



**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 4, QUARTER 2: January–March 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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## PROJECT YEAR 4, QUARTER 2: January-March 2008



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: Mango Producers and Processors, Value Chain Field Analysis, Tapachula, Chiapas

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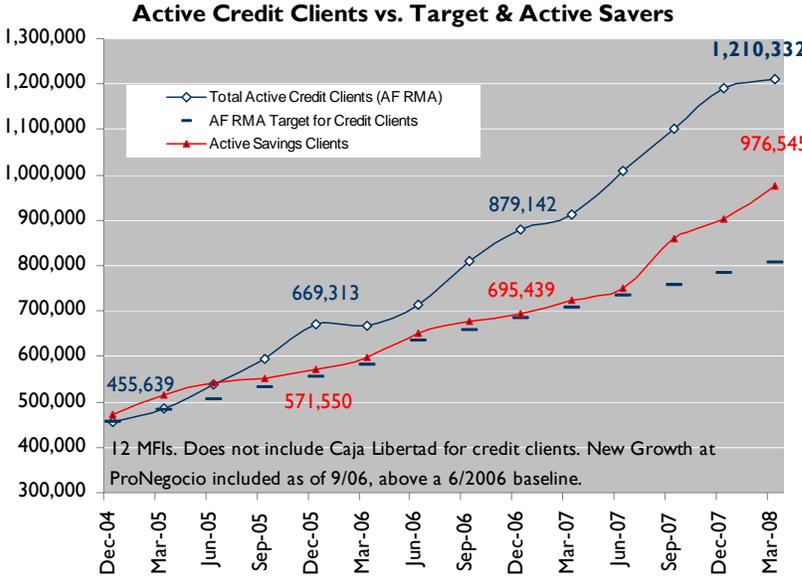
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# EXECUTIVE SUMMARY

The USAID/Mexico-funded AFIRMA Project 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. Budget constraints in late 2007 and into 2008 have meant that AFIRMA had limited support from external consultants, the full time AFIRMA team worked directly and intensively on a select group of projects that were prioritized in coordination with USAID.

**AFIRMA’s MFI Partners Serve over 1.1 Million Active Borrowers and Approaching 1 million Savers**

– AFIRMA continued to support specific needs of each of its 13 partner microfinance institutions (MFIs) last quarter focusing to differing degrees of intensity, depending on each partner’s situation as detailed in this report. The 13 partners under the microfinance institution building task now serve a total of 1,210,332 active credit clients, a 166% increase or 754,693 additional active clients above the December 2004 baseline. AFIRMA also continued to support re-design or development of 10 financial products, including savings products. Five partners are offering savings accounts, and have grown well, now serving 976,545 savings clients. Next quarter, AFIRMA will continue re-orienting resources to focus increasingly on support in designing and implementing rural and agricultural financial services.



**Rural and Agricultural Finance** – AFIRMA focused increasingly on agricultural finance, including additional research on upgrading strategies for small mango producers in coordination with the AMAP FSKG project. Additionally, AFIRMA worked with a USAID mission to examine the potential to utilize information and communications technologies to expand and deepen access to financial services.

**Microfinance Regulation and Supervision** - A set of regulation reforms was approved by Congress, defining a specific risk profile for microcredit, following extensive advisory services by an interdisciplinary team of local stakeholders, international consultants, and AFIRMA staff.

**Microfinance Enabling Environment Support** – AFIRMA and USAID continued to coordinate closely with the Secretary of the Economy microfinance program PRONAFIM including (at low cost to the AFIRMA budget) finalizing diagnostics of rural PRONAFIM partners and initiating technical assistance programs for 6 selected partners.

# INTRODUCTION

The Access to Rural Finance for the Microenterprise (AFIRMA) Project, a USAID/Mexico-funded project implemented by Development Alternatives, Inc. (DAI) forms a central part of USAID/Mexico's Results Framework, under the new regional Strategic Objective 2 (SO 2) for Central America and Mexico – **Economic Freedom: Open, Diversified Expanding Economies**. Under SO 2 the Intermediate Result (IR) to which AFIRMA contributes is IR 3: **Broader access to financial markets and services**. AFIRMA is designed to help build an inclusive, sustainable microfinance sector in Mexico as a means to increase access to a range of financial services and the project's main goal can be summarized as:

*"To contribute to the development of a dynamic, effective microfinance sector in Mexico that provides sustainable financial services to under-served urban and rural market segments, helping them manage risk and contribute to local economic growth."*

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

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

These tasks, their relationship to one another and to the project goals are further outlined in the Performance Monitoring Plan. Progress towards each task over the first quarter of year 4 (October-December 2007) and key priorities for the second quarter of year 4 (early 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

Below are highlights of AFIRMA activity with each partner over the quarter. In addition to those highlighted. Key objectives and specific activities for each partner can be found in the 2008 work plan, which covers the period January – December 2008.

