PD-ABU-212

Matching Grant Program EVALUATION July 2001

Prepared for

USAID, PVC Division
Contract: FAO:00-98-00080-00

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Acronyms

AIS	Accounting Information System
BDS	Business Development Services
CAS	Client Account System
CB	Community Bank
CGAP	Consultative Group to Assist the Poorest
CIDA	Canadian International Development Agency
DIP	Detailed Implementation Plan
MEDA	Mennonite Economic Development Associates
MG	Matching Grant
MII	MEDA Investments Inc.
MIS	Management Information System
PAR	Portfolio at Risk
PVC	Private and Voluntary Cooperation
PVO	Private Voluntary Organization
SEEP	Small Enterprise Education and Promotion Network
TA	Technical Assistance
TRU	Technical Resource Unit

Executive Summary

MEDA's first Matching Grant from USAID's Bureau of Humanitarian Response/ Private and Voluntary Cooperation Division operated from October 1998 to September 30, 2001. *The project was designed to build capacity in MEDA headquarters and in two of its microfinance programs in Mozambique and Haiti. Objectives largely have been achieved.*

MEDA headquarters' plans for building capacity included components to increase MEDA's ability to provide financial resources to its local partners, to refine methodologies and transfer proven techniques to its programs through technical assistance, and to develop and deliver training modules. *These plans were achieved almost completely, a remarkable feat in a rapidly changing environment.* The Sarona Global Investment Fund has tested and revised its structure to deal more effectively with investors but does not expect to be sustainable until 2002. Through its technical assistance and training, MEDA has developed and delivered the planned tools, although the community banking methodology remains in Creole. In terms of its own sustainability, MEDA has achieved a 114% increase in its fundraising but has not reduced its dependence on donor funding to the desired extent. However, it has achieved a financial surplus each year. At an industry level, MEDA continues to be an active and reputable participant, and its consulting arm makes its newly developed tools available through training opportunities.

MEDA's Mozambique partner is MEDA Mozambique, a registered foreign NGO. This program received capital for its microfinance program in a loan from the Sarona Global Investment Fund. The program uses solidarity group and individual lending methodologies. Initial, unanticipated staffing problems included minor frauds and lack of capacity. *However, the program now is poised to scale up, with a solid staff and improved methods and procedures.* Although it will need additional staff, it is moving toward self-sufficiency with a detailed business plan. Currently, rapid devaluation of the local currency and erosion of its capital fund hamper the program. Without workable short- and long-term action plans, the fund will erode to the point where the program will be unable to pay the annual interest on its capital fund loan to Sarona in hard currency. MEDA has proposed continued support for MEDA Mozambique in its followup matching grant proposal.

MEDA's Haiti partner is MEDA Haiti, a registered Haitian NGO. In the PVC Matching Grant area, MEDA Haiti successfully operates a microfinance program using community-banking methodology adapted to the rural Haitian context. The operation that PVC finances is one of three community banking programs MEDA Haiti manages, and has been combined with literacy training. Short-term plans involve a steep growth curve, developing community bank numbers and consolidating the three community bank programs into a for-profit, sustainable subsidiary. Longer-term plans include merging the subsidiary with other like-minded rural community bank operations. *The staff and management now have the capacity to fulfill the long-term objectives.* Until the project achieves sustainability or finds other financing, MEDA will continue to finance the community banks' operation in the project area. In addition to the small amount of money obtained through Sarona for loan capital, MEDA Haiti maintains a line of credit and a fund transfer arrangement with Fonkoze, its literacy partner. The unique nature of MEDA's community bank methodology has caused problems in finding an MIS program adequate to handle periodic balloon payments of principal while accepting monthly interest payments. This problem will be remedied within the next 12 months.

MEDA Matching Grant Program
PVC Division, USAID
Contract Number: FAO-00-98-00080-00

1. Program Identification
Mennonite Economic Development Associates (MEDA)

a. Contract Number: FAO-00-98-00080-00
b. Term: October 1, 1998 – September 30, 2001
c. Date of Evaluation: June/July 2001
d. Country Programs: Mozambique, Haiti

2. Program Background
2.1 History
MEDA has been involved in developing rural and urban credit, training and marketing facilities for nearly two decades. This is the first project that MEDA has had with the PVC Division, USAID.

MEDA was organized in 1953 by a small group of Mennonite business people who were interested in encouraging development of business enterprises in less-developed areas of the world. Today, MEDA is an organization of 3,000 Christian business people, mostly from North America. MEDA began by investing in development-oriented businesses through a venture capital fund. MEDA's first microcredit programs opened in Haiti in 1985. Since then, MEDA has replicated its microcredit programs in Jamaica (1987), Bolivia (1988), Nicaragua (1990), Tanzania (1994), Russia (1995), Zimbabwe (1995), Mozambique (1996), and Romania (1997). The key to successfully replicating these programs has been their systematic packaging. MEDA offers training courses in microenterprise credit management to other development agencies, and regularly offers consulting services in business-oriented development to major donors and other PVOs. MEDA is a member of the SEEP (Small Enterprise Education and Promotion) Network.

2.1.1 Current Implementation Status
The project will be completed on September 30, 2001, and a followup proposal has been submitted to USAID. This proposal includes continued support for capacity building at MEDA headquarters and for its MEDA Mozambique partner. During the evaluation, the organization received confirmation that the majority of the proposal had been accepted.

2.1.2 Partners
As part of this PVC project, MEDA is working with two partners. In Mozambique, the partner is MEDA Mozambique, a new PVO registered in late 1996. MEDA Mozambique is establishing and operating a microfinance program primarily in the major markets of Maputo. In Haiti, the MEDA partner is MEDA Haiti. This partner has operated since 1985. As planned, this project is implementing a previously piloted community bank model, with cooperatives which MEDA Haiti had earlier been working with to market cocoa.

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2.1.3 *Program Goal and Purpose*

Goal: To build and strengthen sustainable, local capacity to promote economic growth with and among the economically-active poor, using enterprise development in selected countries in Africa, Latin America and the Caribbean.

Objectives/Purpose:
MEDA Headquarters
Objectives –
1. Global Investment Fund will play a critical role in:
   - Raising external capital
   - Managing fund assets
   - Developing a financially viable investment structure.
2. Training will be provided to local partners, to transfer and adapt proven, successful methodologies and techniques to incipient programs.
3. Technical Assistance (TA) will be provided to local partners, to transfer and adapt proven, successful methodologies and techniques to incipient programs.
4. Financial resources will be provided to local partners.
5. Collaboration with local partners will test and develop techniques.

MEDA Organizational-Level Targets –
- To attain 200% increase in member contributions
- To decrease government funding from 74% of total to 66%
- To increase revenue from consulting, trade and investment to 21% of total
- To achieve a financial surplus each year

Industry-Level Targets –
To develop the following tools further and make them available to the industry through consulting services and publications:
- Quality standards for microfinance institutions
- Client Account System (CAS)
- Best practices training modules
- Cost-Benefit Analysis Tool

MEDA Mozambique - Kulane Ka Ntwananu (Growth through Unity)
Objectives –
1. To increase the program's institutional capacity
2. To improve the quality of services to clients
3. To increase the program's sustainability
4. To introduce effective impact-assessment methodology

Client-Level Baseline –
MEDA Mozambique currently uses the solidarity group methodology. As of November 1998, the DIP included the following baseline:
- 250 active clients
- 64% women
- Average first loan is slightly less than US$100, increasing by about $50 per cycle
- Loan term is four months with weekly repayment
- Flat interest rate of 45% p.a.
- Real effective rate of interest 118%

Client-Level Targets –

- 2,400 active loan clients
- $153,600 loan portfolio in operation
- Less than 5% of portfolio more than 30 days late

Country Partner-Level Targets –

- Establish two new satellite lending offices
- To attain 100% overall operational self-sufficiency
- To attain 87% overall financial self-sufficiency

MEDA Haiti

Objectives –

1. To increase profitability and sustainability of the Community Banks (CB) Program.
2. To increase institutional capacity of the CB program.
3. To improve quality of services to CB clients
4. To improve MEDA's monitoring and evaluation capacity.

Client Level Baseline –

MEDA Haiti is expanding on a completed pilot project based on a community-banking model. The DIP included the following baseline information on the pilot:

- Three months to form and train a community bank and management committee
- 30 to 50 people per bank
- 65% women
- Loan amount per person US$100-$350
- Average terms: Commerce, six months; Agriculture and related, nine months
- Interest 2.5% per month, declining balance paid monthly
- Quarterly capital repayment
- 5% commission per loan
- 15% forced savings during life of loan

Client Level Targets –

- 1500 active community bank members
- $131,250 loan portfolio in operation
- Less than 5% of portfolio more than 30 days late

Country Partner Level Targets --

- To establish 50 new community banks
- To establish five community groups, each serving as liaison with 10 banks
- To attain 62% overall operational self-sufficiency
- To attain 49% overall financial self-sufficiency

2.2 Availability of Data

2.2.1 Annual Reports

Annual project reports for the first two years of the project (1998/1999 and 1999/2000) were made available for the project

2.2.2 Prior Evaluation

Although the agreement with USAID calls for a midterm evaluation by MEDA and a joint final evaluation, the midterm evaluation has not been completed. An annual report evaluating the situation in Mozambique in 2000 was deemed to have been a midterm evaluation. USAID made no other prior evaluations of this project. MEDA did, however, make available other institutional evaluations performed by other donors.

2.2.3 *PVO Monitoring and Evaluation System Data*

Trip reports and monitoring sheets, dating to before the beginning of the PVC project, were made available for Mozambique and Haiti. Separate trip report files were incomplete, but staff found trip reports in other files.

2.2.4 *Other Sources*

MEDA made available all material required for evaluating this project. This included:

- MEDA's Annual Review and Plan of Operations for the years 1998 to 2001;
- Training, environmental impact assessment, gender equity materials and other training materials generated for this project;
- Results of the Strategic Planning Workshop for the Community Banking Program in Haiti;
- The preliminary strategic plan for MEDA Mozambique
- The ASOMEX, Bolivia case study
- Budgets and financial reports for MEDA, and financial and correspondence files – paper and electronic
- The Technical Resource Unit's technical and resource documentation, based on the research, best practices and lessons learned used to support and advise projects.
- The Country Managers' Management Handbook
- Baseline and impact assessments for Mozambique and Haiti
- Human resource policies, procedures and job descriptions

2.3 Purpose of the Evaluation

The goal of this project has been to build the capacity of local partners in Mozambique and Haiti and to strengthen the capacity of MEDA's headquarters, to deliver programs that are more effective. The purpose of this evaluation is to:

- Report to USAID the results the project has achieved. Because this is the first PVC matching grant that MEDA has received, it is important for USAID to verify that it has gotten value for money for its investment. Using this information, USAID will be able report to Congress and use the lessons learned, to share with other PVOs and to improve its own methodology.
- Report MEDA programming improvements that have resulted from this project. MEDA also wants to use the evaluation to gain new insights into its operation, and to add energy to its continuous improvement efforts, in programs and at headquarters.
- Report to MEDA and its local partners in Mozambique and Haiti the results of the capacity building efforts and an initial impact assessment of those efforts on the livelihood of the clients they are serving. It also outlines steps that these organizations can take to strengthen themselves and become sustainable more quickly, while meeting needs of their entrepreneur clients.
    - MEDA Mozambique is interested in gaining two primary pieces of information from this evaluation. First, it wants ideas for cutting operations costs. Second, it wants ideas for managing delinquencies better, particularly in the second and third cycles when the solidarity groups' problems surface and the dropout rates increase.
    - MEDA Haiti is interested gaining information about its program's strengths and weaknesses. It would like ideas on consolidating the PVC program with the two other community bank programs it operates, and about changes that might help the program more effectively meet its combined goals of self-sufficiency and of having a positive impact on clients' livelihoods.

3. Evaluation

3.1 Program Implementation

3.1.1 MEDA Headquarters

3.1.1.1 Progress Toward Goal

MEDA was organized in 1953 by a small group of Mennonite business people interested in encouraging development of business enterprises in less developed areas of the world. Today, MEDA is an organization of 3,000 Christian business people, mostly from North America, who believe they can use their faith, skills and resources to help overcome poverty. In the 1970s, MEDA obtained PVO status in the United States and Canada. It remains a bi-national PVO with offices in Lancaster, Pennsylvania, Waterloo, Ontario and Winnipeg, Manitoba. MEDA has registered in, and maintains offices in, Bolivia, Peru, Haiti, Mozambique, Nicaragua, and Tanzania. MEDA currently supports small business development activities in 12 countries, including the US. It is organized into three divisions: Member Services/Marketing and Fund-raising, North American Services (NAS) and International Economic Development (IED). MEDA's annual budget is $5.4 million.

