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AFIRMA

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

AFIRMA QUARTERLY REPORT

PROJECT YEAR 5, QUARTER 3: April – June 2009



The AFIRMA Project, managed by DAI 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: Cooperative Oyster farmer in the Morrua Estuary, near Puerto Peñasco, Sonora. With help from local NGO, CEDO, the cooperative has developed an ecotourism product "the Oyster Experience", including working on the farm and enjoying an oyster feast, which is marketed by CEDO's nature tour operator, NaturArte. (photo by Fernando Fernandez).

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 8
- Project Indicators..... 9**

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. In recent quarters, AFIRMA has focused on strategic sector-wide initiatives, initiatives with public sector institutions with considerable 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 has finalized support for specific needs of its partner MFIs, with only a couple of activities continuing last quarter with a small group of the project's long-term MFI partners. Activities that continued were related to innovation, rural and agricultural finance, and biodiversity initiatives¹.

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. Next quarter AFIRMA will finalize work with university partners and help partners determine whether the network should further formalized, institutionalized, or remain a working group.

Rural and agricultural finance – AFIRMA continued work in rural and agricultural finance, focused on rolling out a new lending product for agricultural microfinance in Mexico, one with one of the project's long-term partners to develop rural agricultural microcredit product, and another with a new partner to develop a pilot value chain approach to expanding access to financial services. AFIRMA will finalize these technical activities one month prior to the end of the project's final quarter (September 2009).

Addressing Biodiversity Threats – Last quarter AFIRMA built upon analysis of threats to biodiversity and of value chain approaches to address such threats in two biologically sensitive areas: the Upper Gulf of California, in Sonora and Baja California, and Marismas Nacionales, Nayarit. Guided by analysis conducted earlier in the year, AFIRMA worked to promote productive activities that mitigate biodiversity threats in these regions, including sustainable fisheries and ecotourism. AFIRMA is working in collaboration with the the Environment Ministry SEMARNAT and local stakeholders in each region, and results were presented to USAID this quarter, along with the project's recommendations for USAID support post-AFIRMA. Based on AFIRMA's unique approach, the project was invited to present results from its value chain initiatives to governments and stakeholders in the Upper Gulf of California at the trilateral (US-Mexico-Canada) Commission on Environmental Cooperation in August.

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 official establishment of a specialized microfinance unit and Deputy Director that will have coordination with and representation from each of FIRA's areas, in order to develop policies specific to microfinance throughout the institution. In each initiative with the Mexican Government, AFIRMA has leveraged minimal USAID investment towards longer term results in partnership with the Mexican Government.

¹ Data as of December, 2008, when AFIRMA officially finalized activities with individual microfinance institutions under component 1 and partners were therefore no longer under obligation to report to AFIRMA.

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 third quarter of year 5 (April-June 2009) and key priorities for the end of the project are presented in the next section, followed by project indicators.

AFIRMA WORK PLAN IMPLEMENTATION

I. Task I – Strengthen MFI Capacity

As planned with USAID, AFIRMA has wrapped up Task I technical assistance to individual MFIs, with only a couple of initiatives (related to innovation and to rural and agricultural finance) continuing into last quarter. AFIRMA will finalize support on strategic issues to these partners in the project's final quarter. 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 and this flexible approach proved successful, but must be finalized next quarter to ensure an orderly administrative closedown in the project's final month.

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
AI Sol		<ul style="list-style-type: none"> • 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) • Participation in AI Sol's ten year anniversary event
Financiera Súmate	<ul style="list-style-type: none"> • Hector Cisneros and Nate Bourns finalized design, methodology, training, and launch for the newly developed agricultural lending product, which Súmate now offers in 2 branches, with plans to expand following a pilot phase. 	
FINCA México	<ul style="list-style-type: none"> • (In connection with Task 3) Milagros Chiappe and FINCA's Ricela Muñoz continued developing the Cost/Benefit analysis of different service delivery mechanisms that would further expand FINCA's services into rural communities 	<ul style="list-style-type: none"> • Finalize and pilot Cost/Benefit analysis of different options for delivery mechanisms • Support from Victor Valerio on the Excel-based decision tool
FinComún	<ul style="list-style-type: none"> • Finalized distance learning program designed by local consultant Atenea Rico 	

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

AFIRMA worked during the project to use and support local technical and management services (firms and individuals) to respond to MFIs demands where possible, and 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, project work under this task was phased out to focus remaining resources on Task 3. Some remaining initiatives, primarily coordinated by AFIRMA COP Fernando Fernandez, include the following:

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 hired local consultant Victor Valerio (former IPN student, trained by AFIRMA) to support efforts with FINCA to develop a cost/benefit analysis tool to address different alternatives for client service delivery.