#### I.1. Finamigo

AFIRMA's primary activities with Finamigo last quarter:

- **Portfolio Quality Improvement** – AFIRMA's Willy Escobedo and Ivana Fertziger worked this quarter to support Finamigo's efforts to improve portfolio quality and implement preventative measures to maintain lower portfolio-at-risk going forward. This effort included a series of strategic meetings with Finamigo Director and senior management, training course for 54 staff members, training of local consultants working with Finamigo, and field accompaniment. Mr. Escobedo guided Finamigo in implementing a special plan to recover portfolio-at-risk over 180

days in the branch where delinquent loans weighed heaviest. Finamigo management, along with a special task force, assigned 10 cases to each participant (including Loan Officers, Branch Manager, Regional Supervisor, and Commercial Director), and held committees to evaluate cases, make recommendations, and facilitate teamwork. Of the cases assigned, 120% of loan capital was recovered through a process of reevaluating each case and agreeing on a solution between Finamigo and each client. Due to the success of this initiative, in recovering portfolio at risk as well as training staff at all levels, team building, and improving work environment, Finamigo will implement similar strategies in at least two more branches, including recovery of loans that have been written off by the company.

Upcoming priorities identified with Finamigo:

- Portfolio Quality Improvement, with a focus on improving regular loan recovery processes for both individual and group loans (W. Escobedo and I. Fertziger)
- Board presentations and trainings, as solicited by Finamigo's General Director

## 1.2. AISol

AFIRMA's primary activity with AISol last quarter:

- **Strategic Planning** – AFIRMA's Nate Bourns, Fernando Fernandez, and Ivana Fertziger worked with AISol to finalize the Strategic Plan for 2008 – 2012, including an Operations Plan for 2008. AISol has requested AFIRMA's assistance to monitor progress against the plan, which the project will support next month.
- **Operations assistance** – Hugo Cruz was began work this quarter on improving operations management with emphasis on branch management and field operations in rural areas. Depending on results from this 1-month consultancy, AFIRMA has discussed with USAID and AISol the possibility of supporting a 1 year resident consultancy in the operations area.

Additional upcoming priorities identified with AISol:

- Strategic Planning for Social Programs (N. Bourns)
- Human Resources Development (C. Martínez)
- MIFOS Implementation – AISol has requested additional assistance from Carlos Paredes to support the open source MIS implementation process (to be examined with USAID).

## 1.3. CrediAvance

AFIRMA's Willy Escobedo collaborated with CrediAvance last quarter on the following initiatives:

- Development of the loan recovery manual and processes
- Modification of primary credit application forms
- Elaboration of functions for Regional Managers
- Support in recruitment for General Director
- Support in various initiatives for market research and marketing strategies
- Staff training process improvements

- Recommendations for loan officer incentive structures

Upcoming priorities identified with CrediAvance for next quarter, also spearheaded by AFIRMA's Willy Escobedo, include:

- Finalize loan officer incentive schemes.
- Presentation of individual Loan policies and manuals to the Board of directors
- Craft loan officer retention policies
- Finalize and present individual and group client retention programs
- Adapt the *Plan Loreto* loan recovery plan to Mazatlán, including new policies and control strategies.
- Meet with the Board of Directors to review Crediavance strategic advantages.
- Individual loan training

#### **1.4. Finrecemos (formerly Cademi)**

This quarter, Finrecemos was evaluated by Microrate, earning an impressive B+ rating considering that it was the institution's first rating experience.

AFIRMA's primary activity with Finrecemos last quarter:

**Board Governance** – Ivana Fertziger submitted a Memorandum to the Board of Directors regarding Governance Risk and strategies for expanding the board. The Board is currently considering the recommendations, and determining what adjustments to make to ensure optimal governance conditions for the institution.

Upcoming initiatives with AFIRMA include:

- Memorandum to the Board on Individual Loan implementation, comparing different alternatives for implementing this strategic product, and highlighting key differences between village banking and individual loan methodology (I. Fertziger).

#### **1.5. AMUCSS**

AFIRMA's primary activities with AMUCSS last quarter included:

- **Integration of Microbancos** – Christophe Paquette, French Microfinance Consultant, continued his support (cost-shared between AFIRMA and AMUCSS) of AMUCSS' efforts to integrate all the *Microbancos* into one supervised institution with optimal growth prospects.