Objectives	Indicators	Current Status
Global Investment Fund will play a critical role in: • Raising external capital • Managing fund assets • Developing a financially viable investment structure	• Existing program has access to necessary capital • Decreased dependency on donors • Increased capacity for sustainability	$46,900 to Mozambique. In Year One for a total of $70,600 375,000 Gourdes to Haiti in Year Two. Renamed "Sarona Fund" The former Global Investment Fund has been restructured by incorporation of an investment management company, MEDA Investments Inc. (MII). MII is a wholly-owned MEDA subsidiary designed to manage all of MEDA's investment initiatives. During 2000, MII experimented with a limited-partnership company. This has since closed due to two marketing difficulties: • The cost of audits and regular valuations of the portfolio was too high for partners. • Individual donors do not want to be part of a large anonymous fund. They want to feel a more direct connection with the investment. The Sarona Global Investment Fund is a non-profit organization that invests in other organizations and raises capital through fixed-income offerings. Responding to lessons learned in the limited partnership

Objectives	Indicators	Current Status
		experiment, MII is creating country- and sector-specific companies to invest in particular locations. This aspect of MII's development is at the concept paper stage. By end of project, income from investments still will not fully support costs. However, significant progress will have been made. Sarona expects to be profitable by the end of its 2001/2002 fiscal year.
Local partners will be trained to transfer and adapt proven, successful methodologies and techniques to incipient programs.	• Training plan developed	Initially, the training plan framework was developed as part of DIP
	• Training plan carried out by providing direct, country level training and regional workshops	Completed during preparation of the DIP. Regional workshops held annually – Annual Review and Plan of Operations meetings, with Country Managers. Monitoring trips by the TRU, local strategic planning sessions and performance reviews provide training needs. Training needs are also met when experienced and less-experienced staff travel and work together on various aspects of the projects.
	• Training focused on establishing simple, effective policy and procedural systems	Training that has been delivered has focused on simple, effective policy and procedural systems to ensure compliance.
	• Methodologies used by partners promote financial viability	Sustainability is the focus of all microfinance operations. Promotion of financial viability drives all aspects of the program.
Technical Assistance (TA) will be provided to local partners transferring and adapting proven and successful methodologies and techniques to incipient programs.	TA provided in the development of:	
	• Program monitoring and evaluation systems	Drafted in 1999 and refined in 2000, currently in use
	• Performance and financial ratio analysis	Mozambique MIS/Accounting providing detailed info.
	• Projection models	Credit Officers have received Credit Analysis training Strategic planning training has been provided, and MicroFin

Contradicts.

Objectives	Indicators	Current Status
		has been used to develop Business Plans for both Mozambique and Haiti.
	• A system of applying a gender-sensitive approach to SBDP programs	Policy and strategies developed. Implementation plan completed; actual implementation not yet begun. Gender surveys completed in both Haiti and Mozambique.
	Partners will:	
	• Use proven lending models	The solidarity and individual lending model used in Mozambique replicates other MEDA experiences. Haiti's Community Banking model has been redesigned and refined during the project's course.
	• Monitor and control portfolio quality, profitability and efficiency ratios	Mozambique and Haiti now monitor and control their own ratios.
	• Operate streamlined programs that promote scale-up to financial sustainability in 3-5 years.	In Mozambique, schedule has been slowed by difficulties with staff; it is positioned to scale up now. In Haiti, limited literacy among clients limits capacity for self-sufficiency. Also, clients have limited opportunity to generate income outside agriculture-related enterprises. Weather has been inconsistent during the past few years. Political instability has not helped the situation.
Financial resources will be provided to local partners	• Some start-up operational costs covered	Provided in both Mozambique and Haiti.
	• Initial capitalization of loans provided	Initial capitalization provided. Although below target, sufficient funds to meet demand are in place.
	• On-going operational costs increasingly covered by interest and fee income from operations	Operational sustainability indicators provide evidence that operational costs are being covered to a greater degree.

Objectives	Indicators	Current Status
Collaborate with local partners to test and develop techniques	• Systematic assessment of successful experiences	Mozambique has used and refined generic policies and procedures on solidarity lending, individual lending and lending to associations.
	• A plan to develop concrete methodologies and specific tools developed	Completed as part ARPO, the plans are developed annually.
	• Identified methodologies and tools documented	Bolivia long range study; Bolivia ASOMEX bean marketing case study; Development of BDS handbook; CGAP MicroFin beta tester. In Nicaragua, documenting transformation of CHISPA into CONFIA has been deferred to the next PVC grant
	• Documentation shared with others through SEEP and microfinance networks with whom MEDA and its partners are affiliated	Bolivia ASOMEX case study presented to SEEP; BDS handbook development presented to SEEP BDS workshop; MEDA's work on internal controls shared with SEEP – MEDA has provided two workshops to SEEP members and has presented results at the Boulder microfinance course.

Constraints & Unanticipated Effects

Year One

There were significant staffing and structural changes in the organization. Key long-term people left to pursue other interests. This gave new staff the opportunity to restructure and streamline the organization to meet future needs.

Successes and Explanation

The synergy of the Technical Resource Unit and the consulting arm of MEDA led to development of additional resource and training materials that continue to strengthen the program. These materials include:

- Revised material on how to conduct environmental assessment. MEDA's Mozambique staff attended the training in Tanzania.
- A Fraud Prevention and Internal Control training program.

3.1.1.2 Progress Toward Sustainability

The goal of MEDA's MG program is to build and strengthen sustainable local capacity and to promote economic growth with and among the economically active poor, by developing enterprise in selected countries in Africa and the Caribbean.

Client Level

Objective	Indicators	Achievement to Date
Provide the means of income for individual clients in Mozambique and Haiti	**Mozambique** • 2400 active loan clients	405 active clients (249 women) in Year One (480 and 312 women targeted); 1010 active clients(667 women) in Year Two (1200 and 780 women targeted); 1325 active clients (861 women) in December 2000 – the last available information
	• $153,250 loan portfolio in operation	$26,000 in Year One (target $31,200) $64,415 in Year Two (target $75,000) $73,735 at mid-Year Three
	• <5% of portfolio over 30 days late	30% of portfolio at risk in Year One (target <15%) 4.82% of portfolio at risk in Year Two (target <10%) 2.5% at mid-Year Three
	Haiti • 1500 active community bank members	Year Two – 723 (target 900) 321 women (target 360) 1329 – (744 women) in March 2001 – the last available information
	• $131,250 loan portfolio in operation	Year Two - $37,000 (target $54,563) March 2001 - $75,120
	• <5% of portfolio over 30 days late	<0% in Year Two 3.9% >1 day at mid-Year Three

Prospects for Sustainability

Mozambique

In terms of capacity, if the new staffers required for scaling up are trained to a level equal to the current staff, MEDA Mozambique will be well positioned to scale up.

Haiti

At the client level, difficulties relate to client literacy, to first-time introduction to institutional credit, to working in groups for financial purposes for the first time, to limited economic opportunities, to inconsistent weather that damages crops, and to political instability. Demand to join the program by people in the region, in spite of these difficulties, demonstrates that it meets clients' needs.

Country Level

Objective	Indicators	Achievement to Date
Mozambique - the program will work with one partner serving clients directly.	• 2 new satellite lending offices established	Using an assignment method instead of actual building
	• 100% overall operational self-sufficiency attained	15% in Year One (target 19%) 44.16% in Year Two (target 53%) 42% at Midyear in Year Three
	• 87% overall financial self-sufficiency attained	41% at Midyear in Year Three
Haiti - the program will work with 5 partners, each collaborating with 10 community banks, and plans will be developed to create a sustainable organization that will serve each of these partners.	• 50 new community banks established	51 community banks established by July 2001
	• 5 community groups serving as liaison with 10 community banks	5 community groups liaising with 10 community banks (1 has 11 community banks)
	• 62% overall operational self-sufficiency attained	Year 2 – 42.5% (target 21%) 18% at Midyear in Year Three, due to expansion to five credit officers from two
	• 49% overall financial self-sufficiency attained	18% at Midyear in Year Three due to the expansion to five credit officers from two

Prospects for Sustainability

Mozambique

The Mozambique Meticais' inflation and devaluation will rapidly deplete the hard currency capital fund. Without a realistic, quickly implementable action plan, the program will begin to encounter difficulty generating the income it needs to pay interest on its capital fund loan. Until this issue is resolved, trying to scale up the client base to a sustainable size could be counterproductive.

Haiti

At the organization level, there is a constant struggle to find the balance between sustainability and client impact. The organization is addressing internal factors that affect client-level issues. Continuing modification of the methodology and products has moved the program steadily away from its charitable roots towards sustainability, when it can be shown that these changes do not have negative consequences on clients' livelihoods. Revisions in 2001 should bring the methodology close to an optimum balance between sustainability and client impact, and so reduce any need for further major changes.

MEDA Organizational Level

Objective	Indicators	Achievement to Date
Strengthen MEDA's capacity in its Small Business Development Programs	• Current technical skills augmented	Technical Resource Unit (TRU) staff increased by the equivalent of one person. One staffer attended Microfinance training program in New Hampshire. Staff attended workshops on strategic planning, financial modeling and business planning, and results-based management.
	• Community banking methodology refined	Original five loan products consolidated, developed into two and two new products – individual loan and community loan.
	• Community banking methodology documented	Methodology documented, but is in Creole. Has yet to be translated into English
Strengthen MEDA's capacity in capital formation	• Support provided to the *Global Investment Fund*	Marketing capability has increased with registration as the revised Sarona Global Investment Fund.
	• Capital needed to finance Mozambique and Haiti generated	$46,900 to Mozambique in Year One 375,000 Gourdes to Haiti in Year Two[1]
	• Capital generated for other microfinance and marketing institutions	About $1.5 million raised to date. An additional $650,000 has been placed into Latin American development projects.
Strengthen MEDA's capacity in systems development	• Accounting/MIS	MIS/Acctg systems working in Mozambique. Haiti is upgrading its spreadsheet system to make it more user-friendly.
	• Monitoring	Monitoring Sheet system fine-tuned.
	• Evaluation	Evaluation Process document completed in the form of the Quality Standards Baseline/impact survey. Database completed.

[1] This was a conversion of money originally received by MEDA Haiti from the CIDA Canada Fund placed in Sarona and then lent back to Haiti. Sarona charges 8% interest in Gourdes.

Objective	Indicators	Achievement to Date
	• Tools for business development services	A major Business Development Services Handbook, also nearing completion, will be made available on CD.
	• Gender equity	Implementation plan for new gender policy and strategy developed. Field office survey completed during Qtr. 1 of Year Three in Haiti. Mozambique was completed in November 2000. Gender training provided to Board and staff.
Improve MEDA's financial self-sufficiency	Three year targets • 200% increase in member contributions	Year Three – estimated 114% over the baseline
	• Government funding decreased from 74% to 66% of total	Year One – 66% Year Two – 64% Year Three estimate – 67%
	• Revenue from consulting, trade and investment increased to 21% of total	Year One – 19.2 % Year Two – 16% Year Three estimate – 19%
	• Financial surplus achieved each year	Financial surplus achieved in all years

Prospects for Sustainability

Small Business Development Programs

A synergy between the TRU and its consulting arm position MEDA very well, and strengthen its capacity significantly. Training and TA assignments in the TRU contribute to organizational sustainability. This is because other assignments and lessons learned contribute to methodology and support the consulting group's income. These consulting assignments and lessons learned then are reinvested into the projects. For example, training in CGAP's MicroFin for the PVC project led to a consulting assignment in Peru. The staff person who was involved followed up by using the MicroFin methodology to develop better-quality strategic plans for Haiti and Mozambique.

MEDA's initiative in developing a BDS Handbook will contribute significantly in the future, as the MicroFin strategic and operational planning tool has already.

Capital Formation

MEDA's capacity in forming capital has improved significantly because of the restructuring that has taken place and the lessons that have been learned. Organizationally, for the Sarona Fund to become sustainable over the long term, MEDA needs to work to ensure a smooth transition between development and investment.

Systems Development

Judgment of the long-term impact arising from developing these systems must be based on the ability of management to include and institutionalize their use in standard operating procedures.

The field survey has uncovered concern about how to help women in their businesses. This contributes to, and builds on, the impact assessment work of the organization.

