

SUPPORT FOR ECONOMIC GROWTH AND INSTITUTIONAL REFORM
FINANCIAL SERVICES

Contract No.PCE-I-00-99-000077-00

Quarterly Performance Report #6
April 1, 2000 - June 30, 2000

Submitted to:
Penny Farley G/EGAD/EM CTO
U.S. Agency for International Development
Washington. D.C.

Submitted by:
Chemonics International Inc.

in collaboration with

Bankworld, Inc., Caledonian Associates, Inc., Crimson Capital Corporation, Inc.,
Georgia State University, Hill & Knowlton, Inc., Ingress Associates, Inc.,
International Development Professionals, J.E. Austin Associates Inc.,
Parker, Whitfield & Co., Shorebank Advisory Services, Taylor-DeJongh Inc.,
The Intrados Consulting Group, Inc., The Ohio State University, The Urban Institute,
World Council of Credit Unions

July 28, 2000

A

Quarterly Performance Report #6
April 1, 2000 - June 30, 2000

I. Active Delivery Orders

A. Madagascar CEM - Contract No. PCE-I-00-99-00007-00 Task Order 801

- *Start Date - April 12, 2000*
- *Completion Date - April 11, 2001*
- *Amount of Task Order- \$463,000*
- *Task Order Objective - To support the Caisse d'Epargne de Madagascar (CEM) in completing its transformation to an independent institution and provide limited institutional strengthening work to lay the groundwork for developing and expanding the CEM's microfinance services.*
- *Key Tasks to Meet Objective -*

TASK	PLANNED DURATION	IMPLEMENTATION AS OF JULY 28
WORK ON CLARIFICATION OF LEGAL AND REGULATORY ISSUES TO REMOVE AMBIGUITIES	May 15 – Mar 15, 2001	<i>Substantial progress --- new law drafted by the team and due to be submitted to Parliament for approval in September or October. Consensus achieved.</i>
Identify issues re. implementation of 95/019 <ul style="list-style-type: none"> • Specific legal issues • Regulatory issues 	May 15 – July 28	<i>All legal and regulatory issues have been identified and corrective and implementing measures have been recommended..</i>
Prepare assessment report re. legal status	July 28	<i>Assessment report submitted.</i>
Check list / action items for law as part of interim progress report	June 9-Jul 28	<i>Checklist submitted and attached hereto as Attachment 1.</i>
Draft legal documents or provide comment, to assist the CEM in eliminating ambiguities relating to its legal status, e.g., amendment to 95/019, possible decree attendant to 95/019, by-	May 15 – Nov 30	<i>Draft new law, by-laws, decree completed and attached hereto in Attachment 2. Status of contrat programme will depend upon deliberations of Parliament and discussions with Malagasy counterparts. It is possible that the concept will be eliminated in the new law.</i>

laws, contrat – programme between CEM and the state.		
Advise and assist with agreement in principle between CEM and Post Office, provide draft protocol d'accord for use by parties.	July 15 – Nov 30	<i>Difficult relations with the Post Office, involving fees charged to CEM depositors by the Poste, and the intent of CEM and the Post to pursue separate ways (the Poste to set up its own thrift institution), made this task difficult to implement. However, continuing effort will be made. The outlook for a new protocol d'accord is uncertain.</i>
Provide ongoing advice and knowledge as appropriate to the RFP and work plan with respect to CEM's possible application for a banking or operating license. Keep USAID updated on this process and its course.	May 15 – Mar 15, 2001	<i>Close contact and discussion with the CEM in this area has begun. In addition, visits have been made to the CSBF and knowledge gained about the licensing process. USAID will be updated continuously.</i>
INSTITUTIONAL DEVELOPMENT AND STRENGTHENING	May 15- Nov 30	<i>Substantial and concrete progress has been made in identifying several issues and in taking corrective actions. Collaboration with counterparts has been excellent and productive.</i>
Check for progress against Delta audit report and Chemonics Assessment Report for AID and assist CEM as appropriate in closing exceptions in the reports.	May 15– June 15	<i>Status in relation to the Delta audit has been checked (see Attachment 3), while a preliminary check against the Chemonics report was done (see Attachment 4). The reason for concentration on the Delta audit is that team did not consider the Chemonics report as relevant as the Delta audit (Deloitte & Touche), with respect to technical concerns about operational soundness.</i> <i>Significant assistance has been provided to enable the closing of exceptions to the Delta report. Concerns in addition to those in the Delta and Chemonics reports were identified and corrective action taken (see Attachment 3). The most important recommendation in the Chemonics report about clarification of legal status has been addressed and progress made. More specific operational items in the Chemonics report will be addressed in October, as they may be applicable.</i>
<i>Review CEM performance yardsticks for change and develop one additional one for AID to track profitability / sustainability</i>	May 15 – July 28	<i>White paper submitted on schedule (see Attachment 5).</i>