Additional upcoming priorities identified with AMUCSS:

- Finalize resident consultant support of *Microbanco* consolidation into a single regulated institution (C. Paquette)
- Study tour for the Operations Manager
- Regulation study
- Delinquent loan recovery

## **I.6. Financiera Súmate**

Activities last quarter with Súmate included:

- **Ongoing operational staff training** – DAI resident advisor Hector Cisneros continued last quarter to support branch operations and training, including a comprehensive review process with each branch manager and operations staff. As part of the agreement at the beginning of this activity, this quarter Súmate contracted Mr. Cisneros directly to complete his current scope of work, in keeping with the defined counterpart contribution.
- **Human Resources Strategy** – Microfinance human resources specialist Henry Gutierrez finalized work with Súmate in developing the human resource strategy and processes necessary to continue to grow in a sustainable manner.
- **Board of Directors** – Nate Bourns supported Súmate Management in presenting to the new board of directors key elements of the Mexican market for microfinance.
- **Rural expansion** – Nate Bourns accompanied Hector Cisneros and Súmate Managers to review lower-cost rural points of service. Based on this review AFIRMA is discussing with USAID and Súmate a SOW for expansion of services in rural and agricultural markets.

In addition to the ongoing work described above, additional upcoming priorities with Súmate are:

- Individual lending support (W. Escobedo)
- Final Definition and contracting a new Management Information System (G. Simon)
- Rural and Agricultural Expansion strategy (TBD)

## **I.7. ProMujer Mexico**

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

- **Operational Technical Assistance** - Claudia Ordoñez continued work this quarter strengthening field operations, branch management and application of the loan methodology. Following good results from the first phase of her work, and due to AFIRMA budget constraints, ProMujer contracted directly with Ms. Ordoñez (providing a much greater counterpart contribution than originally envisioned) to provide this support of field operations and management. Next quarter Ms. Ordonez will finalize her work under her original SOW covered by AFIRMA.
- **Ongoing Consultation with the Board of Directors.** Fernando Fernandez and Geoff Chalmers and Nate Bourns provided advice on market, strategic and operational issues related to microfinance in Mexico, participating in various board meetings and in operations committee meetings.

Upcoming priorities identified with ProMujer:

- Continued Support from Operational coach (C. Ordoñez)
- Continue to develop a Management Information Systems Area (G. Simon)

## 1.8. FINCA Mexico

AFIRMA's primary activities with FINCA Mexico (FINCA) last quarter included the following:

- **Standardization of village banking operations procedures** – Following Ivana Fertziger's work with the newly formed Internal Controls (operations) and Processes and Procedures (administration) areas to standardize FINCA Mexico's Village Banking methodology, local firm, Servicios Internacionales de Negocios (SIN), completed elaboration of the Village Banking Credit Manual, currently under review by the General Director. This documentation is designed to be incorporated the intranet Document Administration System, for training and distribution purposes, to ensure a standard application of the methodology in all of FINCA's branches and service points. Additionally, FINCA hired SIN to elaborate a similar document for the Individual Loan product.
- **Updating the systematization of administrative and operations processes** – Local firm, Servicios Internacionales de Negocios, completed its work to update the systematization of administrative processes. Once the documentation operational processes (village banking with AFIRMA's support, and individual lending covered by FINCA) are authorized and released, FINCA will work to implement the system in all of its branches, while SIN will conduct an audit once the process is completed.

Upcoming priorities identified with FINCA include:

- Diagnostic of a cost management system (M. Chiappe).
- Risk Management System (E. Navarrette).
- Continued updating the systematization of administrative and operations processes (Servicios Internacionales de Negocios).

## 1.9. FinComún

AFIRMA's primary activity with FinComún last quarter:

- **Strategic Meetings** – AFIRMA's Willy Escobedo met with General Director and 5 Regional Managers to discuss delinquent loan recovery.
- **Training systematization/e-learning** – Mexican consultant Atenea Rico continued design and development of a distance learning pilot program for operations personnel.

Additional priorities with FinComún for the following quarter include:

- Risk Management Department consolidation and strengthening
- Support transition to Niche Bank
- Support of efforts to implement new technologies and business models to reduce costs
- Implementation of new credit product that utilizes chip technology
- Completion of distance training pilot implementation.

## **I.10. CAME**

Last quarter, Willy Escobedo spearheaded AFIRMA's primary activity with CAME:

- Individual loan training for 23 participants
- Transition plan for village bank clients to individual loan
- Improved credit manuals and policies
- Support in bringing Paolo Rodríguez, Peruvian individual loan specialist, in order to support individual loan practices. While AFIRMA helped identify the ideal candidate for this job, CAME covered all consulting costs.
- Market research to understand the company's main competitors in one region.
- Support in the development of new marketing material better oriented to the individual loan clients.
- Support in the development of the individual loan officer profile.

Upcoming initiatives with CAME include:

- Implementation of revised Individual Loan policies, manuals, and formats, as well as the newly developed Management Plan and product revisions (W. Escobedo)
- Regulation process support (TBD)
- Individual Loan Training, including marketing, credit committee, and loan recovery (W. Escobedo)
- Continued support in the implementation of the newly developed Transition plan for village bank clients to individual loan (W. Escobedo)
- Recovery of delinquent loans (W. Escobedo)

## **I.11. Caja Libertad**

Last quarter, AFIRMA maintained contact with Caja Libertad to monitor the progress in their new MIS implementation, which has been impeding further development of new products, including individual loans.