Financial Self-Sufficiency
Fundraising has increased more than 100%, but has fallen short of targets. As a contractor for donors, its income has increased. This is largely due to the continuing capacity building that makes it possible to win competitive contracts. This raises a question of whether donor dependence is a valid target.

Industry Level

Objective	Indicators	Achievement to Date
Make 4 tools available to the industry through consulting services and publications	• Quality standards for microfinance institutions	Quality Standards developed and used to perform institutional assessments in Mozambique and Haiti.
	• Client account system (MIS)	The CAS has been made available as shareware and MEDA's consulting arm is prepared to offer support. The CAS has been requested by the Microfinance Bank of Tanzania and by a CIDA project monitor in Russia.
	• Best practices training modules o Understanding microfinance o Credit Officer Training o Portfolio Management and Control o Financial Management o Staff Performance Management	Best Practices training modules completed: o Understanding microfinance o Program Start-Up o A Planning Framework o Understanding the Microentrepreneur and Credit Delivery Methodologies o Credit Delivery Channels o Loan Analysis and Delivery o Financial Management
	• Cost/benefit analysis tool	Manual completed in Year One. Serves as basis for a two-day workshop.

Prospects for Sustainability
These tools are available to other MEDA programs. MEDA also makes them available to the industry through direct marketing, MEDA's consulting arm, its web site and the industry networks to which MEDA belongs.

Beta-testing MicroFin indicates MEDA's reputation among its peers. Development of a handbook for Business Development Services also indicates MEDA's capacity and future prospects as a leading PVO.

Cost Recovery

The synergy developed between the TRU and the consulting arm of MEDA has a parallel impact on cost-recovery. On the one hand, the skills and capacity MEDA gains from its consulting work make it a more credible and competent executing agency for donors. On the other hand, experience in implementing successful projects gives MEDA a reputable record of accomplishment on which to build its consulting practice. Both efforts bring new ideas, methods, best practices and lessons learned into the organization. The result is that MEDA may possibly increase revenue while appearing to remain donor-dependent.

3.1.1.3 Strategic Partnerships

<table>
<tr><th>Type</th><th>Mechanisms</th><th>Role and Responsibility</th><th>Fiscal Autonomy</th></tr>
<tr><td colspan="4">MEDA Mozambique</td></tr>
<tr><td>NGO</td><td>Contract with Sarona Fund regarding loan capital</td><td>Headquarters
Provides TA/ Consultancies and Monitoring and Evaluation. Also charges a 15% management fee on funds raised by Mozambique for projects.

Mozambique
Implements targets outlined in the Annual Review and Plan of Operations and budget</td><td>$70,000 USD loan @ 8% revalued monthly; provides an Annual Review and Plan of Operations and budget (both based on DIP and other project objectives) for approval by Director, International Operations</td></tr>
<tr><td colspan="4">MEDA has a policy to implement new partnerships. These partnership organizations are started by MEDA based on an assessment of potential in the country for a new affiliate to meet the overall goals and objectives of MEDA.</td></tr>
<tr><td colspan="4">MEDA Haiti</td></tr>
<tr><td>MEDA Haiti is a registered Haitian NGO</td><td>MEDA Haiti is an affiliate office of MEDA.
MEDA Haiti has a contract with Sarona Fund regarding its loan capital MEDA Headquarters countersigns and guarantees the Fonkoze line of credit</td><td>Headquarters
Provides TA/ Consultancies and Monitoring and Evaluation. Also charges a 15% management fee on funds raised by Haiti for projects.

Haiti
Implements targets outlined in the Annual Review and Plan of Operations and budget</td><td>375,000 Gourdes @ 8% in Gourdes revalued monthly; provides an Annual Review and Plan of Operations and budget (both based on DIP and other project objectives) for the approval by Director, International Operations. MEDA Waterloo provides financial support to cover any costs not met through interest income.</td></tr>
<tr><td colspan="4">MEDA has a policy to implement new partnerships. These partnership organizations are started by MEDA based on an assessment of potential in the country for a new affiliate to meet the overall goals and objectives of MEDA.</td></tr>
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3.1.2 Kulane Ka Ntwananu (Growth through Unity)

Program Methodology

MEDA Mozambique operates its microfinance program in eight large informal market areas and in seven smaller markets of Maputo and its suburbs (peri-urban areas). The program, which began in Xikelene market and then expanded to other markets, uses both solidarity group and individual lending methodologies. Typically, after a second or third cycle in a group, a client graduates to individual lending. Few people working in the markets have the close relationships and trust required to jointly guarantee loans in a group setting when loans become larger. Currently, 89.5% of the loans are to solidarity clients and 10.5% are to individual borrowers. Solidarity groups form by themselves, and can receive loans after training in the group process and the program. In a variation on the solidarity model, MEDA Mozambique works with various local associations, partly to have them screen applicants and partly to use the solidarity of the association. Individual borrowers require basic training in business management before they qualify for loans. Loan terms and conditions vary with a borrower's experience in the program and with the type of loan – solidarity or individual. For example, group loan members pay weekly during the first two cycles, biweekly for cycles three to five, and monthly for loans after five cycles. Individual borrowers repay principal and interest monthly. Each borrower must place 15% of their loan in a forced savings/guarantee fund. For larger loans, clients pledge their personal assets as collateral. Loan terms begin at four months and vary according to cycle. No grace period is given at the beginning of a loan, and loan interest is calculated on a flat rate.

Administrative and Financial Information and Control Systems

MEDA Mozambique has a Client Account System (CAS) and an Accounting Information System (AIS). The CAS monitors program performance and acts as the program's management information system. Critical information is exported into the AIS to allow overall financial management of the program. Needs and requirements for information about clients change constantly, so baseline client data is kept in hard copy format and additional information is collected through specific surveys as needed.

The Credit Committee meets twice a week to approve loans. People in four different positions review loans. A loan of more than 4 million Meticais, whether to an individual or a group, requires a pledge of assets. In solidarity group loans, assets are pledged to other group members, to ensure their repayment.

Marketing Strategy

Credit Officers receive 15 minutes to speak at weekly meetings of the Market Commissions, each attended by an average of 50 people. When potential clients show interest in participating in the program, credit officers give them seminars and training in the program. The cashier operating in the Xikelene market deals with inquiries one-to-one. As another marketing mechanism, MEDA runs contests for T-shirts. MEDA is aware of its competitors and of the features of their programs, but has done no surveys to study the nature of its competition or its market share. During the evaluation, an informal market survey was conducted by interviewing members of the Xikelene Market Commission and the president of the Association of Informal Markets. Results of these interviews are attached as Annex 3.

Assumptions and Features of Business Plan

MEDA is a beta tester for CGAP's new MicroFin program. A major business planning session was held in May 2001. However, some significant assumptions are still under review. Implementation of the plan is expected to begin July 1, 2001. Assumptions used indicate a plan to scale up the operation over the next couple of years, moving from the current number of five loans officers, to eight. Other major features of the plan relate to increasing the percentage of

has plan started

clients that receive individual loans and to increasing the terms of higher-value loans. The governance issue remains to be addressed as does how to deal with the devaluation/inflation of the local currency that is the income source, and with the fact that the loan capital and major costs are all in hard US dollars. Ideas are under discussion but no firm implementation strategy has been developed yet.

3.1.2.1 Progress Toward Goal

Objectives	Indicators	Current Status
1. Increase the institutional capacity of the SBDP program	• Operations manager hired in year 1	Completed in Year One. Now attending management school to obtain a diploma in accounting and management. Also attended the New Hampshire microfinance training institute.
	• MIS system installed by end of year 1	Installed in Aug 1999, then placed under review due to data entry errors and system bugs. By the end of Year Two, bugs were fixed, and operating procedures developed and implemented. The system now meets reporting expectations. A local accounting information system was purchased for overall accounting. By the end of Aug 2000, the system was automatically calculating all major SEEP ratios from the MIS system, to give management immediate access to loan portfolio and accounting information.
2. Improve the quality of services to SBDP clients	• Loans and training provided to over 2,000 microentrepreneurs	In Year One, loans were reinstated after a 5 to 6 month pause due to a minor fraud. This allowed time to improve training, methodology and to achieve a better repayment rate pattern. Training has been streamlined to 2 sessions of 2 hours each instead of 4 sessions of 1 hour each.
	• Diverse financial services available (individual lending, savings services)	Beginning in Sept 2000, an individual lending program introduced for those whose group loan amount exceeds $1200. Only banks and cooperatives are legally permitted to offer savings services.
	• Three satellite offices in full	One branch office operated in Year One. By the start of Year

Objectives	Indicators	Current Status
	operation name them (areas)	Two, through its main office and branch, the program operated in 8 of Maputo's major markets, including Matola suburb.
3. Increase the sustainability of the SBDP program	• 100% operationally self-sufficient by Year Three	15% achieved in Year One. 44.16% achieved in Year Two – partly due to the Meticais' devaluation. 42% by mid-Year Three
	• Portfolio at risk (over 30 days in arrears) less than 5%	30% during Year One 4.82% during Year Two 2.5% by mid-Year Three Cleanup of issues caused by poor performance of previous staff continues
4. Introduce effective impact assessment methodology	• Monitoring system covering representative 5% of sample (initially 20%) established in 2000	Baseline/impact survey and database completed. Baseline survey of 10% of clients performed for the Annual Evaluation in February 2001
	• Client intake form used to gather baseline information	New client intake forms that include basic financial data implemented.
	• Key performance data disaggregated by gender	Gender disaggregation complete, but performance by gender difficult to analyze, because groups permit both men and women to participate.

Constraints & Unanticipated Effects

Year One

Staffing issues were largely responsible for problems during the project's early stages. The main difficulties were weak staff and financial irregularities at the management, accounting and Credit Officer levels.

Due to staffing problems and turnover, much unplanned time was required to reconcile bank and accounting records

Lack of staff capacity led to poor records, and made following up the deteriorating portfolio more difficult. Resulting actions were to halt all lending, to retrain loans officers, and to revise procedures and record keeping methods.

Although loan operations were halted, project operators decided to pursue defaulting clients, to deter against future defaults. Rather harsh measures made it clear to future clients that defaulting on loans was unacceptable. In spite of initial wariness among new clients when lending resumed, apprehensions soon dissipated and demand for new loans exceeded capacity to lend.

Client feedback during Year One:

- Loan levels reached $500 (per group), necessitating a review of the solidarity group strategy, and introduction of individual loans.
- Complaints about the 16 weekly payment format prompted a review to decide whether bi-weekly and monthly payments were more appropriate.
- Contracts, policies and procedures were revised, to allow easier handling of default situations.

For a period, the Xikelene Market Commission's participation became more of a hindrance than an asset. Leaders believed they had a monopoly on the project and some became problem clients. The partnership strategy was changed, to no longer permit Market Commission leaders to receive loans. Collaborative arrangements were established with associations to take advantage of their solidarity.

MEDA's experience with slow and cumbersome government bureaucracy affecting even the smallest matters has been confirmed as the norm by other microfinance operations in the informal microfinance network. These constraints delayed addressing governance issues.

Year Two

A poorly performing credit officer who had not been dealt with in the previous year was encouraged to resign. This resignation improved morale, resulted in a more focused approach toward delinquent clients, and improved the portfolio quality.

Lack of solidarity among clients in the group formation process led to increased portfolio risk, and partial payments. For security reasons, group members personally deposited their individual payments at the bank, and not paying for a defaulting member. Two policies were developed to respond to this problem. First, the bank stopped accepting partial payments, and the late payment penalty was increased to 50% of an installment. Second, an asset pledge form developed for groups assisted them in confiscating assets pledged to the group, when a client refused to make their payment.

Persuading credit officers to find new clients while managing existing clients was a problem. Early in Year Two, emphasis was placed on acquiring new clients. When the PAR started to rise, lending was halted. Focus was placed on delinquency until the portfolio was reasonably balanced again. The imbalance was related to credit officers' lack of accountability for their entire portfolio. The MIS, weekly plans, and reports by credit officers on follow-up have combined to improve the situation and balance the approach.

<u>Successes and Explanation</u>

Microfinance projects in Mozambique target urban-based informal markets. Even though delinquent clients can easily move to other markets and can be extremely difficult to successfully track down, expansion to both large and small markets is helping.

The use of expatriate interns was a significant boost to stabilizing the management and operational difficulties. They gave valuable support during a difficult period. With proper leadership, they are also a valuable additional resource during start up.

Placing and properly operating the MIS and the Accounting Information System (AIS) has been a key to obtaining timely and accurate statements that reconcile with the bank statements. The MIS now provides an audit trail that is very useful for managing the program.

