth quarter of year 5 (October-December 2008) and key priorities for the final 3 quarters of the project are presented in the next section, followed by project indicators.

## AFIRMA WORK PLAN IMPLEMENTATION

### I. Task I – Strengthen MFI Capacity

Task I partners represent a small subset of the hundreds of Mexican MFIs, but most partners have demonstrated leadership in one or more aspects important to the development of microfinance in Mexico, such as significant scale, rural outreach, and/or new approaches to expanding access to a range of financial services.

Despite significant progress, many challenges remain, especially related to two factors: the entry of many new consumer lenders and finance companies into the segment without adequate loan analysis, and the impact of the global financial crisis and economic downturn on Mexican microenterprises and remittances from abroad. AFIRMA continues to monitor these trends with partners and address them at the institution, sector and policy levels.

As planned with USAID, AFIRMA has wrapped up most Task I technical assistance to individual MFIs by the end of 2008, with a few isolated initiatives scheduled to continue in 2009. AFIRMA will continue to provide limited support to partners on strategic issues to these partners. Through the course of the project, AFIRMA and USAID have been able to anticipate a number of market changes, and to respond to partner needs as they arose, but in the final months will have very limited resources for initiatives not previously defined and budgeted.

The final initiatives under Task I are outlined below.

**Table 1 – AFIRMA primary support of partner MFIs, Year 4**

MFI	Key Initiatives Supported this Quarter	Upcoming Initiatives
Finamigo	<ul style="list-style-type: none"> <li>• Presentation to the Board of Directors (W. Escobedo and I. Fertziger)</li> </ul>	
AI Sol	<ul style="list-style-type: none"> <li>• Hugo Cruz continued as Resident Operations Advisor</li> <li>• Claudette Martinez provided guidance on human resource policy</li> </ul>	<ul style="list-style-type: none"> <li>• Hugo Cruz will continue as Resident Operations Advisor</li> <li>• Fernando Fernandez and Nate Bourns will support strategic planning for Social Projects to be carried out by the NGO (legally separated from the SOFOM, but to remain the main shareholder in AI Sol)</li> </ul>
CrediAvance	<ul style="list-style-type: none"> <li>• Help orient the new General Director in Microfinance best practices and sector dynamics in Mexico.</li> <li>• Presentation to the Board of Directors</li> </ul>	
Financiera Súmate	<ul style="list-style-type: none"> <li>• Market study and design of an agricultural microfinance product (N. Bourns and H. Cisneros) approved by the Súmate Board of Directors</li> </ul>	<ul style="list-style-type: none"> <li>• Nate Bourns and Hector Cisneros will follow on design work to develop, test and roll out the product</li> </ul>
FINCA México	<ul style="list-style-type: none"> <li>• Milagros Chiappe and FINCA’s Ricela Muñoz began developing the Cost/Benefit analysis of different service delivery mechanisms that would further expand FINCA’s services into rural communities</li> </ul>	<ul style="list-style-type: none"> <li>• Complete design of a Risk Management Department</li> <li>• Continue Cost/Benefit analysis of different options for delivery mechanisms</li> </ul>
FinComún	<ul style="list-style-type: none"> <li>• Continued Loan recovery program implementation</li> <li>• Contribute towards Human Resources strategy to reduce staff turnover</li> </ul>	<ul style="list-style-type: none"> <li>• Finalize distance learning program designed by local consultant Atenea Rico</li> </ul>
CAME	<ul style="list-style-type: none"> <li>• Helped design a new product entitled “mobile agent”, with a manager rotating in various service areas with a team of loan officers.</li> <li>• Implementation of Individual Loan product and service adjustments (W. Escobedo)</li> </ul>	

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

AFIRMA has worked during the first 4 years of the project to use and support local technical and management services (firms and individuals) to respond to MFIs demands, and worked to leverage other programs to improve the supply of services and human resources. Project experience has applied a variety of approaches to achieve the goals set forth at the onset of the project:

- Work with and develop local firms and consultants interested in microfinance;
- Carry out microfinance-specific skill-building and link local providers with MFIs;
- Foster and leverage local programs to build the HR base required for the microfinance sector;
- Coordinate with the MFI association and other initiatives to improve support services.

As indicated in the approved work plan for AFIRMA’s final year, this task is being phased out.