Depending upon the response from Caja Libertad, additional initiatives planned for next quarter include:

- Individual Loan Implementation
- Selection of Individual Loan Resident
- Individual Loan Training Processes

## **I.12. Compartamos**

Work has been finalized with Compartamos.

### **1.13. Creditos ProNegocio**

AFIRMA support to ProNegocio last quarter included the following initiatives spearheaded by Willy Escobedo:

- **Review of Operations strategies:**
  - Internal benchmarking of Loan Officer, Branch-level, Regional-level, and company-level performance.
  - Credit policies and manuals
  - Functions and obligations for credit and delinquency committees
  - Improvements to loan recovery outsourcing systems
  
- **Review of certain human resource management strategies:**
  - Loan officer recruitment strategies
  - Loan officer incentive schemes
  - Internal recruiting processes
  - Hiring of reserves to ensure availability of trained staff

Upcoming priorities with Pronegocio include:

- Continued review of operations and human resources strategies (W. Escobedo)

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

AFIRMA effort's for this component are focused on three correlated lines of action to leverage resources and transfer expertise, thereby contributing to the generation of local microfinance human capital and support service providers in Mexico.

### **2.1. Contracting Local Consultants and Firms**

Last quarter AFIRMA's work with local consultants and firms was reduced, resulting from the general decreased hiring of external technical assistance for MFIs. During this quarter, the AFIRMA team worked in coordination with one local firm, meanwhile supervising 2 professional interns as part of the mentorship program:

**Table 1 – AFIRMA Mentoring Program**

MFI/Task	Topic	Consultant
AFIRMA	Operations	<b>Rafael Cerritos</b> , finalized his one-year on the job training, and was hired for a full-time position with Financiera Rural in the microfinance operations department. This position represents a great opportunity for Rafael's career, and demonstrates positive value-added from his on the job training with AFIRMA.
AFIRMA	Microfinance	<b>Victor Valerio</b> finalized his first six-month contract as junior training consultant under supervision of Claudette Martinez. After his evaluation, AFIRMA considered that expanding his scope of work would be useful for continued training and support of AFIRMA's initiatives. Victor will continue working as junior consultant in microfinance, expanding his SOW to supporting training (across different tasks) and technical assignments on the PRONAFIM-AFIRMA implementation of technical assistance for 7 MFIs that operate with support from the <i>Fondo de Microfinanciamiento a Mujeres Rurales (FOMMUR)</i> .

Due to positive through the mentoring training model, next quarter one new intern will be contracted to replace Rafael Cerritos, but with an intensive scope to reduce timing on training.

Four projects with local firms and consultants were finalized or suspended:

**Table 2 – AFIRMA use and development of local firms and consultants**

MFI/Task	Project	Local Firm or Consultant
FINCA	Updating and implementing the systematization of administrative and operations processes	<b>Servicios Internacionales de Negocios (SIN)</b> completed its work to update the systematization of FINCA's administrative processes, and work on operations processes are currently under review by the General Director.
FINCOMUN	Distance Learning program	<b>Inovatec (specialized training firm)</b> , led by Atenea Rico, continued design and development of a distance learning pilot program for operations personnel, working to establish feasibility and impact for this kind of training.
PMM	Human Resources Support	<b>Maria Olazaba's</b> work with AFIRMA partner ProMujer Mexico (PMM) to develop human resource profiles and conduct training needs assessment by position was suspended this quarter, but is scheduled to continue next quarter.
SUMATE	Individual Lending	Independent local consultant <b>Gabriel Rojas, a microfinance specialist</b> , finalized Sumate's support. Unfortunately, a long term contract directly with the institution was not achieved, as Mr. Rojas took a position with Finca Mexico.

## 2.2. Microfinance Specific Skills-Building and Linkages

Due to decreasing AFIRMA technical external support on task I, hiring of local providers has decreasing proportionally; however AFIRMA continued working on microfinance specialization where applicable, often linked with other tasks. This quarter, the main activities on this line of action were:

- AFIRMA worked with PRONAFIM a specific project to strengthen a local firm “*Construyamos*” which is working on group lending methodology. Ivana Ferziger and Claudette Martinez worked in close coordination with “*Construyamos*” to design and develop a group methodology lending training under a TOT approach. The results expected are: a complete toolkit for the sector in this topic and a strengthened local firm.
- During last quarter AFIRMA continued facilitating linkages of high quality local providers with Popular Finance Sector organizations such as FINDES which continue working with PRODESARROLLO and will be working with PRONAFIM next quarter (contracted directly by them).

Next quarter, AFIRMA will implement the group lending training project. Results and products should be revised with PRONAFIM as model of strengthening local providers.