An Incentive Program has been introduced to reward Credit Officers both for meeting new client targets and for managing their portfolios at risk. The latter operates on a sliding scale. By its nature, this program will have a tendency to promote individual lending. This is not seen as a problem.

Strong, experienced leadership has improved performance and increased capacity. Because this leadership is shared with another program, it necessitates strengthening capacity at the lower levels to handle day-to-day operations.

Effectiveness of the Model

The program's solidarity-group lending portion gives MEDA an opportunity to test clients and determine if their business and loan performances will be satisfactory. The individual lending portion of the program addresses the lack of solidarity in the urban setting and allows head-to-head competition with other microfinance providers, all of whom only provide individual loans. Overall, the model is working quite well. Currency devaluation and the cost of capital in hard currency make long-term sustainability an issue.

Policy advocacy

MEDA Mozambique actively participates in an informal microfinance network that discusses regulatory framework. On its own, MEDA Mozambique does not play an active role in policy advocacy.

3.1.2.2 Progress Toward Sustainability

The purpose of the project's initial phase in Mozambique was to test the replicability of MEDA's lending methodology, including client demand, the impact of loans on clients' businesses, and the capacity of credit officers. In subsequent years, given the new capacity of credit officers, and as lending volumes increase, operations support was expected to decline until Year Three, when no direct operational subsidy would be required.

Technical Elements

Objective	Indicators	Achievement to Date
• Accounting system	• Yields accurate information • Yields timely monthly reports • Reports are relevant • System control is improved (data entry validation, auditing and security • External support decreased and users solve own problems	Year One: Although installed in Mozambique there are serious questions about the accuracy of the information. This led to a re-evaluation of the software to be used in Haiti. Year Two: MIS was fixed and an Accounting Information System (AIS) was successfully implemented
• Client tracking database	• Yields reliable information on clients • Yields impact of loans on client businesses	Year Two: Baseline/impact survey and database completed, with an extensive survey completed in February 2001
• Client and Staff training material designed and delivered	• Training uses adult education techniques • Client training designed and delivered • Staff training designed and	During Year One: • Operations Manager studied Credit Officer Performance in Tanzania

Objective	Indicators	Achievement to Date
	delivered • Training material has detailed facilitators guide, overheads and resource guide for participants • Training modules include o Understanding microfinance o Credit Officer training o Portfolio management and control o Financial management o Staff performance management o Gender toolkit o Cost-benefit tool • Training associated with a Marketing Framework & environmental assessment	• Two Credit Officers took a CGAP fraud workshop • Training Officers took courses in: o Credit policy and procedures o Impact analysis o Business skills for clients o Understanding the market During Year Two: • Operational audits and a new code of conduct for credit operations developed, and staff trained. Follow-up through weekly meetings has institutionalized the process • Operations manager received training overseas (New Hampshire) and the senior credit officer attended environmental impact assessment training in Tanzania During Year Three: Strategic Planning Workshop for the program completed in May 2001. Training continues. All Credit Officers trained in client assessment for group loans, individual loan business assessment and how to teach clients the basics of accounting. Specific credit officers have received additional training.

Prospects for Sustainability

Technically, MEDA Mozambique is poised for scaling-up. The current staff is well trained, but requires continued training to deepen its capacity. The program will need to train the proposed additional three credit officers planned for the next year. A qualified support person to supervise credit officers must be identified, hired and trained, so the Manager of Operations can spend the required time on strategic and corporate issues. The qualifications and training of the Credit Officer Supervisor are particularly important, because the Program Manager is relocating to another office to spend most of her time managing another project. Therefore the Manager of Operations needs a person on whom he can rely. One constraint upon ongoing staff training and capacity building is a lack of local microfinance trainers. This situation certainly justifies the continued emphasis on capacity building in the followup Matching Grant proposal.

Financial Element

Objective	Indicators	Achievement to Date
Operational self-sufficiency	• Loans Officers increase from 3 – 8	5 Loans Officers are currently active 40 at Qtr 1 in Year Three

Objective	Indicators	Achievement to Date
	• Each Loans Officer capable of a portfolio of 60 loans by year 3	Currently at 65 loans per Loans Officer
	• Loan loss <2% by end of year 3	2.28% at Midyear in Year Three
	• Average loan term	Average loan term is 4.3 months
	• Average loan size	Average loan size is 4.4 million Meticais
	• 3 satellite offices in full operation by end of year 3	One branch office. Will assign credit officers to a market but likely will not rent/build an office – Matola.
	• 2400 (1,560 women) active clients	405 active clients(249 women) in Year One (480 and 312 women targeted) 1010 active clients(667 women) in Year Two (1200 and 780 women targeted) 1325 active clients(861 women) by December 2000 – the last available information
	• Percentage group and individual borrowers	97.7% of borrowers are in solidarity groups, 2.3% are individuals
	• Percentage of loan volume by group and individual borrows	7.5% of the loan volume is to individual borrowers
	• Portfolio at risk <5% by end of Year Three	30% of portfolio at risk in Year One (target <15%) 4.82% of portfolio at risk in Year Two (target <10%) 2.5% at mid-Year Three
	• Active loan portfolio $153,600 by end of year 3	$26,000 in Year One (target $31,200) $64,415 in Year Two (target $75,000) $73,735 at mid-Year Three
	• 100% Operational self-sufficiency	15% in Year One (target 19%) 44.16% in Year Two (target 53%) 42% at mid-Year Three

Prospects for Sustainability

The program will not reach operational self-sufficiency during this project's three-year term. In addition to the program's staffing and capacity-building problems, the value of the Meticais has fallen by approximately 25% during the past 6 months and inflation has begun to increase during the last two months. MEDA Mozambique needs to find access to replacement capital that is available in soft currency, to repay its hard currency loan to the Sarona Fund. Neither MEDA Headquarters (Sarona Fund) nor MEDA Mozambique can afford the current situation to continue. The current Sarona Fund loan comes up for official review in September.

In addition to the capital fund being in hard currency, many project costs also are either paid in, or tied to, hard currency. These include salaries, rent, telephone, and petrol.

To head off significant problems down the road, MEDA Mozambique needs a concrete, workable plan of action by September. Unless MEDA Mozambique implements such a plan, it is very unlikely to achieve sustainability in the 3.5 years currently forecast.

Organizational Element

Objective	Indicators	Achievement to Date
Design the best legal and organizational structure to achieve objectives	• Optimum legal structure determined and implemented • Optimum organizational structure determined and implemented	MEDA is now registered as a foreign NGO. Proposed structural options being researched are: merger with another organization to form a bank – which requires a great deal of capital; cooperative – which has many issues around membership and delinquency; national NGO/ association operating as a non-financial bank – unknown rules.

Prospects for Sustainability
Work on this aspect of the operation will begin in Year Three and will carry forward into the next PVC Matching Grant. This could help to reduce some current operating costs by allowing them to be paid in local currency.

Management Element

Objective	Indicators	Achievement to Date
Provide management with sufficient training to ensure sustainability	• Staff oriented to mission and methodology	Staff changed and trained, and methodology fine-tuned.
	• Impact of lending program on client's businesses, families and communities evaluated	In Year Two, the first survey included 37 women and 21 men.
	• Long term financing proposals prepared and necessary financing secured	Proposal submitted to USAID/PVC for matching grant, discussions underway with UNDP MicroStart.
	• Study completed on voluntary savings	Regulatory environment does not permit
	• Long term staff and training needs determined	Manager of Operations taking diploma course in management and accounting. He has also attended microfinance training in US.

Objective	Indicators	Achievement to Date
	• Client training revised based on feedback	Introduced individual loans and changes to loan terms, based on performance
	• Potential of networking with other microfinance organizations determined	Active in an informal group of microfinance providers in Maputo that meets monthly.
	• Regular contact with other NGO's, Policy makers, bank officials, bilateral and multilateral donors and the business community maintained	Completed through informal network of microfinance providers but no other direct ongoing efforts. More will take place in the future through the new Mozambique Microfinance Facility project, financed by CIDA.

Prospects for Sustainability

Program management is well positioned for sustainability. As stated above, maintaining excellent stability during the scale-up phase will call for a credit officer supervisor, to manage the credit officers. Delaying hiring beyond the end of MEDA's next fiscal year could cause significant overwork among some staff, and could delay its ability to deal with major issues in a timely manner.

Cost Recovery

Because interest from lending covers most costs, cost recovery is a major issue in a credit program. This requires a high degree of efficiency and capable staff. The program will not be able to achieve full sustainability by the end of year three. Devaluation of the Meticais, and relatively high labor costs paid in US dollars, have affected the program's ability to attain sustainability. Given the operating costs, the program probably needs between 4,000-5,000 clients to attain sustainability. This assumes that a workable plan is implemented to address the devaluation of the currency.

In addition, as it expands other client services such as information access, market access, and consulting, MEDA Mozambique can charge appropriate fees, at least to cover direct service costs. It is also anticipated that a market exists to sell training modules to other credit programs, when MEDA's consulting arm offers them to MEDA Mozambique staff.

3.1.2.3 Strategic Partnerships

As stated above, MEDA's ~~has~~ only partner in Mozambique is MEDA Mozambique. This operation is a start-up situation. The following should be viewed in this context. Partners listed below are not true partners. They are associations and agents for the program, through whom MEDA works as way to reduce risk while achieving rapid outreach and growth.

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
ADEMINO			
Association of disabled demobilized soldiers	Letter of Intent	Currently only staff of the association (2 groups). Unsuccessfully lobbied the government to permit	Complete

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
		pension garnishee	
AVIDRAMO			
Help people who have suffered trauma like floods overcome their problems	Letter of Intent	Requested loans for its members 60 clients (15 groups) Dealing directly with membership after some transparency issues with leadership	Complete
Market Commissions			
Association of vendors in markets that oversee its operation	Verbal agreements with the 15 market associations	Confirm borrower in market, its character and, if delinquent, assist in collection. If necessary, will sell the stall for MEDA. Give credit officer time to promote program at weekly meetings.	Complete

As part of MEDA's network, MEDA Mozambique gains access to lessons learned and best practices from other projects, and is able to share its experiences regularly. MEDA Mozambique has a strong relationship with the Association of Markets in Maputo. This relationship has granted the program access and support throughout Maputo. The leader of the Association of Markets in Maputo has asked MEDA to expand its program into new markets throughout Maputo, because the association sees a need for credit services in the markets. MEDA Mozambique participates in an informal network of microfinance practitioners that meets monthly. This network gives insights into competition and regulatory issues.

3.1.3 Haiti Rural Business Development Program - Community Banks

Program Methodology

MEDA Haiti's Community Bank (CB) model grew out of the classic Village Bank model, with modified repayment schedules and loan terms. In the Haitian context, the CB model gave clients more flexibility to choose between commerce and agriculture loans than traditional Village Bank methodology, which offers small commerce loans only. MEDA Haiti began using the CB model in 1993, then expanded into the country's northern region through the PVC Matching Grant. The experience clearly demonstrated that commerce and agriculture loans were similar. In 2001, the commerce and agriculture production loans are being combined into a productivity loan. The term for this new loan product is 6 months with annualized interest of 30%, and no fees. There is a 12% savings component and a 2% penalty for payments in arrears. Clients are expected to make monthly interest payments, and to make capital payments at the end of the fourth and sixth months. Loan amounts range from 2,000 to 10,000 Gourdes per client. In 2001, the interest rate calculation was changed from a declining balance to a flat rate. It has been proposed that the 3% administrative charge be dropped.

The existing collective loan, facilitated by all of the bank's members, allows them to invest in productive activities that benefit the entire bank membership. These consist mostly of storage for agricultural products and group purchases. For example, members can invest in products when prices are low, then sell them for profit when prices rise. Loans are taken for a 12-month period, with monthly payments, annualized interest at 30% flat, and no fees. Interest payments are made monthly and capital payments are made at the end of the sixth and twelfth months.

Amounts range from 20,000 to 60,000 Gourdes per bank. There is a 12% savings component and a 2% penalty for late payments. In 2001, the range of loan sizes was increased, the interest rate calculation was changed from a declining balance to a flat rate, and there has been a proposal to drop the 5% administrative fee. This loan is only available after the bank has successfully completed two loan cycles. About 5% of the community banks have a collective loan.