ASSESS TAX LIABILITY AS EPIC AND AS SA AND ITS IMPACT ON SUSTAINABILITY / PROFITABILITY	May 15 – Jul 28	<i>Tax opinion has been requested from local counsel and has been prepared. Impact on sustainability / profitability not considered key to these measurements, as discussed in white paper on this subject (see Attachment 5 to this report).</i>
Assist the CEM in compliance with IASC / CSBF accounting standards and requirements and recommend steps as appropriate.	May 15 – 28	<i>Assistance provided, especially in the areas corrective measures to address exceptions in the Delta audit, accrual accounting practices, and the segregation of expense accounts (see Attachment 3). An EDP audit will be needed in order to obtain a clean external audit opinion for 1999.</i>
Provide input for choice of auditor and recommend terms of reference	May 15 – Jun 10	<i>Provided --- see terms of reference attached in Attachment 7.</i>
Monitor audit work	July 12–Nov 30	<i>Not begun. Auditor not selected.</i>
Ensure preparation of 3 year financial projections for business plan (see below)	Oct. 15- Nov 30	<i>To be completed.</i>
Prepare interim and final reports assessing progress / status for institutional strengthening component	May 15 – Nov 15	<i>Interim or progress report provided.</i>
MICRO FINANCE ACTIVITIES	May 15-Nov 30	<i>Initial meetings held with counterparts at the mutualists' association, 2 commercial banks, and a multilateral donor. Information received and evaluated. Strategy to be discussed by team and with USAID.</i>
Input for business plan about market and strategy	Oct 15-Nov 30	<i>To be provided as scheduled.</i>
Communicate with organizations and counterparts interested in micro finance and provide input and advice to USAID with respect to counterpart opinions as they might affect activities or strategy for the CEM and its institutional development.	May 15-Apr 16	<i>Contacts established. Advice to be provided to USAID in this respect.</i>
TRAINING OF CEM MANAGEMENT AND BOARD		
Summary training plan	July 28	<i>See Attachment 8 for Summary Plan.</i>
Ongoing training as part of	May 15–Nov 30	<i>Ongoing training for the CEM in the areas of</i>

advisory work		<i>financial management and accounting, governance and legal issues, and share valuation and structuring, has been a significant part of the team's approach and efforts.</i>
Training in governance and general management in an SA legal environment (2-3 days)	Oct 15- Oct. 31	<i>To be completed.</i>
Training in principles of financial management and control (3 days)	Oct 1 -15	<i>To be completed.</i>
Other training session to be decided	Oct - 15 - 31	<i>Preliminary thought is to include training in general principles of credit and risk management as a third topic to be offered during a 2-3 day training session in October.</i>
Assist CEM with Sale of Shares to the Public	May 15 - Oct 31	<i>Preliminary concepts about the structuring and valuation of a share offering and privatization have been considered. Ideas include the sale of a minority holding to a French savings bank that has interest, sale of shares to existing depositors, and a new preferred share instrument. Final concepts scheduled for October.</i>
Identify all legal and regulatory items required for satisfaction for sale of shares and assist CEM Board of Directors	May 15- June 2	<i>This was not completed as scheduled due to travel constraints of a team member but was addressed in July with CEM management and the head of the CEM Board. All items have been identified.</i>
Recommend business strategy for CEM, esp. re. micro-finance services and definition of market for business plan	Sept 15- Sept 30	<i>To be completed.</i>
Draft "Notice" for public offering and accompanying business plan or prospectus	Oct 31	<i>To be completed.</i>

- *COTR* - Kenneth P. LuePhang
- *Consortium Team Members* - Frederick Dulles, Legal Expert (Taylor-DeJongh), Khai Nguyen, Financial Management Expert (Chemonics), and Warren Chase, Chief Technical Adviser (Chemonics), Judith Beckwith, Microenterprise Institutional Development Expert (Chemonics), Osman Shahenshah, Asset Restructuring/Privatization Expert (Taylor-DeJongh), Kenneth Smarzik, Project manager (Chemonics).