### 2.3. Microfinance Professional development program with IPN

As planned, during last quarter AFIRMA support of the *Instituto Politecnico Nacional* (IPN) Microfinance Development Program has focused on institutionalization and strategic advisory to consolidate the basic pillars for the project sustainability and technical support, always working to transfer sector knowledge to IPN. With this strategically focused role, AFIRMA significantly decreased accompaniment of daily activities.

Last quarter priority activities for this component included:

- **Signed Letter of Agreement:** USAID/AFIRMA’s work with the IPN was formalized under a letter of agreement signed by the Director of the IPN and the USAID/Mexico Mission Director.
- **IPN microfinance program evaluation:** Last quarter Claudette Martinez evaluated results of the microfinance program pilot phase, which was discussed with IPN leaders, in order to focus support for the program’s next phase.

Claudette Martinez and Fernando Fernandez met with IPN leaders last February to present main results detailed as follows:

- **Requirement of specialized academics.**  
Despite efforts during last year, currently there is no group of trainers involved in the IPN MF Program, which was one of the main challenges discussed with IPN to ensure the program’s continued success and sustainability.

As a result of discussion and coordination meetings, School of Economics’ (ESE/PN) leaders have been working on recruiting a group of professors to support future program activities. Selected Professors will participate in the next course, which will be relevant for transferring technical knowledge and involving new professors in the process.

- **Program adjustment and institutionalization requirements**  
IPN leaders agreed that the model used to-date has been appropriated during the pilot phase, however a planning session was discussed to align vision and develop specific plans for each unit involved in microfinance over the upcoming 5 year horizon.

**IPN meeting with SHCP:** Last quarter, Fernando Fernandez accompanied IPN Microfinance Center leaders to a meeting organized by SHCP (*Secretaría de Hacienda y Crédito Público*) to discuss the IPN outreach initiative. The Microfinance Center proposal will be presented to SCHP to be considered on related projects.

Next quarter priorities include:

- **Planning session for adjusting the IPN Microfinance Program.** IPN agreed to hold a planning session once each unit develops their specific plan, and the AFIRMA team will support preparing the session and attending preparation meetings with professors (a key component for the next phase of the program). Issues that will be addressed during the strategic planning session and preparatory discussions include expanding curriculum development, supporting initial microfinance research, and monitoring tool development.
- **Continue transferring microfinance introduction course:** The IPN team responsible for the MF program will be working to transfer the upcoming (fourth) course and preparing the selected group of participating professors. The next Microfinance Course is expected to be held mid- June.

## 2.4. University Network Initiative

During 2007 and into early 2008, AFIRMA identified increased university interest in Microfinance and Popular Finance, with several higher academic institutions looking to AFIRMA for support. As a result, AFIRMA held meetings with various institutions to assess interest in collaborating and coordinating efforts with other universities.

In early march, AFIRMA, in collaboration with the IPN, organized a meeting with 9 universities which are working on topics related to Popular Finance on different levels.

Main results of this meeting were:

- Initial contact: 9 universities (committed and interested in collaborating), presented projects and activities they are currently conducting. (see right box)
- Two programs were presented to recipients: options which could be a source for collaboration between universities (Mexican-American universities)
- Participants demonstrated interest in collaborating to share: Information, Contacts, Materials and future common projects

AFIRMA has been coordinating with MFMI, to look for collaboration on creating this network

### Information about Universities invited

#### Public Universities (2 current MFMI partners):

*National Universities (working through specific units)*

1. IPN (National)
2. UAM (National)
3. UNAM (National)

*Working under a USAID-program (TIES) with Ohio State, in rural finance*

4. CIDE
5. Colegio de Postgraduados (Graduate School specialized on agricultural and rural topics)

*Specific Centers*

6. PRECESAM/Colégio de México

#### Private Universities

*Working through a specific school or center / individual researchers*

7. ITESM / EGAD (School of public policy)
8. IBEROAMERICANA
9. COLCAMI/Universidad Anahuac (BID funded center some years ago, which is currently housed within Anahuac's economics and business school)

and tap of MFMI's learned lessons, discussing potential collaboration with MFMI on initiatives proposed as priorities discussed with the network for next quarter:

- Microfinance training program for academics: AFIRMA training specialist will develop a first draft for a specialization program for academics, which will be discussed during upcoming university network meetings.
- Research fund to promote research interest in Popular Finance, between young researchers and universities.
- Following communication through virtual tools (such as facebook and e-mail) to promote communication and information dissemination regarding microfinance.
- Second working meeting with universities to follow up on suggested activities.

## 2.5. ProDesarrollo

As result of review & coordination meeting held in August 2007 with Prodesarrollo management, it was decided to focus on Benchmarking collaboration and future coordination for transparency and other similar initiatives. Last quarter Prodesarrollo directly hired Samuel Perez (previously a resident consultant cost-shared with AFIRMA) and the project twill continue to coordinate to meet sector reporting and transparency goals.