There are plans to introduce an individual investment loan in January 2002. This loan is designed to meet longer-term investment needs for good clients' small businesses. It is intended for fixed-asset purchases and other investments that typically take time to produce results. The loan will have a 12-month term, with 30% interest (flat rate), and no fees. Interest payments will be made monthly while capital payments will be due at the end of the sixth and twelfth months. Amounts will range from 10,000 to 20,000 Gourdes per client. There will be a 12% savings component and a 2% penalty for payments in arrears. The community bank will administer these loans, each of which will be organized so that a minimum of five bank members must form a solidarity group to qualify. Each group member will act as a guarantor for the others, to reduce the risk associated with these larger loans.

Each community bank has an average of 30 members, the majority women. Membership is capped at 60 members. A committee elected from the membership provides leadership and administration for the bank. Each bank has, at a minimum, an elected President, Treasurer, Secretary, and two representatives or advisors. However, MEDA encourages most committees to have more members and to involve more women. Officers' are elected for two years, but the membership can, and does, call elections as needed.

Administrative and Financial Information and Control Systems
Currently, MEDA Haiti plans to implement a computerized accounting system, specifically for the consolidated community bank program. It is now defining a chart of accounts. The program will identify and install an accounting system before June 2002, to ensure accuracy, validity and timeliness in its financial reporting. Every financial transaction within MEDA that involves more than one of the three community bank programs is prorated based on participation in each program. Currently, a limited MIS system is in place. MEDA Haiti has tested Calyx A3 Partners software, but the system's design was not fully completed. MEDA Haiti continues to look at options – it recognizes that given its high growth targets, maintaining control will be nearly impossible without a strong MIS system. After evaluating six systems, MEDA Haiti has two options: either it will have its own system designed, or modify its loan products to suit an existing system. It will decide between these two options within the next 6 months.

Marketing Strategy
In the PVC Matching Grant area, MEDA met with cocoa cooperatives that had been MEDA project partners prior to the coup d'etat. The cooperatives, clients and the credit officers promote the program in the community, but interviews made it clear that the cooperatives play a minimal role. Potential clients have started to see the program's results, which is encouraging others to join and generating rapid growth. Client interviews indicate that MEDA clearly leads its limited competition in the area. This is because, although MEDA's rules and processes minimize its own risk, they are not nearly as cumbersome as other organizations'.

Assumptions and Features of Business Plan
The Business Plan for MEDA Haiti includes three programs, all of which involve community banks. USAID finances the PVC Matching Grant in the North. The Haiti Fund Inc. finances the original CB program, Comprehensive Development Project (CODEP), in the Comier region in

the West. Finally, CIDA finances the Emergency Fund for Civil Reconstruction (FEDEREC), an integrated development program in the West, South and Grande Anse.

In addition to changing its loan methodology, MEDA Haiti has set itself ambitious targets in its annual plan for July 2001 to June 2002. These include 200% overall loan portfolio growth during the July 2001 to June 2002 fiscal year, and a combined total of 9,000 clients by June 2003. The plans also call for the consolidated community bank network to become financially self sufficient (103%) by June 2003, to have its average portfolio at risk below 10% by June 2002, and to maintain arrears below 5%. MEDA Haiti has a clear training plan to build, and continue strengthening, the staff capacity necessary to meet these targets

MEDA is one of six Tier One partners in the DAI/FINNET project that USAID finances. Through this project, a business case/plan will be developed in September 2001. With technical assistance from DAI, MEDA will gain the capacity to implement its consolidated community bank network in its planned, for-profit subsidiary. Additional technical assistance will help determine the organizational governance structure, and any specific management or specialized training programs that may be identified as requirements for success.

3.1.3.1 Progress Toward Goal

MEDA has developed quasi-partnerships with five cooperative organizations in various rural areas throughout the PVC Matching Grant project area in the North. These localities are impoverished; income is very low in the rural villages and services, particularly financial services, are absent. Effective use of loan capital can contribute to increases in income, independence, financial stability and business development. Currently, for these marginalized people of Haiti, access to credit is unavailable, or extremely expensive.

Objectives	Indicators	Current Status
To increase the profitability and sustainability of the Community Banks Program (CB).	50 new banks established at the end of year 3 serving 1,500 active clients.	Year One • Partnerships established in three locations in northern Haiti, with a cluster of five CBs formed around each partner (for a total of 15). • Three Credit officers hired and trained • Members and leaders of 15 banks trained Year Two • Partnerships established in all Five locations of northern Haiti. Five cooperatives and a total of 34 CBs established. • All credit officers hired and trained • Members and leaders of 34 banks trained Year Three, July: 51 banks in operation
	62% operational self-sufficiency by the end of year 3.	42.5% in Year Two (target 21%)18% at mid-Year Three
	Operational and Business	

Objectives	Indicators	Current Status
	Plans in place, which examine options for future institutional structure	Business plan to be established in September with assistance from DAI/FINNET.
To increase the institutional capacity of the CB program.	Computerized MIS system installed by the end of year 1 Improved village bank training materials developed (methodology, group formation training, village bank administration).	MIS installation delayed until January 2000, due to technical difficulties in Mozambique. CALYX system installed in February 2000, but could not produce reports. To date, an adequate system has not been found. Excel spreadsheets are being used. CB manual revised; CB management tool kit developed; training materials updated and refined. The manual remains in Creole
Improve the quality of services of CB clients	5 new partner organizations selected and trained on community bank management. Loans and training provided to over 4,000 clients over a three-year period. Diverse loan products available to meet the needs of rural borrowers	Year One • Negotiated with three partner organizations and partner training in course. • 15 Banks trained in credit and CB management before receiving first loan Year Two • Two new co-op partnerships established. • Relationship established with Fonkoze re: line of credit, funds transfer and literacy. Loans provided to 1329 clients at March 2001 [2] Loan products regularly being adapted.
Improve MEDA's monitoring and evaluation capacity.	Client intake form used to gather baseline information. Key performance indicators disaggregated by gender.	Year One • Intake forms revised and used for new banks. Year 2 • Improved monitoring and evaluation process from MEDA Headquarters was implemented, aiding development of internal account training materials. • Loan Application revised to

[2] The collection of cumulative information is difficult because it includes repeat loans minus dropouts. It is suggested that this not be used as an indicator in the future. The number above are not cumulative.

Objectives	Indicators	Current Status
		include household, gender and environmental monitoring information.
	Improved impact indicators incorporated into MEDA's evaluation process.	Baseline survey designed for implementation after credit officers' training in September 2001

Constraints & Unanticipated Effects

Year One

Loan size range increased to $100 - $600 from $100 - $350, based on feedback in the communities. This change reduced administrative fees, from 5% to 3%, for commerce and agricultural loans.

Commerce based loans were to have had a 6-month term, but were increased to 9 months.

The CAS MIS installation was delayed until January 2000, due to technical difficulties in Mozambique. Other options were considered.

Socio-political instability has been an ongoing problem in Haiti. Loan disbursements were postponed until after local elections. When the elections, originally scheduled for January 2000, were delayed until mid-March, the decision to delay lending until afterward was maintained. Credit activities began in April 2000.

Year Two

The community banks' average size was expected to be 30 clients. The actual average was 25. Part of this was attributable to community bank officers' literacy capacity.

Year Three

The MIS system continued to be problem throughout the project. In response, MEDA Haiti developed basic spreadsheets to meet their needs for reporting performance, for analysis, and for submitting financial and performance-monitoring information to headquarters. As stated above, future directions in this area will be decided in the next 6 months.

Successes and Explanation

Bank formation was projected to take three months. This has been reduced to one or two months, because members of the first three cooperatives had experience working on economic activities.

The original loan types proposed included Commerce, Agricultural Production or Storage, Cattle Breeding, Small Trades and Processing. At the time of the evaluation, all of these loans were being combined into one product. In addition, two new products have been developed. The first is a Collective Loan, designed as a group loan in which a community bank's entire membership finances a community improvement effort. The second is an Individual Investment Loan, designed to help quality borrowers scale up their operations.

Effectiveness of the Model

The community bank model has operated in Haiti since 1993, when it began as a highly subsidized program. Over the years, products and methods have been modified to increase sustainability, without losing sight of the objective of ensuring that the program has a positive impact on clients' livelihoods. As the Haitian environment changes, it is likely that the community bank system's products and methods will continue to adapt. Interviews with clients indicate that credit with literacy training is an excellent combination, because it builds on the credit officers' training in community bank methodology and business management. The model's effectiveness is demonstrated in one case where a community bank member is employed to monitor a competitor's loans, yet remains a member of the program. Some banks have established rules barring persons from taking out second loans unless they can write their own names – a cycle ahead of the official rules. MEDA Haiti faces a big challenge in establishing a sustainable community bank apex organization. Any lessons that can be learned from the cooperative and credit union system will be valuable.

In most village bank models, clients make monthly payments of principal and interest. In MEDA's community bank model, the principal is paid in two balloon payments and interest is paid monthly. This allows clients to save at a rate that accommodates their profitability, and fluctuations in the business cycle. This is important because MEDA does not have a grace period at the beginning of the loan that would allow clients to afford repayment after building momentum in their businesses. This balloon payment method also teaches clients to think ahead and to become good savers. The downsides are that MEDA is not able to replace its capital regularly from monthly payments of principal and interest, and MIS software does not easily handle this method of repayment. This exemplifies the balance between sustainability and client impact that MEDA tries to bring to its methodology.

Unlike some of its competitors, MEDA does not focus agricultural loans on a particular type of agriculture. This reduces MEDA's risk, if for some reason one sector fails. It also makes the program more appealing to the community as a whole. MEDA's clients, even those with commerce loans, have a diversified source of income with which to repay the interest, and sometimes principal, on loans. Finally, MEDA increases the impact of its lending, because providing credit for all types of agriculture will not increase the supply of a particular agricultural product and inadvertently lower its prices. MEDA's methodology in agricultural lending is consistent with a market-driven approach.

Policy Advocacy

MEDA Haiti is indirectly active in policy advocacy in two ways. First, it is a member of Haiti Association for Voluntary Agencies (HAVA). In this organization, the Country Manager has sat on the board for five years and has served as president for three years. Currently, another MEDA Haiti staff person is vice president. This organization does advocacy for NGOs, and in recent years it has participated in preparing a new law governing associations and NGOs. Secondly, MEDA Haiti has been participating in, and is now applying for membership in, KNFP, which lobbies government on microfinance policy. The organization is now working with government on a new law for microfinance institutions in Haiti.

3.1.3.2 Progress Toward Sustainability

Through the technical assistance package and the training provided to MEDA Haiti by MEDA through the PVC Matching Grant, emphasis has been placed on empowering local bank participants to give members and leaders a direct say in decision-making. From Year One, a network between banks of the same region was developed to encourage exchanges of experiences and explore possibilities of cooperation.

Financial Element

Objective	Indicators	Achievement to Date
Establish new community banks	50 new community banks by the end of year 3	Year Two – 29 (target 30) June, Year Three – 51 banks
	1,500 active clients	Year Two – 723 (target 900), including 321 women (target 360) 1,329 at mid-Year Three
	Average community bank loan will be $3,500	$759 at mid-Year Three
	Delinquency at <5%	3.9% at Mid-year Three
	Active loan portfolio size will be at $131,250	Year Two – $37,000 (target $54,563) $75,120 at mid-Year Three
	Operational self-sufficiency will be at 62%	Year Two – 42.5% (target 21%) 18% at mid-Year Three

Prospects for Sustainability

The drop in the self-sufficiency ratios was due to the added cost of scaling up the operation to a full five credit officers.

The program has come a long way since it began in 1993. The capacity of the current staff is a strong base from which to move forward. With supplementation from the training plans, the capacity required to move forward will be available. The goals the program has set for itself are a definite stretch, possibly excessive, but the staff is confident it will meet them. The latest modifications to products and methods will certainly help generate the income-per-loan necessary to achieve sustainability. The exception to this is the proposed elimination of administration fees of 3% and 5% on some products. MEDA Haiti believes this income loss initially will be offset by two new income sources: from switching from a declining balance to a flat rate calculation of interest; and from shortening the loan term. However, there is a risk that income from both of these changes will not be enough in the long term. Eliminating the administration fee now will make it very difficult to reintroduce it later, without a great deal of resistance.

In addition to the 375,000-Gourdes loan from Sarona at 8% interest, MEDA Haiti has a 3 million-Gourdes line of credit with Fonkoze at 15% interest. This line of credit currently stands at almost 1.5 million Gourdes.

Plans are to have MEDA's general operations budget finance the five regions the PVC Matching Grant currently finances, until these operations are sustainable. At the same time, MEDA Haiti is working to find other sources of income to finance these operations. The business plan calls for the consolidated operation of community banks to be financially self-sustaining by June 2003. This includes a steep growth curve in bank development and income – 200% portfolio growth – over the MEDA fiscal years from July 2001 to June 2003. Failure to achieve this could delay sustainability.