- *Applicable Internet Links* - N/A
- *Specific Tools Used* - The Chemonics team provided advisory services as well as draft legal documents to Malagasy counterparts primarily at the CEM, the Ministry of Finance, and the CSBF. In addition to advice, a practical, results-oriented approach was taken, with assistance provided in implementing recommendations. Moreover, communication and coordination was initiated with other donor entities in the micro-finance area. Specific services are as follows:
 - Advice to the CEM and officials at the Ministry of Finance about the legal status of the CEM, which included collaboration in the preparation of new draft legal documents of practical benefit for submission to Parliament.
 - Advice to the CEM about strategy for future business activities, privatization, share valuation and structuring.
 - Assistance internally at the CEM in addressing exceptions in the Delta audit report as well as other issues of concern to the team. In this part of its work the team took a very aggressive and pro-active role in correcting operational items in collaboration with CEM counterparts. The importance of managing the audit process was emphasized and training and knowledge was imparted throughout.
 - Communication and coordination with other donor agencies in the area of micro-finance and micro-credit.
- *Project Summary.* In May and June 2000 work was begun under an approved work plan, which may be considered to consist of 4 phases. Two out of four phases of the work have been completed and several recommendations and activities in the legal and financial management areas are in the process of being implemented.

Phase 1 of the work in May and June concentrated on: 1) clarification of the CEM's legal status; and 2) an assessment of the CEM's institutional soundness and corrective measures taken, and to be taken, in this area. In the course of this work, undertaken by Frederick Dulles, Legal Expert, Khai Nguyen, Financial Management Expert, and Warren Chase, Chief Technical Adviser, with qualified local support in Madagascar, new legal documents were drawn and discussed at length with the CEM and senior government officials at the Ministry of Finance for submission to Parliament. Moreover, a detailed assessment report based upon the Delta (Deloitte & Touche) audit and the team's own experience and observations, was completed, and assistance provided with internal corrective measures, several of which have been implemented and are being implemented.

Task Order #	Authorized Expenditure	Actual Expenditure	Balance	Estimated Completion Date	Actual Completion Date	Balance in Days
801	\$463,000	\$97,179.90	\$365,820.10	April 11, 2001	N/A	201.5

II. Completed Delivery Orders

B. *Honduras Economic Principles Course* - Contract No. PCE-I-00-99-00007-00 - Task Order 800

- *Start Date* - June 25, 1999
- *Completion Date* - September 30, 1999
- *Amount of Task Order*- \$176,284
- *Task Order Objective* - To assist the USAID Mission in Honduras to replicate prior courses designed to educate the public about the fundamentals of a market economy. One component of the task order was directed at young professionals and focused on economic theory and its application to the analysis and solutions of economic problems of Honduras. The other component was directed at university teachers of economics and was focused on upgrading their economics skills in light of the globalization of markets.
- *Key Tasks to Meet Objective* - 1) The organization of a seminar for a selected group of thirty young professionals recently graduated from local universities in public management, economics, or agricultural economics and young professionals that are presently working in different public service and private sector financial institutions; 2) The organization and presentation of a seminar for a group of fifteen current teachers of economics at the university level; 3) Recruit and screen the applicants for the first component; 4) Develop a course plan that includes topics on macro and micro economic theory and practice; 5) Handle all administrative arrangements for organizing and presenting the seminars.
- *COTR* - Dennis Sharma, Danilo Alvarado
- *Consortium Team Members* - Chemonics
- *Applicable Internet Links* - N/A
- *Specific Tools Used* - 1) *Young Professionals*. Classes in: Economic Principles; Calculus and Linear Algebra; Computer Applications; Macroeconomics; Microeconomics. Economic Applications: International Commerce; Project Analysis; Agricultural Economics; Public Finance; and Statistics. 2) *University Professors*: Seminars and conferences on: Regional Economic Integration; Political Economy; International Commerce; The Economic Role of Microenterprises; Competitiveness.
- *Project Summary*. The courses for young professionals were carried out from June 25 to August 13, 1999. Thirty students were selected out of 100 that took an entrance exam. Diplomas were distributed to 27 students; however, student performance was

limited due to the lack of prior education in these topics and the intensity and pace of the courses given. Recommendations were made to institute these diploma courses on a regular basis through the "Universidad Nacional Autónoma de Honduras." However, in order for the course to be successful the academic director would require independence to develop the curriculum and entrance requirements.

60 professors from throughout Honduras participated in seven conferences in current topics. Participants were enthusiastic about the program and evaluations were positive. However, results were limited due to the heterogeneity of the group and limitations on time. Recommendations were made to concentrate future efforts on the courses for young professionals and incorporate the seminar program into the regular academic curriculum of the University. In this manner, both professors and students could participate and benefit from the seminars.