The results of Mr. Perez's work in obtaining and publishing a standard set of indicators for a growing number of Mexican MFIs are now publicly available to the public on a bi-annual basis at: <http://www.prodesarrollo.org/36.html>

## 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 last quarter included:

- **Agricultural Value Chain Analysis** –AFIRMA worked closely this quarter 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 will be published following the workshop. An FSKG case study will also be produced, 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. Once this initiative is finalized, the project will review results with USAID to determine whether similar initiative should be supported in other chains.

- **Information and Communications Technology and Access to Finance** – AFIRMA’s Nate Bourns and Ivana Fertziger accompanied a field study conducted by USAID’s Nhu-An Tran and Judy Payne, to identify the potential for utilizing information and communications technologies (ICT) to improve access to financial services for Mexico’s rural populations. The study included a series of interviews with local actors, including government agencies, financial services providers (including select AFIRMA partners), ICT service providers, and other intermediaries. Once the final report is submitted to USAID/Mexico, a version will be adapted for public consumption as an input for microfinance institutions looking to use ICT to increase and improve their distribution networks, as well as service providers looking to offer ICT solutions to microfinance institutions.
- **Pineapple variety conversion business case with CrediAvance** - AFIRMA’s Nate Bourns worked last quarter to elaborate a business case for Red Rural, a commercialization company linked to MFI partner CrediAvance, seeking to develop the MD2 pineapple variety in Nayarit and southern Sinaloa, having identified a potential competitive advantage for producing this highly popular variety in that region. Mr. Bourns completed a draft of the business case and accompanying financial projections, and is in the process of helping Red Rural and CrediAvance to identify potential risk capital / equity investors.

Next quarter, efforts will focus on the following activities:

- Finalize Mango Research on Upgrading Opportunities for small producers (N. Bourns, I. Fertziger in collaboration with AMAP FSKG)
- Pineapple variety conversion business case with CrediAvance (N. Bourns)
- Agricultural Microfinance Diagnostic with Agrofinanzas (TBD, depending on resource availability)
- Using agricultural tracing software to derive relevant information for institutions looking to finance certain value chains.

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

Collaboration with *Comisión Nacional Bancaria y de Valores* (CNBV) authorities continued this quarter, with the leadership of the Vice President of Financial Institutions, Yerom Castro, giving high priority to the process of regulation and supervision of popular finance. In June 2007, an interdisciplinary team of representatives of institutions regulated under the Popular Savings and Credit Law (LACP) and international consultants Ramon Rosales y Carlos Ruiz (from DAI Subcontractor ICC), accompanied by AFIRMA staff, conducted an analysis of current regulation of the Popular Finance Sector. The group proposed improvements to existing norms, and last quarter a new set of regulation reforms in the LACP were approved by Congress.

- **Support to review and change Norms and Regulations in to LACP** – On January 18, 2008 the CNBV, published notice officially defining microcredit in technical terms, as credit for which

the payment source is derived from a commerce, industry, agriculture, livestock, fishery or other services offered by small and micro entrepreneurs. This definition clearly distinguishes microentrepreneurs from salaried workers, specifying that the loan payment source comes from a productive activity, and further distinguishes microcredit from credit for salaried workers and large companies, focusing the source of repayment, as opposed to the use of loans, which is notoriously difficult to discern.

The Mexican definition was the first in the region to take this approach and quickly and has become a model for the region, with Colombia adopting a similar shortly thereafter. Although work on implementing the regulation remains, it will potentially lower costs for lending to microentrepreneurs when done responsibly (through lower provisions) and may carry tax benefits. The change was the result of work that the CNBV undertook with AFIRMA and USAID, along with DAI subcontractor ICC led by Ramon Rosales and with industry leaders to review and redesign this regulation under the Popular Savings and Credit Law.

*Upcoming Task 4 initiatives include the following:*

- Continue managing the relationship with CNBV, including meetings with AFIRMA and ICC team to present and discuss review money laundering norms, as well possible other initiatives to support CNBV efforts.

## **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, divided into three basic categories: 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 maintain close contact with the National Microenterprise Finance Program within the Secretary of the Economy (PRONAFIM) and its senior leadership. This included, at a **very low level of investment of project funds**, a variety of important activities since late 2007.

AFIRMA and PRONAFIM have worked together on other projects geared towards strengthening Mexico's microfinance sector, including:

- Mapping Mexico's microfinance sector, incorporating information from over 100 institutions. Results were presented in the 2007 National Microfinance Conference, thereby increasing availability of market information that is required for internal MFI management decision making.
- Joint work with PRONAFIM to improve selection and technical assistance processes for PRONAFIM's fund for expanding access to financial services for women (FOMMUR). During a first phase, AFIRMA collaborated with FOMMUR to design and implement a rigorous diagnostic and selection process of MFIs who would receive technical assistance from FOMMUR, with AFIRMA support. The upcoming second phase will see 6 committed MFIs receive integral technical assistance focused on developing institutional capacity in order to expand and improve financial services for rural women microentrepreneurs.
- Joint strategy workshop in late 2007 with PRONAFIM Directors.