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 which includes 9 of Mexico's top universities and the Microfinance Management Institute (MFMI) as key partners.

In May, the University Network held another meeting at CIDE to present progress. During this meeting, the network discussed the fact that AFIRMA is concluding, and analyzed the possibility of formalizing the initiative and seeking public resources to help fund the continuation of the Network's activities, including research, training, etc.

Also under this task, the AFIRMA team continued supporting the University Network member Instituto Politecnico Nacional (IPN) in their Microfinance course, which was designed by the AFIRMA team and initially operated by AFIRMA as well, but is now fully transferred to the IPN and operated within the School of Economics. Several AFIRMA team members and project partners agreed to volunteer as instructors.

Finally, AFIRMA also supported an initiative by another University Network member, the Colegio de Mexico (COLMEX). In this case, it was a workshop on rural finance that also formed part of a training program for young researchers from PRECESAM – A program for the advancing studies on economic change and Mexican agricultural sustainability, in collaboration with The Ohio State University.

Following discussion with USAID, AFIRMA will continue with periodic support by AFIRMA COP Fernando Fernandez to follow up on the University Microfinance Network Initiative, until the AFIRMA project concludes in September. This will involve no additional project expenses beyond the time of the full time AFIRMA staff.

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. This task has been AFIRMA's primary area of focus in 2009.

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:

- ***Value Chain Analysis of Sustainable Fisheries in the Upper Gulf of California (Sonora and Baja California) and Marismas Nacionales (Sinaloa and Nayarit)*** – AFIRMA's DCOP Nate Bourns worked with fisheries consultant Ingrid Ardjosoediro to analyze the value chains of sustainable fisheries, in an effort to promote alternate fisheries activities to those that are harming both of these biologically significant regions. In the Upper Gulf region, the federal government has been working to implement a variety of strategies to mitigate the risks of traditional gill net fisheries to the endangered Vaquita Marina. One of those initiatives (under INAPESCA and INE) has included the development a new net technology that doesn't harm the Vaquita. They are rolling out this technology in the coming months, and have requested support from AFIRMA during the next quarter to identify some end market opportunities and potential buyers for "vaquita safe" shrimp, as well as present the results of the value chain analysis to key

actors, including the trilateral (US-Mexico-Canada) Commission for Environmental Cooperation next quarter. The final reports for these analyses will be published next quarter.

- **Ecotourism Value Chain Analysis in the Upper Gulf of California (Sonora and Baja California) and Marismas Nacionales (Sinaloa and Nayarit)** – AFIRMA’s Ivana Fertziger worked with ecotourism consultant Miguel Baca this quarter to analyze the ecotourism value chains, bottlenecks, and upgrading opportunities. Along with sustainable fisheries, this is one of the key strategies that the GoM is implementing or intending to implement to mitigate biodiversity threats in these biologically significant regions. AFIRMA presented results of the analysis to stakeholders in the Upper Gulf region – a gathering that participants agreed to repeat on a regular basis as a kind of “Committee on Upper Gulf Nature and Community Based Tourism”. Based on the participants’ prioritization of the recommendations make by AFIRMA/USAID, AFIRMA has proposed to support two initiatives next quarter. The first is to facilitate the Strategic Plan and Business Plan for NaturArte, a project that developed out of local NGO Centro de Estudios del Desierto y el Oceano (CEDO), to help mitigate biodiversity risks in the region by offering viable, sustainable income generating activities for the communities. NaturArte is highly valued by the community, as a result of their interest in developing community based tourism products in the spirit of conservation, and they are interesting in improving and further developing their model, packaging and selling nature based excursions in the region. The second initiative is to support CONANP (The National Commission for Natural Protected Areas) in their effort to conduct market analysis of nature based tourism, to help inform decisions around the development of the supply of ecotourism, based on the current and potential demand for these services.
- **Mango Value Chain Traceability and Finance Concept** – Based on the prior value chain analysis done in the Mango chain, Nate Bourns worked with USAID’s Global Development Commons and software provider SourceTrace Systems to implement a pilot project to systematize and use information on commercial relationships between mango growers and a packhouse (Fergo) as a basis for Solucion ASEA to design savings and loan products. AFIRMA has pulled together the various stakeholders and worked with SourceTrace on a functional design to be tested and piloted next quarter. This project is being funded by the GDC and managed by AFIRMA (including an ICT procurement AFIRMA and GDC prepared), launched on www.globaldevelopmentcommons.net .
- **Rural/Agricultural Finance Product at SUMATE** - In conjunction with AFIRMA’s Task 1, DCOP Nate Bourns and rural credit specialist Hector Cisneros developed and piloted a rural/agricultural loan product for Financiera SUMATE. One of the first (if not the first) of these lending products in Mexico, designed to analyze the rural, agricultural based microentrepreneur and his/her household, adjusting payment schedules to the agricultural cycle and other household financial flows, this initiative has received full institutional support within SÚMATE at the highest levels. It is a promising product for improving access to rural finance in Mexico, by demonstrating how a microfinance institution can analyze risk and adapt their products for this important market niche.
- **Presentations to the USAID Mission, including USAID staff and contractors** – The AFIRMA team participated in several meetings at the USAID mission, with key USAID staff and the Mexico Competitiveness Project managed by Abt Associates to present biodiversity funded initiatives and help identify opportunities for USAID to continue to support some of these efforts via other mechanisms beyond the life of the AFIRMA Project.