Task Order #	Authorized Expenditure	Actual Expenditure	Balance	Estimated Completion Date	Actual Completion Date	Balance in Days
800	\$176,284	\$162,621	\$13,662	09/30/99	09/30/99	N/A

III. Pending Work, Mission Inquires

Active Inquiries

- A. *West Bank/Gaza.* On May 4, Chemonics submitted a Tier III proposal to develop the institutional infrastructure and regulatory framework needed to create the efficient, transparent capital markets, mobilize equity capital mobilization to the private sector, and promote economic growth. This proposal was submitted in conjunction with our subcontractors Bankworld, The Intrados Group, IGFT, as well as Edelman Communications, The Illinois Institute of Technology's Center for Law and Financial Markets, and Winston & Strawn.
- B. *Sri Lanka.* On May 15, Chemonics submitted a Tier I proposal to provide Technical Assistance on Tax Policy to the Sri Lankan Fiscal Policy. This proposal was submitted in conjunction with our subcontractor, Georgia State, which has been working with USAID in this area in Sri Lanka.
- C. *Croatia.* On May 22, Chemonics submitted a Tier II proposal for a resident economic restructuring advisor to the Deputy Prime Minister of the Government of Croatia, to serves both as a restructuring advisor and as a facilitator in the policy implementation process. This proposal was submitted in conjunction with our subcontractors Parker, Whitfield and the Urban Institute.
- D. *Mexico.* On June 30, Chemonics submitted a Tier II proposal to strengthen the institutional base for the sustainable microenterprise growth by supporting initiatives. This project will provide high-caliber technical assistance and training to partner Microenterprise Finance Institutions and to other microenterprise support

organizations, so they can strengthen their institutional weakness, and create the institutional base needed to serve the Microenterprise finance sector.

Inactive Inquiries

- E. *Bulgaria.* On January 4, Chemonics submitted a Tier III proposal to help the International Banking Institute (IBI) to provide sustainable quality bank training services, thus reinforcing USAID/Bulgaria's objectives in the area of banking reform. On June 1, we were informed the project was awarded to another consortium.
- F. *Bulgaria.* On February 2, Chemonics submitted a Tier III proposal to work with the Bulgarian Securities Commission to improve capital markets regulations in that country. On April 14, we were informed the project was awarded to another consortia.
- G. *Madagascar.* On March 24, Chemonics submitted a Tier III proposal to support the Caisse d'Epargne de Madagascar (CEM) in completing its transformation to an independent institution. This proposal was submitted in conjunction with our subcontractor, Taylor-DeJongh Inc. On April 12, we were informed that the project was awarded to the Chemonics Consortium. On April 14, we signed the contract.
- H. *Jordan.* On April 13, Chemonics submitted a Tier II proposal to provide accounting and engineering services to audit both the PMU Capital Investment Program and the Management Contract to assure accounting and performance targets are being met under the project. On April 25, we were informed the project was awarded to another consortium.

IV. Outstanding Issues and Questions

- A. *Consortium management.* Since Chris Barltrop resigned late last year, Deborah Caul has been Acting Project Manager. A letter was sent to the Contracting Officer requesting that Ms. Caul be appointed as the permanent Project Manager.
- C. *Consortium meeting.* On May 22, 2000, representatives of six subcontractors of the Chemonics Financial Services Consortium spent the day at Chemonics headquarters collaborating on FS IQC activities and goals for the upcoming year. Discussions focused on ways to improve communication, to reinforce and to coordinate marketing efforts. In addition, attendees discussed methods and experiences of marketing the Financial Services Consortium to USAID, the need to refine and revise Past Performance Records, and upcoming FS IQC events.

On June 14, 2000, four representatives of two subcontractors of the Chemonics Financial Services Consortium spent the morning at Chemonics headquarters to discuss the development of the Consortium Web site and how it may best be used. The Web site will not only fulfill our obligation to our contract but will also be an excellent reference to USAID.

On August 9, the Financial Services and GBTI consortia will present a half day workshop on Tier 1 proposal preparation. The brown bag meeting will focus on technical and cost preparation best practices.

- D. *Web site.* During this period we continued work on our Web site and expect to have it up and running by third quarter 2000. The Web site will feature monthly and quarterly reports illustrating the work that is being done by the Chemonics Consortium. Also the site will contain pages highlighting past project performance, individual firms in the consortium, and contact information. Once the site is posted, we will continue to update information as well as create linkages between the US financial community with cooperating country counterparts as a portal of financial services on the Internet.