- Microfinance training course for 25 PRONAFIM personnel.

Thanks to the hard work of PRONAFIM leaders, as well as a commitment to improve its services to the sector, new initiatives and projects are moving forward to improve market conditions and microfinance institutions, ultimately improving access to financial services for thousands of marginalized and underserved families.

Upcoming activities with PRONAFIM include:

- Develop an integrated technical assistance program for MFIs selected by PRONAFIM from the initial diagnostic period.
- Strengthen PRONAFIM’s training program, including support for courses in solidarity lending and risk management. In the case of the solidarity lending course, AFIRMA’s Ivana Fertziger and Claudette Martínez will be working with a local training firm to transfer knowledge and build capacity so that the local firm may continue offering the course into the future.
- Continue the PRONAFIM Strategic Planning that was initiated in December 2007.
- Support the development of the 2008 National Microfinance Conference, which will focus on rural finance.

## 5.2. Other Industry Initiatives

- **Poverty Impact Assessment** – In compliance with the congressionally mandated USAID requirement of implementing poverty assessment tools for all microfinance institutions receiving over \$100,000 USD in development assistance, this quarter AFIRMA has completed a poverty assessment survey with partnering institutions. All of AFIRMA’s partners were surveyed through this initiative, except for FINCA México which was required to submit survey results directly as recipient of the USAID Microenterprise Office’s Implementation Grant Program.
  - Following a competitive bidding process, the poverty assessment tool with AFIRMA’s partners was applied by the firm, Serta, at a total cost of \$27,944 (299,000 MXP). Serta was selected based on its technical proposal and budget (which was the lowest), as well as previous experience working with Compartamos and Promujer, knowledge of the target population, and field experience. It should be noted that the final cost of the Serta contract is slightly more than originally budgeted, as has been discussed with USAID.
  - Clients surveyed were selected through a process of random cluster sampling per institution within a 95% confidence level, with sample size determined by the USAID approved survey system ([www.surveysystem.com](http://www.surveysystem.com)). Each institution identified clients to be interviewed, based on random selection from their respective databases. Once the sample was determined, Serta proceeded to interview clients in person, under supervision by AFIRMA Indicators Specialist Francisco Carbajal.
  - The Survey found the following statistically significant poverty indicators for institutions that each received more than USD\$100,000 investment from USAID:

AFIRMA Partner	Estimated Poverty Rate
Alsol	32.71

Compartamos	14.93
Credavance	18.54
FinComún	11.54
Súmate	15.12

- The Survey found the following statistically significant aggregate poverty indicator for institutions that each received less than USD\$100,000 investment from USAID:

AFIRMA Partner	Estimated Poverty Rate
Fincrecemos	20.42
Finamigo	
Amuccs	
Caja Libertad	
CAME	
Pro Negocio	
Promujer	

- AFIRMA included several additional questions to the survey, in order to better understand certain dynamics for Mexico’s microfinance clients, such as use of cell phones, borrowing for additional institutions in the market, requirements for business advisory services, and demand for additional financial services such as savings, remittances, and insurance.
- The survey indicated that, while AFIRMA partners are attending Mexico’s rural areas, there continues to be a need for broader and deeper rural coverage for Mexico to achieve an inclusive financial system.

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. Nathanael Bourns and Francisco Carbajal from AFIRMA will continue their assistance to PRONAFIM on Microfinance mapping and indicator tracking system. AFIRMA advisor John Magill will continue to help PRONAFIM design a market analysis of microenterprises in Mexico based on National Census information and other secondary information sources.

# PROJECT INDICATORS

In January 2006, AFIRMA and USAID adjusted the Performance Monitoring Plan (PMP) to the new Strategic Objective and Intermediate Results framework mentioned in the introduction to this report. AFIRMA has updated the PMP and the indicators below, divided by Task, reflecting the adjusted PMP.

**Table 4 – Task One Indicators**

Indicator	Baseline Dec. 2004	March 2008	Variance	LOP Target
<b>I. Strengthen the institutional capacity of MFIs</b>				
I.1. Number of active credit clients	455,639	1,210,332*	+754,693	Increase of 500,000
I.2. Number of MFIs mobilizing savings deposits	3 (FC, AMUCSS, CL),	6 (+Finamigo, CAME, Compartamos)	+3	6
I.3. Total Value (USD) of outstanding loans by AFIRMA MFIs (CL, AMUCSS not included)	\$139,816,887	\$531,743,356	+280%	Increase – no targets set
I.4. Increased Points of Service	338**	704	+108%	Incr. POS 50%
I.5. Financial and Operational Self-Sufficiency	5 of 12 FSS.	7 of 12	+2	All MFIs FSS
I.6. Operating Expense Ratio	0 (by definition)	7 of 12 improved	7 of 12 improved	10 of 12 improve
I.7. Loan officer productivity	0 (by definition)	7 of 12 improved	7 of 12 improved	All MFIs improve
I.8. Portfolio-at-risk > 30 days	9 under 5%	7 under 5%	-2	< 5% for all MFIs
I.9. Portfolio write-off ratio		0.1% average		Minimize
I.10. No. MFIs using accepted accounting practices due to AFIRMA support	0 (by definition)	1 (AMUCSS)	+1	No specific targets set.
I.11. Compliance with regulatory standards due to AFIRMA support	0 (by definition)	2 (AMUCSS, Súmate)	+2	All partners meet requirements