Organizational Element

Objective	Indicators	Achievement to Date
Establish a local entity to administer the community bank program	In place by the end of year 5	Plans are to have a sustainable organization in place by June 2003
	Provide partners with expertise to operate	A problem of literacy at the community bank level is being addressed through an agreement with Fonkoze, but will not be solved in the short term.
	TA and training provide in the formation of new community banks	A training program on the management of internal loan accounts is being implemented
	A network of community banks formed to provide the critical mass to sustain a local umbrella institution.	Business plan will be established in September for an apex financial institution. However, it is only at the conceptual design stage.

Prospects for Sustainability

The Business Plan calls for MEDA Haiti to establish a for-profit subsidiary to operate as a financially sustainable community bank apex organization (103%) by June 2003. MEDA Haiti proposes that this apex to be a for-profit subsidiary. The long-term vision could be a merger with apex organizations being developed by other rural community bank programs. This vision begins with a forum to find common services that apex organizations may either purchase or deliver together. They would then harmonize services and methodologies and finally, actually merge. Achieving this goal would allow MEDA Haiti to focus on obtaining resources for rural development that would complement and facilitate the community banks' growth. While MEDA Haiti is building toward starting the apex and the eventual merger with other community bank operations, its focus now is on building capacity at the community bank level. It will accomplish this by giving community bank members literacy training, and by giving community bank leadership training in managing its internal accounts. Building such solid capacity at the local level is an appropriate base in a strategy to create an apex organization. To meet significant growth targets, MEDA Haiti must continue to emphasize building local capacity. Based on these factors, it could become necessary to adjust the launch date of the apex.

Management Element

Objective	Indicators	Achievement to Date
Provide staff and management of partners with sufficient training to ensure sustainability	Train partner credit officers, staff, and directors so they are able to manage the new credit methodology	Year One – Program Coordinator received orientation.
	Partners clearly grasp concepts of real costs and charging real prices for services	Year One – Credit officers receive two weeks' training. Successful candidates were all male. Two days' training per month. Year Two – New credit officers, including one female. hired and trained. Management has

Objective	Indicators	Achievement to Date
		received training throughout the project.
MEDA and partners keep costs to a minimum while maintaining quality	Project stays within budget	MEDA Haiti has stayed within the budget figures provided by headquarters.
	Quality maintained – operational targets met	Portfolio quality has been within limits set by the industry.
	Add staff when justified	A regional support position for the North has been justified, and included in the 2001-02 budget
	Partners understand concept of "credit portfolio per promoter"	Partners understand the concept, and have combined the role of credit officer with literacy monitor

Prospects for Sustainability

Program management is well positioned for sustainability. It is well trained and committed to the program's success. Low staff turnover demonstrates that management is hiring qualified people and that salaries appear to be sufficient. There is general agreement on the goals of the organization and the means to achieve them. The field staff is well trained and external influences provide the leadership necessary to come relatively close to target. Although MEDA is a business-oriented institution emphasizing profitable and efficient banking, some long time staffers continue to take a more charitable approach and emphasize client impact. This sometimes skews MEDA's balanced approach to sustainable microfinance, and the success of client enterprises.

Cost Recovery

Cost recovery is a major issue in a credit program because interest from lending covers most costs. This requires a high degree of efficiency and capable staff. All direct program services will be covered by the new interest rate calculation that is charged to clients. The balance between the need for sustainability and the needs of clients puts MEDA's achievement of sustainability on a slower track than other microfinance institutions that are oriented only toward banking.

3.1.3.3 Strategic Partnerships

MEDA has only one partner in Haiti – MEDA Haiti. To start up in the project area, MEDA Haiti needed an organization as leverage to springboard into client communities. It used the cooperatives from a previous project in pre-coup days. A show of hands during client interviews indicated that very few of the community banks' members are also members of cooperatives. The following should be viewed in this context. The cooperative partners listed below are not true partners, but serve as convenient entry points into the communities. Fonkoze, however, could be considered a legitimate partner of MEDA Haiti.

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
CAPUP in Port Margot (North)			
Cooperative marketing their products 300 active	Former partner signs a contract to provide oversight to the	1. Propose local candidates for credit officer	Complete

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
members	community bank	positions 2. Help credit officer identify CB groups 3. Assist MEDA in credit officer supervision 4. Assist in loan repayment monitoring when there are problems	
SOCOSPOC in Robillard (North)			
Cooperatives marketing their products 310 active members	Former partner signs a contract to provide oversight to the community bank	1. Propose local candidates for credit officer positions 2. Help credit officer identify CB groups 3. Assist MEDA in credit officer supervision 4. Assist in loan repayment monitoring when there are problems	Complete
COTAM in Bahon (North)			
Cooperatives marketing their products 325 active members	Former partner signs a contract to provide oversight to the community bank	1. Propose local candidates for credit officer positions 2. Help credit officer identify CB groups 3. Assist MEDA in credit officer supervision 4. Assist in loan repayment monitoring when there are problems	Complete
JBC in Grande Riviere du Nord (North)			
Cooperatives marketing their products 300 active members	Former partner signs a contract to provide oversight to the community bank	1. Propose local candidates for credit officer positions 2. Help credit officer identify CB groups	Complete

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
		3. Assist MEDA in credit officer supervision 4. Assist in loan repayment monitoring when there are problems	
UCAT in Thibault (North)			
Cooperatives marketing their products 300 active members	Former partner signs a contract to provide oversight to the community bank	1. Propose local candidates for credit officer positions 2. Help credit officer identify CB groups 3. Assist MEDA in credit officer supervision 4. Assist in loan repayment monitoring when there are problems	Complete
FONKOZE Fondation Kole Zepol			
Financial institution through which fund transfers are made from Port au Prince to the north. Also operational are work with FONKOZE through a line of credit to the northern banks and using FONKOZE's literacy training to teach microcredit clients.	Signed contracts (3)	Fonkoze: • Transfer funds to the north through its branch system • Provide a line of credit • Use literacy training material with bank clients MEDA • Use credit officers to supervise literacy monitors • Use bank as a literacy center • Train a bank member to be a literacy monitor for other members in bank	Complete - MEDA pays 15% interest on the line of credit. The organizations jointly finance the literacy program

Type	Mechanisms	Role and Responsibility	Fiscal Autonomy
FONKOZE is considered a MEDA partner in this project. The two organizations have a good working relationship. FONKOZE hopes to raise enough capital to extend the line of credit to MEDA beyond its current term. Any problems that have been identified have been quickly resolved; e.g. MEDA now fills out its own deposit slips for loans to community banks, provides FONKOZE with 5 days' notice of transfers and limits the number of banks receiving money on a given day to a manageable number. Joint discussions are taking place about how to extend the literacy program for two additional months, to better utilize the health training material that has been accessed.			

As part of MEDA's network, MEDA Haiti has access to its lessons learned and best practices from other projects, and regularly shares its experiences. No network for MEDA Haiti and the cooperatives exists, because of the way they work together. It is not reasonable to even consider such a network at this time.

MEDA Haiti intends to establish a community bank apex. Fonkoze is in the process of applying for a commercial bank license. The Fonkoze partnership may be able to become part of that network, and included in the long-term plans for a merger with other rural microfinance organizations. Management's current methods and style are laying groundwork for a long-lasting partnership.

3.1.4 Lessons Learned and Recommendations

These lessons learned and recommendations draw attention to work that MEDA must continue or enhance, to improve its capacity. They must be viewed in the proper context. With help from the PVC Matching Grant, MEDA has built its capacity to a point where it can address these items in a clear, well-informed manner. MEDA has achieved most of what it set out to do. These lessons and recommendations are designed to move MEDA's capacity beyond the targets in the proposal and Detailed Implementation Plan, not to help the organization catch up to or to bring it even with the original plan.

1. To ensure long-term profitability, the Sarona Global Investment Fund must pay attention to its clients' success and problems. It now needs to help MEDA Mozambique and MEDA Headquarters (guarantor of 50% of the loan), prepare short- and long-term strategies to deal with Mozambique's inflation/devaluation crisis.

   From mid-1998 to September 2000, the Metical devalued 25%. This decline is not slowing. For example, in the six weeks between early May 2001, and mid-June 2001, the Metical's purchasing value declined by 11%. Currently, no concrete plan of action is in place. Although the Mozambique MicroFin Business Plan exists in draft form and is being revised, it proposes lengthening repayment periods, and does not adequately address the devaluation issue. If the Business Plan is implemented on July 1, 2001 as proposed, these combined factors will lead to a more rapid decline of the capital fund. Plans to switch from foreign NGO to national NGO status, to move to quarters where it pays rent in Meticais, and to change salaries from US dollars to local currency, are important steps for MEDA Mozambique. However, they cannot be implemented quickly enough to stop the drain on capital. Under these circumstances, scaling up will only increase the speed at which the program will lose its capital fund. In May 2001, for example, the capital fund lost almost as much money as it would have paid in interest to Sarona in an entire year. Without a workable plan, the capital fund will no longer generate enough revenue to cover interest payments.

Haiti is undergoing a similar but less extreme devaluation of the Gourde. Fortunately, MEDA Haiti's capital fund is in local currency.

<u>*MEDA's Response*</u>
MEDA has traditionally insisted that microfinance programs must recognize the cost of inflation and the cost of devaluation against stable currencies as hurdles that must be overcome by all programs if they are to reach true commercial viability (i.e. able to attract commercial investors). In some cases, programs have been able to cover these costs and have attracted commercial investors. MEDA's Sarona Global Investment Fund was established on these principles.

However, MEDA recognizes that in tough economic situations like Mozambique and Haiti, where microfinance programs are competing against others that have access to grants, cheap local currency loans, or very patient equity capital, a different financing model may be required. In fact, in Haiti we did extend capital to the program at only 8% in Gourdes (well below the actual cost of inflation and devaluation).

MEDA will review its capital supply policies in August, and will have a new plan in place by the end of September 2001. It is quite likely that we will find a cheaper way to extend capital (grants/local currency loans) from MEDA (the NGO) to new programs that are still in the pilot project/program development phases. Sarona (the investment fund) will continue to make hard currency loans or equity investments at international rates to programs that have graduated to become commercially viable.

2. MEDA Country Managers must be vigilant to ensure that financial records are up-to-date.

   In Mozambique, installing and cleaning up the CAS record system, combined with the lack of an adequate accounting system, caused the financial record keeping to fall behind. These conditions also allowed data entry errors and bank reconciliations to go several months without correction. Fraud could – and did – occur. When the systems were in transition, there was no backup manual system in use. This should have been standard procedure during a systems conversion.

   Haiti's continued lack of a suitable MIS system also places that operation in a situation of high risk.

<u>*MEDA's Response*</u>
MEDA recognizes the deficiencies that occurred in the field accounting and MIS systems. We are grateful for financial support from the PVC that helped us to correct this situation in Mozambique and to test MIS options in Haiti. We anticipate that we will be able to develop a functional MIS in Haiti over course of the next six months.

Because we were not yet fully confident of our accounting/MIS systems, MEDA chose to keep these programs at a relatively small portfolio size during this pilot project phase, rather than risking additional financial resources and compounding record-keeping issues with thousands of clients.

3. MEDA must ensure that its Country Managers submit their financial information and performance data to headquarters in a timely manner.

This recommendation is closely linked to comments in *3.2.1.6 Supervision,* below. It addresses two critical points of the triangle – operations and consulting. The third part relates to management style, focus and behavior.

MEDA has put a great deal of effort into developing improved monitoring sheets. It also relies on these monitoring sheets internally, to monitor capacity and performance. During the review of headquarters files and operations, the monitoring sheets were two months out-of-date. This increases MEDA's overall risk, because it limits ability to spot negative performance trends and capacity problems in its own projects. Based on MEDA's experience in developing these tools, this situation is surprising. MEDA headquarters should receive monthly monitoring sheets from the field by no later than the 15th of the month following.

> *MEDA's Response*
> *MEDA recognizes that field reports are often received later than scheduled, and will make a concerted effort to correct this deficiency.*

4. Attracting socially responsible investment is similar to fundraising; investors must feel emotional commitment to a project before they contribute.

   MEDA learned this lesson during the restructuring of Sarona, and as a result revised the original Sarona concept, which invited investors to remain at arms' length from individual projects. Actively encouraging emotional commitment to individual projects is now part of Sarona's current strategy to attract capital.