Next quarter, efforts will focus on the following activities:

- Finalize support to the 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).
- Analyze end market opportunities for “vaqita safe” shrimp from the Upper Gulf of California, in support of the GoM’s biodiversity risk mitigation for the region (N. Bourns and I. Ardjosoediro) and present findings and recommendations to Upper Gulf of California and trilateral (Mexico-US-Canada) stakeholders (N. Bourns).
- Support CEDO/NaturArte with a Strategic Plan and Business Plan for their nature based tourism in the Upper Gulf region, focusing on integrating small ecotourism operators in the region.
- Finalize the Mango Value Chain and traceability pilot in Chiapas with Microfinance Institution Solución ASEA, packhouse Yank (formelrly Fergo) and software provider SourceTrace, as funded by the GDC.

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 AFIRMA continued accompanying the CNBV in discussions regarding sector effects of potentially substantial changes, although no resources beyond some limited time from AFIRMA’s full-time staff has been utilized.

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.

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, Chief of Party Fernando Fernandez, worked this quarter supporting PRONAFIM to:

- Support the conceptual design and methodology for the 8th National Microfinance Conference, as part of the Technical Committee.
- Continue to assist FOMMUR-PRONAFIM in its new rural Institutional Strengthening program. This AFIRMA activity will continue next quarter.
- Assist PRONAFIM head of Institutional Strengthening to design the Strategy for capacity building for 2009.

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. In April, AFIRMA participated with FIRA and the UNDP in the Steering Committee for the Small Loans program, where FIRA officially announced the creation of a position within FIRA for Deputy Director for Microfinance at FIRA. With the announcement was made, USAID/AFIRMA committed to continue collaborating to strengthen internal capacity during the remainder of the AFIRMA Project.

As part of USAID/AFIRMA's support of FIRA's commitment to its Microfinance Unit, AFIRMA COP accompanied 3 high level FIRA directors in late April to witness first-hand the government role in regulation, supervision, and support of the microfinance sectors in Ecuador and Peru. During the study tour, the team visited a wide range of microfinance institutions to understand their perspective on regulation and government support, including cooperatives, banks, NGOs, and institutions that have transformed from NGO to bank or cooperative.

Financiera Rural

The AFIRMA team held several meetings with Financiera Rural, with a primary focus on strengthening a scoring tool that they are developing to analyze microfinance institutions and their capacity for accessing Financiera Rural's second tier lending services.

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. The consultant team presented a final product to Prodesarrollo, which is currently under review prior to a public launching .

Upcoming Task 5 initiatives include the following

- Fernando Fernandez to lead Study tour to Peru and Ecuador with FIRA directors
- Continue to assist FOMMUR-PRONAFIM in its new rural Institutional Strengthening program.
- Finalize initiative to analyze human resources as a key risk factor for MFIs today.

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