\*The total does not include Caja Libertad, because data can't be segregated from consumer and other lines of business – CL estimates that 20% of the current 282,170 (56,434) clients are microenterprise clients. Créditos ProNegocio results are counted towards project indicators using a June 2006 baseline (PN had 27,320 clients and 39 points of service in June 2006). Data for AMUCSS for June 2007 was not available at time of reporting, therefore all data for AMUCSS is counted as of March 2007.

\*\* Pronegocio baseline points of service were 39 in June 2006, added to the original baseline of 299.

**Table 5 – Task 2-5 Indicators**

Indicator	Baseline Dec. 2004	March 2008	Variance	LOP Target
<b>2. Develop a local, commercially-based MFI support services industry</b>				
2.1 Number of quality service providers	0 according to Partner MFIs in 2005 survey.	7 (SIN, SIEM, FINDES, Link, Anjona, Inovatec, Serta)	+7	> 1 quality service provider in each of the 5 most important service areas
2.2 Unsubsidized MFI purchase of local services	Very limited unsubsidized purchase of services	5*	+5	> 6 MFIs procuring services at full cost by Year 5
2.3 Number of local firms used	0 (by definition)	12	+12	No specific targets set
2.4 Number of consultants trained in key areas	0 (by definition)	6**	+6	No specific targets set
<b>3. Develop innovative products and technologies that expand access to rural financial services</b>				
3.1 Number of effective innovations supported	0 (by definition)	1. FinComún: refine approach to alternate delivery Channels 2. Compartamos parametric desertion scoring to offer non-village bank products	+2	5 effective innovations supported
3.2 Increased outreach due to supported innovation	Establish with each innovation as part of application	TBD	-	Increase – no specific targets set
3.3 Number of new or adjusted products	0 (by definition)	10***	+10	Increase – no specific targets set
<b>4. Develop innovative products and technologies that expand access to rural financial services</b>				
4.1 Work plans for key areas	0 (by definition)	2 (LACP reforms, Anti-money Laundering AML)	+2	Annual work plans established and implemented
4.2. TBD based on work plans with CNBV	TBD	Specific LACP reforms proposed for Congressional review  AML report delivered for CNBV review	+1	TBD
<b>5. Develop innovative products and technologies that expand access to rural financial services</b>				
5.1 Increase provision of Useful market information	Sparse, disparate information available	OSU/AFIRMA reports published (microlinks)  Sector report published, > 25 new MFIs reporting to ProDesarrollo & MIX market		Useful Market information readily available
5.2 Benchmarking system	No effective system	Global-standard Coordination with Prodesarrollo / MIX Market.  Bi-annual indicators being published on <a href="http://www.prodesarrollo.org">www.prodesarrollo.org</a>		Global-standard Benchmarking system established

\* AFIRMA has decreased subsidies by 63% on projects with local firms such as SIN and LINK international working for Finca and with Innovatec working for FinComún. Alsol and Prodesarrollo with FINDES without subsidy from AFIRMA, and has had a follow-up rating with MicroRate, which is looking to establish a local office given local demand generated in part by AFIRMA.

\*\* Hector Sanchez worked on management operations systems and procedures. Fernando Palmos with in-depth knowledge of accounting and regulatory subjects, has worked as a trainer for MFIs and advisor for ProDesarrollo and will work with PRONAFIM during this year. Juan Omar Flores after a one year of on the job training was hired by CTI, an MFI Systems provider. Samuel Perez was hired by Prodesarrollo after worked closely with AFIRMA staff on best practices in microfinance benchmarking. Alejandro Fernandez was hired by AMUCSS after worked closely with AFIRMA, as resident consultant. Veronica Corzo, Information Systems Specialist is working with Alsol in coordination with international consultant Carlos Paredes for the MIS project.

\*\*\*AFIRMA has assisted in the development of New/Adjusted products at FinAmigo, PMM, Despeno, AISol (adjusted loan methodology), Fondo 5 de Mayo (2: adjusted solidarity group loan, implemented individual loan), FinComún (adjusted 2 products – savings and loan), and Compartamos (re-designed 2: individual and solidarity loan products, designed micro-insurance product and a home improvement loan product).

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