## 2.1. Contracting Local Consultants and Firms

AFIRMA continued working on microfinance specialization where applicable, often linked with other tasks, and building lasting ties between young professionals and the Sector. AFIRMA completed its work on the mentoring and local service providers program with Adriana Manriquez and Victor Valerio, both graduates of the IPN microfinance program, hired by DAI as junior microfinance consultants. AFIRMA hired local providers Construyamos to work with Sonora-based MFI Lazos del Mar (described under Task 3) and ProNatura Sur for work examining the environmental sustainability in the Ataulfo mango chain (also under Task 3).

## 2.2. Microfinance human capital development / University Network Initiative

Due to increasing needs for human capital and sector information and increasing interest of Universities and academics in microfinance and popular finance, AFIRMA continued to work last quarter to strengthen the Mexican Microfinance University network (9 universities), with the *Instituto Politecnico Nacional* (IPN) and the Microfinance Management Institute (MFMI) as key partners. AFIRMA's work with universities included:

- **Participation in the December University Network meeting.** During this meeting, AFIRMA also facilitated a Research Seminar where the first round of research grant recipients presented their results and received feedback from Network participants, as well as guests Anna York from Innovations for Poverty Action (IPA) and Jerry Ladman of The Ohio State University (OSU).
- **Participation in the National Week for Financial Education (CONDUSEF – IPN):** AFIRMA's Ivana Fertziger was invited to present on microfinance and financial education at the IPN School of Accounting and Administration (ESCA).
- **Facilitation of proposals for international university collaboration.** AFIRMA helped to facilitate contact between Norway's Agder University and several members of the Mexican Microfinance University Consortium for a collaborative research initiative on Microfinance in Latin America.
- **Willy Escobedo supported COLCAMI's training design for individual loan product development.**

Following discussion with USAID, AFIRMA has decided to bring this Task to a close at the beginning of 2009, continuing only with periodic support by AFIRMA COP Fernando Fernandez to follow up on the University Microfinance Network Initiative, including an additional Network meeting facilitated by AFIRMA to discuss formalization and continuity of the University Network. Additionally, AFIRMA's Claudette Martinez will concentrate efforts on documenting results of this component as part of her finalization of her work and leadership on this component.

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

The goal for Task 3 is to expand access to rural and agricultural finance by encouraging innovative business models and technologies for providing financial services. AFIRMA has worked closely with USAID to design the initiatives under this task, giving priority to initiatives that address threats to Mexico's biologically significant areas. For the remainder of the AFIRMA project, this will be AFIRMA's primary area of focus.

Following careful review of the areas in which AFIRMA can make the most significant contribution in terms of reducing threats to biodiversity in a way that is consistent with the project's scope of work, the overarching objective is **to incorporate productive activities into efforts to conserve biodiversity, via participatory planning processes and analysis of economic opportunities and potential.**

Activities last quarter included:

- **Community finance to support alternatives to unsustainable fishing in the Alto Golfo** - In collaboration with Conservation International Mexico (NW Region), to strengthen the local NGO, *Lazos del Mar*, initially promoted by Conservation International to generate group lending with internal group savings, so as to divert economic activity away from fishing. The program was initially designed to conserve the *vaquita marina* (desert porpoise), endemic to the upper Gulf of Mexico and currently at risk of extinction, by reducing the direct threat of unsustainable fishing practices by providing resources necessary to engage in alternative sources of livelihood (*Lazos* does not lend for fishing). CI has worked with *Construyamos*, a local service provider for microfinance in which has sought previous assistance from AFIRMA under Component 2. AFIRMA's initial support to *Lazos del Mar* consists of a market study followed by strategic planning session next quarter, and AFIRMA began last quarter to work with *Construyamos* (via purchase order) to collect and generate key inputs for the session, as well as participation from the community and other key stakeholders (CI, CONANP, etc.).
- **Strategy Development for Marismas Nacionales, Nayarit and Sinaloa** – In collaboration with Conservation International (CI), AFIRMA's Fernando Fernandez, Nate Bourns, and Ivana Fertziger traveled to Marismas Nacionales, a mangrove system that extends nearly 200,000 hectares between the states of Nayarit and Sinaloa. The region, soon to be declared a National Protected Area, is facing various risks to the mangrove's immense biodiversity, including fishery practices and agriculture, as well as general low incomes of communities within the region. As a result of this trip, AFIRMA is working with CI and CONANP (the National Commission for Natural Protected Areas) to identify next steps, including value chain analyses of ecotourism and sustainable fisheries, as well as a community development planning session with both states and key actors.
- **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 continued working with AFIRMA last quarter to identify implications for biodiversity of Ataulfo Mango production in the SOCONUSCO region. The evaluation, which will be presented to key actors in Tapachula next quarter, identifies 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.