> *MEDA's Response*
> *As mentioned, MEDA Investments Inc. has restructured its investment strategy to include two principal components:*
> - *The Sarona Global Investment Fund is now a not-for-profit corporation that markets certificates of deposit to smaller investors and like-minded institutions. Sarona then makes debt and equity investments in agro-marketing companies and microfinance institutions that serve the poor in low income countries.*
> - *MII also structures private equity deals in development-oriented businesses for high net-worth individuals and public-sector investment funds. In these cases, investors want a more hands-on approach.*
>
> *MEDA continues to seek the best marketing approaches in this relatively new field of development finance.*

5. When MEDA Mozambique determines its governance structure, it should consider structures that will allow it to legally manage segments of clients' savings that could form added guarantees, for example wedding, funeral or college funds.

   The Mozambican economy, traditionally and currently, is largely cash-based. Traditionally, people only borrowed from family who exerted no pressure to repay, or from friends whom they would repay based on personal agreements. These traditions are reinforced because it is socially acceptable for Mozambicans to brag when they make large cash purchases; it shows that they are good savers and money managers. As well, if one has to borrow and fails to repay, they lose respect and status. Generally, people will not borrow unless they are confident they have the income to repay the loan. Many small businesses in the markets are not diversified, and often have cash flow problems. In interviews, people reported that they wanted to borrow, but were waiting to see if other borrowers they knew were able to repay.

Within these circumstances, the solidarity group is the weakest link, because people view shared risk as loss of control of their own ability to repay. If a person faces default on an individual loan, they could go to their family to get additional money for the payment. With a solidarity group loan, members are unlikely to get assistance from their families to help other group members facing default. They are more likely to tell a defaulter to go to his or her own family for assistance. Making smaller, individual loans is not a solution, because the transaction costs of such loans would be prohibitive. Market people may be afraid to take out loans because they lack confidence in their own abilities. They may feel that their incomes are not stable enough to ensure their capacity to repay. One possible solution to overcome these fears, and to reduce resistance to the solidarity group methodology, is a specific savings fund. This could be withdrawn at any time and would also serve as an additional, individually-controlled guarantee.

<u>*MEDA's Response*</u>
MEDA will certainly give priority to selecting a long-term institutional structure that permits savings. Unfortunately, in the current regulatory environment, the options are limited – either a formal bank structure with high capital requirements, or a credit union type of structure with governance/management challenges. Nonetheless, MEDA will continue to collaborate with projects such as the Mozambique Microfinance Facility (CIDA) that are working with the Government of Mozambique to explore other options.

6. In Mozambique, MEDA may want to assess the feasibility of offering, early in the program, the training required for solidarity group borrowers to take out individual loans, on a cost recovery basis.

The average client's education was, for the most part, interrupted by the war. This deterrent is combined with the fear of debt, so offering training may be a good marketing investment. For those who are afraid to borrow, training on how to run their business better may serve as an incentive. Because the capacity to pay is limited, it will be critical to provide practical training that is perceived to deliver value for money. Another incentive for groups of clients who complete the training may be to allow them to increase their loans by larger increments. Mandatory retraining for people embarking on individual loans would reinforce the concepts. It also would provide MEDA with more comfort about each person's capacity, because the training would be conducted on a much smaller scale. MEDA should keep training sessions for people seeking individual loans separate from those for group borrowers.

<u>*MEDA's Response*</u>
The microfinance industry as a whole has moved away from combined credit/ business training programs, although in some cases, credit is combined with health or other types of training. MEDA's experience in Latin America was that the clients themselves began to resist the business training that was offered with the loan – they were too busy, they already knew everything they needed to know to run their business, etc. However, in Africa and perhaps in Haiti, we are facing a different paradigm, and we will investigate whether additional and perhaps earlier training makes sense. Interestingly, a long-range survey of former MEDA credit clients in Bolivia indicated that what they saw as most valuable in the long run was the business training that they received.

7. MEDA Haiti must stabilize its methodology over the next couple of years.

   MEDA Haiti should stabilize its methodology for two reasons. First, MEDA Haiti as an organization has credibility with its clients. MEDA Haiti needs to stabilize its methods to ensure the community bank system maintains credibility. Failure to do so will eventually affect MEDA's overall organizational success.

   Second, any contemplated methodology changes should be carefully compared with, and be consistent with, methods used by the potential partners envisioned in the long-term merger plan. If a proposed change does not match these organizations' methods, MEDA Haiti should develop a justification sufficient to persuade these organizations to accept the validity and rationale for adopting MEDA's approach over their current one. Any changes to the community banking methodology, including those beginning in the MEDA fiscal year 2001/02, should be reviewed in this light. This approach may also help resolve the MIS issue.

   <u>*MEDA's Response*</u>
   MEDA agrees. In fact, the need to develop a workable MIS system dictates that these changes must be made within the next six months.

8. The decision to integrate the community banking process with literacy using Fonkoze's material provides benefits to the program.

   By responding to client requests and integrating literacy training into the community-banking program, MEDA Haiti has learned that it can gain a double benefit. First, literacy meets a community need and adds value that attracts clients. Second, literate clients are more likely to be successful clients. They reduce MEDA's risk in lending to the very poor. Once clients have learned to read the alphabet and to sign their names, the program enters a second phase that uses numeracy and business management examples to teach people to read and write. A tertiary benefit is that the credit officers are paid a stipend to supervise the literacy program. This extra income helps keep them motivated.

   Using the community bank as a base, and the collective loan and literacy program as two introductory initiatives, MEDA may want to consider using the community banks something similar to FEDEREC's Community Development Committee model, to extend the literacy program for two more months. It is estimated that it will take two months to effectively apply the health training materials Fonkoze has identified as appropriate and available.

   <u>*MEDA's Response*</u>
   MEDA agrees that this innovative approach (which won support from a CGAP innovation grant) needs to be further developed and evaluated.

3.2 Program Management

3.2.1 Organization's Management Capacity

3.2.1.1 Strategic Approach and Program Planning

MEDA's capacity for critical and analytical thinking for program design and impact has developed through the efforts that this project planned. The development of Quality Standards has proven to be a key factor in crystallizing thinking about standards around best practices. Developing these standards built on and emphasized the synergy between the TRU and the consulting arm. The baseline surveys and impact assessment work has contributed to analysis and evaluation in the country programs. The gender survey has contributed an added source of information for analysis, evaluation and reflection.

Headquarters staff can use the newly developed monitoring system to better monitor performance, and as a management tool. Field staff is beginning, with the appropriate training to develop capacity, to monitor its own portfolio performance, profitability and efficiency and to take the necessary corrective actions required to meet targets.

Unlike many microfinance institutions, MEDA does not solely focus on the banking operation and its sustainability. MEDA also has a strong concern for developing clients' businesses, because their successes also help the microfinance operation succeed. The impact and gender surveys have reinforced this concern, and are leading to the continued development of new lending products and client services.

The Annual Review and Plan of Operations is the key output document that demonstrates how MEDA headquarters uses its capacity to manage its strategic approach and program planning. The theme of the most recent Annual Review and Plan of Operations was "Leading the Wave". The focus was on how MEDA can best anticipate globalization and technological change, by creating business readiness strategies with its partners. In these planning meetings with Country Managers, issues included scaling up of microfinance operations through mergers. Partner governance issues – how long and in what capacity to stay involved with a partner after it is sustainable – have also been discussed. These discussions have led to changes in the organization. They include the restructuring of the Sarona Fund and the change due to take place in July, when the TRU will report to the Executive Vice President to ensure that all components of the International Economic Development Division have access to these services. These organizational changes in some ways respond to current needs but they also anticipate future requirements and demands.

MEDA uses its publications, Mennonite periodicals, its Chapter structure and annual convention/general meeting as public outreach opportunities to describe program results to the US public.

3.2.1.2 Monitoring and Evaluation

Each month, International Operations reviews the monitoring sheets developed as part of this project. Each quarter, International Operations with the TRU carries out a joint review, to ensure nothing is missed. For each Annual Review and Plan of Operations session, Country Managers prepare a three-year perspective that includes last year's actual results, this year's projected results, and next year's planned results.

The baseline/impact assessment was developed with the Haiti manager and staff and will be used as projects graduate to independence, as CHISPA did in Nicaragua.

As stated, headquarters staff is able to use the newly developed monitoring system to better monitor performance and to use as a management tool. Field staff is beginning, with the appropriate capacity development gained through training, to monitor its own portfolio performance, profitability and efficiency and to take the necessary corrective action required to meet targets. This demonstrates knowledge and use of performance techniques, and also the transfer of skills to the local partners. The baseline surveys and impact assessment work have contributed to analysis and evaluation in the country programs by the field staff. The gender survey has contributed an added source of information for analysis, evaluation and reflection.

The use and institutionalization of these methods demonstrates how MEDA headquarters transfers capacity to local partners.

3.2.1.3 Financial Management

Program and corporate audits show that adequate financial monitoring systems are in place to verify program revenue, operating and financial expense, as well as other inputs and outputs.

Haiti is integrally linked with other projects, particularly CIDA's FEDEREC program that MEDA is implementing. The original CODEP project is also an important link. In Mozambique, the program has leveraged additional resources from AusAID and CIDA's Canada Fund during the start-up, and is working towards establishing a close link with Microstart during 2001.

MEDA operates in a systematic and professional manner. The program's cost effectiveness is based on achieving the earliest possible financial sustainability. This has led to a very lean operation. A lean and cost-effective microfinance operation is also a preoccupation of donors wishing to achieve sustainability. In MEDA's case, the push to become cost effective during start-up appears to have been the primary cause of the staff problems in Mozambique. This issue will be addressed in Lessons Learned.

3.2.1.4 Information

MEDA's PVO field program is linked to other projects, each with its own project cycles and requirements. From one perspective, a single report would be administratively ideal but it is recognized that this is not practical or acceptable. On the other hand, reporting based on the various donor requirements adds to MIS needs, which in turn ensures that comprehensive reporting is available and usable by all donors and the project when it does public outreach.

In its public outreach, MEDA, as stated, uses its own MEDA publications, Mennonite periodicals, its Chapter structure and its annual convention/general meeting to describe program results to the US public. MEDA has also applied for a USAID grant to prepare a documentary with Prairie Public TV. If possible, this type of public outreach should be encouraged. The current methods adequately reach MEDA's membership market, but do not go much beyond this group.

3.2.1.5 Logistics

MEDA operates like a business in terms of material inputs. It tries to deliver when the material input is required, in the most cost efficient manner. It does not stockpile materials in advance, nor does it provide the field with large amounts of inventory. This is reflected in the delivery of capital funds to the projects for lending. Capital funds are provided to a field office through Sarona when requested, based on projected cash flow. MEDA guarantees Sarona against 50% of any loss incurred. On this basis, management has twice suspended lending in Mozambique.

3.2.1.6 Supervision

The MEDA organization structure places with headquarters responsibility for strategic overview, initiating new methods, exploring new countries of interest, sector specific technical resources, and overall management of the organization and programs. The Country Managers are responsible for designing new country programs and implementing those programs in their countries. This organization structure is similar to that of USAID. The success of this structure depends on two things: good communication between the field and headquarters; and very competent staff at the top two or three levels within each country. In MEDA's case, as in other institutions organized similarly, there is tension between the field and headquarters. This has an impact on the level and quality of communication, but for the most part, communication in

MEDA is healthy. With regard to competent staff, managers at headquarters and in the field are like most managers. They have relationships with their subordinates that make it hard for them to deal early enough, to demand and clearly expect change, and to set consequences for the subordinate if the change is not completed fully. This problem occurs in both the field and at headquarters. It should be noted that this is a general human problem. It can best be dealt with using meaningful quarterly work plans, the results of which determine continued employment and pay. The management principle is that staff pay attention to what matters to their supervisors.

The use of a part-time consultant as Country Manager in a start-up situation, especially when a fraud has been detected, is an example of where appointing known, available people as credit officers has gotten in the way of good management practice. It is not a case of MEDA not knowing better. It is a lesson learned, and must serve as an example of how not to handle a situation.

3.2.1.7 Human Resources Development

Although training needs must be assessed, and training plans are not explicit, MEDA has addressed the training requirements of its partners. The real question is how to assess the impact of that training on the performance of partners and on the program itself, in terms of building capacity at headquarters. In Mozambique, once inappropriate staff was removed, more appropriate staff hired, and systems put in place, staff training definitely strengthened the organization's professional and technical capacities. Haiti's staff is trained, and an extensive training plan exists as part of in the Business Plan. At headquarters, the Sarona Global Investment Fund's development and reorganization clearly indicates that capacity has been built. This is corroborated by fund growth of about $1.5 million since the project's beginning, despite a $386,000 loss on a 2001 equity investment. Developing training material has built the capacity of the staff that developed the tools. Using these tools in the field has built the capacity of these operations, as demonstrated. The income from the consulting group and trade operations has increased enough to replace the loss, and to bring income back to the 1999 level.