Next quarter, efforts will focus on the following activities:

- Community finance to support alternatives to unsustainable fishing in the Alto Golfo - In collaboration with Conservation International Mexico (NW Region) and CONANP (Mexico's National Commission for Natural Protected Areas), AFIRMA will conduct a strategic planning session with *Lazos del Mar*, including key stakeholders such as CONANP, *Construyamos*, and CI.

- Mango production evaluation – Local firm Pronatura Sur will present findings next quarter to identify implications for biodiversity of Ataulfo Mango production in the SOCONUSCO region.
- Assist Soconusco mango association to develop a business case for a pulp processing plant, as well as a voluntary information system to track prices and volumes throughout the chain (P. Hanneman).
- Begin conducting Value Chain analysis of sustainable fisheries in the Alto Golfo and Marismas Nacionales (I. Ardjosoediro).
- Begin conducting Value Chain analysis of ecotourism in the Alto Golfo and Marismas Nacionales (M. Baca).
- Work with local consultants, firms or research institutes (TBD) to develop Good Agricultural Practices for Organic Mango.
- 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.
- In conjunction with AFIRMA's Task 1, Nate 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**

Under this task, AFIRMA has continued to periodically coordinate with the *Comisión Nacional de Bancos y Valores* (CNBV) on regulations for microfinance. During this quarter, ICC's Ramon Rosales met with the CNBV and the association of regulated microfinance institutions to share commentaries on modifications to the Popular Savings and Credit Law, as well regulation of credit unions.

Fernando Fernandez will retain primary responsibility for this task, and will coordinate with USAID and with AFIRMA subcontractor International Consulting Consortium (ICC). AFIRMA and the CNBV plan to hold meetings to discuss sector effects of these potentially substantial changes, although no resources beyond some limited time from AFIRMA's full-time staff is planned.

#### **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:

- Continue to assist FOMMUR-PRONAFIM in its new rural Institutional Strengthening program. This AFIRMA activity will continue throughout 2009.

- Assist PRONAFIM head of Institutional Strengthening to design the Strategy for capacity building for 2009.
- Conduct a Risk Diagnostic for PRONAFIM prepared by AFIRMA consultant Max Errazuriz.
- Willy Escobedo and Claudette Martínez accompanied several microfinance institutions to the Inter-American Development Bank's annual microfinance conference in Paraguay. Pronafim (FOMMUR) financed the participation of directors from two microfinance institutions.

## **FIRA**

During this quarter, USAID/AFIRMA continued to collaborate with the 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 finalized and presented FIRA and UNDP with the 8 institutional diagnostics conducted the previous quarter. 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 follow-up meetings with FIRA Directors to identify next steps and upcoming collaboration.

Additionally, AFIRMA's Willy Escobedo and Claudette Martínez accompanied several microfinance institutions to the Inter-American Development Bank's annual microfinance conference in Paraguay.

To date, one of the primary results of this collaboration, in the December FIRA Board meeting with UNDP, USAID, FIRA/Banxico Directors, FIRA officially communicated the creation of FIRA's Microfinance Unit, and began planning for a rural finance event that FIRA will host, in coordination with AFIRMA and USAID in May 2009.

## **FINANCIERA RURAL**

During this quarter, AFIRMA's Fernando Fernandez, Nate Bourns, and Willy Escobedo held meetings with Financiera Rural directors to explain microfinance concepts and explore future collaboration.

### **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 continued implementing this initiative to help MFIs identify factors that are contributing to high staff turnover, elevated portfolio at risk, and in many cases, restricted growth. This quarter, AFIRMA's Francisco Carbajal coordinated work by consultants Carlos Rodríguez and Patricia Kurczyn to address this challenge at the sector level. The team's final product will be presented next quarter.

Upcoming Task 5 initiatives include the following

- Continue supporting the creation of FIRA's Microfinance Unit, including training programs for FIRA Directors, Microfinance Unit staff, and FIRA staff linked to microfinance programs, as well as international and national study tours.
- International Conference on Rural Microfinance and Agricultural Finance promoted by FIRA, USAID, and UNDP, during the second or third quarter of 2009.

- Continue to assist FOMMUR-PRONAFIM in its new rural Institutional Strengthening program. This AFIRMA activity will continue throughout 2009.
- Continue working with FIRA y PNUD, including discussions of next steps and upcoming collaboration.
- AFIRMA and Development Finance Advisor Geoff Chalmers will support strategic planning along with area directors within FIRA for FIRA's newly established microfinance unit.
- Continue collaboration with Financiera Rural, as requested by the institution
- Finalize initiative to analyze human resources as a key risk factor for MFIs today.

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