3.2.2 Lessons Learned and Recommendations

The review of program management capacity has demonstrated that MEDA is strong and businesslike in this area. The following recommendations are included to help fine tune a well-run operation:

1. Starting up in a new country cannot be done cheaply when there is no partner with which to work.

   The case study of MEDA's experience with fraud in Tanzania is used in many microfinance training courses. In Mozambique, better monitoring tools kept losses small. MEDA's true lesson learned, from the fact that fraud occurred in these two early start-up phases, is that it is a risky business to hire staff in a country where an organization has no experience. MEDA has revised its procedures to better manage hiring processes in country start-ups. However, it is yet to be determined whether these procedures will prevail amid the urgency of cost control in the next start-up situation. Procedures that have been outlined include:
   - Refusing to accept pressure to hire a local immediately;
   - Following a systematic hiring process;
   - Conducting more reference checks;
   - Using short term contracts initially;

- Refusing to use consultants and/or interns who have limited management experience and who work only part time when starting up a microfinance operation; and
- Relying on timely internal controls to flag problems immediately.

MEDA has also learned that replicating a methodology and its best practices is not a straightforward process. One consequence of assuming replication would be simpler, has been a need to change the program's policies and procedures to a perceptible degree. An earlier awareness of the differences would have resulted in an extension of projected sustainability targets to accommodate the differences. The additional time would have been used to conduct a situational analysis, modify procedures and build the necessary capacity.

> *MEDA's Response*
> *MEDA recognizes that in the past start-up operations in new countries have sometimes been undertaken with insufficient budget and limited research in advance. This entrepreneurial "action research" approach sometimes resulted in solid programs and businesses. However, it also failed in some settings.*
>
> *MEDA is now committed to doing more thorough situational analysis, business planning, and recruiting in advance of any start-ups. Budget limitations will preclude some start-ups.*

2. Improve communications between the field, the TRU/Consulting Group and management, particularly in reporting identified training needs.

Although this project is based on capacity building, there is a lack of communication between the various MEDA components involved in this project, related to capacity building. Specifically, the DIP only generally outlined a training needs assessment and training plan. The monitoring trip reports contain identified training needs based on findings. The ARPO/Country Managers' meetings do not outline Country Managers' views of their staff's training needs. With only six months remaining in the project, the Mozambique line item for training reported under spending of over 80%, or more than $15,000 out of a budget of $18,000. Part of this can be attributed to early staff turnover. However, the plan for Year Three called for an emphasis on training, and financial statements halfway through the year showed less than $1,000 had been spent on training.

> *MEDA's Response*
> *MEDA agrees that programs would benefit from better and earlier identification of staff and partner training needs, and the development of a detailed training plan to respond to those needs. Improved communication on this issue is critically important. On the other hand, MEDA has already benefited significantly from training that was supported by the PVC project.*

3. Exit strategies are a critical function of development planning.

The development program management, the TRU staff developing BDS tools, and the Sarona Global Investment Fund have all learned the importance of planning exit strategy early in the development phase. This includes the capacity and conditions that must exist when a program graduates to Sarona financing forming MEDA's only involvement, and the ways MEDA monitors its investment. Unlike most PVOs, MEDA must wrestle with this issue in a very practical way. MEDA has measurement tools like the Quality Standards and Cost/Benefit Analysis tools that can assist in analyzing an organization. Even with these tools, MEDA is still encountering a gap between when its development initiatives end, and when Sarona can make a partnership investment. As it continues to build its capacity, MEDA needs to find a way to bridge this gap that will meet both development needs and secure investment standards.

> *MEDA's Response*
> *MEDA agrees that exit strategies are one of the most difficult development issues to plan and to execute. Early in the next PVC project, MEDA will prepare an analysis of the merger that took place in Nicaragua between MEDA's successful micro-credit program, CHISPA, and one of the largest commercial banks in the country to create Financiera CONFIA. The paper will document the events that transpired during that period – the progress and setbacks, the detours and caution signals, and the green lights – in order to share learnings about moving from development program to investable business.*

4. An important lesson MEDA has learned is the significance of balancing focus on both the banking operation of a microfinance institution, and the needs of the client.

   MEDA recognizes the relative weakness of solidarity and community banking models. Both of these strategies have their time and place. To avoid dealing with high dropout rates when a methodology no longer meets clients' needs, MEDA has had the courage and foresight to embark upon individual lending. The individual lending methodology presents important issues in cost control and sustainability, but notwithstanding these, client satisfaction is an important feature of MEDA's lending methodology.

> *MEDA's Respnse*
> *MEDA agrees.*

5. Missions would welcome copies of submitted reports and evaluations.

   Mission staff asked the evaluator for copies of the reports and this evaluation so it can be in tune with the program, even though it has no accountability for the program. This would help mission staff provide informed comments on PVO applications to PVC.

> *MEDA's Response*
> *MEDA would welcome additional feedback from USAID on progress and lessons learned in this project.*

4. Evaluation Methodology

The MEDA proposal, Business Plan and Detailed Implementation Plans were all results based. Indicators were in place against which the evaluator could assess the achievement of the project results outlined in the Scope of Work.

The evaluation approach was twofold: to review available documents and to interview the staff of MEDA and its various partners at the country level. In reporting the results of the MEDA's partners (MEDA Mozambique and MEDA Haiti), only monitoring sheets available at headquarters were deemed valid, since the purpose of the monitoring sheets is to assure headquarters that financial records are up-to-date and that performance monitoring is taking place.

Interviews with MEDA staff and partners generally followed a pattern that would obtain the information necessary to meet the requirements of the Scope of Work. USAID's Discussion Oriented Organizational Self-Assessment Tool was used to assess organizational capacity, and to determine the extent and depth of capacity building. In addition, the standard Sustainability Methodology for Microenterprise Projects from the current PVC application guided program summarizations used to assess microenterprise components of the MEDA Mozambique and MEDA Haiti country programs

The headquarters office review was conducted from June 10 to 14, 2001. The MEDA Mozambique review was conducted in Maputo from June 15 to July 1, and the MEDA Haiti program review was conducted from July 5 to 18. Writing the report was undertaken from July 19 to 27, 2001and headquarters management debriefing took place on July 25, 2001. To ensure that MEDA's response to the recommendations is not lost they are included in the report.

ANNEX 1

EVALUATION OF MEDA'S PVC-FUNDED PROGRAMS SCOPE OF WORK/TERMS OF REFERENCE

1. Introduction

The MEDA Matching Grant (MG) Program, financed by USAID's PVC division, covers the period from 1 October 1998 through 30 September 2001. The matching grant project provides support to MEDA's Small Business Development Programs (micro-enterprise credit programs) in Mozambique and Haiti, and to MEDA's headquarters to assist in enhancing capacity at the headquarters level as well as providing technical assistance and management oversight to field partners.

This final evaluation is being carried out to fulfil the requirements of the USAID/BHR/PVC Matching Grant Program, and also to provide MEDA and its programs with lessons learned and recommendations. PVC will use this information in its annual Results Report and in the review of any follow-on proposals from your organization.

2. Program Identification and Background : Guidelines for Reporting

2.1 Program Identification

Provide general information on the following:

A Name of the PVO (NGO)

(i) Contract Number
(ii) Time (Start/End Dates)
(iii) Country Programs: Haiti, Mozambique

2.2 Program Background

Include a short statement on the following aspects of the programs:

A History
(i) Current Implementation Status
(ii) Partners
(iii) Program goal and purpose (objectives & outputs)
- *Indicators*
- *Log frame / planning matrix*

B Availability of data
(i) Annual reports
(ii) Prior evaluation
(iii) PVO M&E system data
(iv) Other sources

2.3 Purpose Of The Evaluation

Identify the evaluation audience; their information needs and decisions that will be made based on findings PVO, local partners, USAID

3. Evaluation Statement of Work/Terms of Reference

The evaluator or evaluation team will assess the, following program and institutional elements,
Providing evidence, criteria for judgements and citing data sources. The evaluator(s) will assess both the headquarters and the country-level programs in the following countries: Haiti and Mozambique

3.1 Program Implementation (60%)

A Assess progress towards each major objective (subtotal -- 70%)

- Based on the log frame/program planning matrix, or statement of program purpose from the proposal have objectives been met? (midterm evaluation- estimate the probability of objectives being met by end of program),
- Identify constraints and unanticipated effects
- Identify major successes and why these elements were successful
- Assess effectiveness of models, approaches or assumption that underlie the program. Identify the characteristics that make the method/approach work.

B Assess progress towards sustainability (subtotal--10%)

- Identify: program elements that are intended to be sustained; sustainability objectives-, indicators used to measure progress; achievements to date; and prospects for post-grant sustainability
- Existence and status of cost-recovery mechanisms, local level financing or other approaches to generate resources to support program operations

C Assess the status of strategic partnership(s) with NG0s, community based organizations or local level government (subtotal -- 10%)

- Characterize "partnerships" with local level partners
  - Role, responsibilities (decision-making power);
  - Mechanisms employed (MOU, sub-grant, contract, etc.)- and,

- Fiscal autonomy and amount of grant funds directly managed in past year.

- How did the program plan to assess the quality **and** scope of partner relations?
  - Impact of the partnerships on the program

- What change in capacity of local level partner was planned? Achieved?
  - Effects of training or resource transfer **on** local partners capacity

D Cite the major implementation lessons learned and recommendations (subtotal -- 10%)

- What major approaches or methods were used in the program? How effective were they and why? Was their use expanded or institutionalised?

3.2 Program management (40%)

A Assess change in the organization's management capacity (structure & quality of management) as a result of grant?

(i) Strategic Approach and Program Planning (subtotal -- 40%)

What changes have occurred in the organization's capacity for critical and analytical thinking regarding program design and impact? Evidence that the organization and/or funded program has:

- Fostered analysis and self-evaluation in country programs, or conducted quantitative or qualitative analysis to refine interventions.
- Conducted periodic review of performance data by program personnel and taken actions as a result of review.
- Institutionalised performance monitoring and impact evaluation systems into other non-PVC grant funded programs-
- Acted on recommendations from midterm evaluation.

Are there changes in Headquarters capacity to: (i) manage the planning process, i.e., program renewal, strategy integration, program design; (ii) address over-arching program issues of replicability, scale-up, sustainability; (iii) forecasting and strategic planning, (iv) organizational development, financial planning and development and
(v) Use program results for U.S. public outreach activities.

(ii) Monitoring and Evaluation (subtotal -- 40%)

Assess capacity of the organization to monitor program performance and measure impact. Give evidence of:

- Appropriate intervention specific, capacity building and sustainability objectives & indicators?

- Developed baseline assessment and plans for final assessment?
- Knowledge of and use of impact and performance measurement techniques System (MIS) to consolidate analyse and interpret data?
- Transfer of skills and capacity to local partners?

(iii) Financial Management (subtotal -- 5%)

- Are adequate financial monitoring systems in place to verify program revenue, operating and financial expense, other inputs and outputs
- Has the program leveraged additional resources (beyond the match)?
- Cost effectiveness of the program

(iv) Information (subtotal -- 2.5%)

=> Comment on the utility and timeliness of PVO's required reports.
=> Comment on the organization's (headquarters) public outreach activities

(v) Logistics (subtotal – 2.5%)

=> Comment on the adequacy and timeliness of material inputs.

(vi) Supervision (subtotal -- 5%)

Assess if there were sufficient staff with the appropriate technical and management skills to oversee program activity at both headquarters and -in the field programs.

(vii) Human Resources Development (subtotal -- 5%)

- Did the PVO assess and address staff training needs?
- Strengthen the organization and local partner professional or technical capacity?

B Cite the major lessons learned and management recommendations

4. Proposed Schedule/Itinerary

June 4-8: 2 days during the week for preparation/review of materials prior to Waterloo visit (2 billable days)
June 11-15: Meetings with Headquarters staff for HQ component of evaluation, meet with USAID program officer. (5 billable days)
June 16 – July 1: Travel and Field work in Mozambique (16 billable days)
July 8 – 21: Travel and Field work in Haiti (14 billable days)
July 23 – 28: Report writing (includes debriefing in Waterloo on **July 25**) (6 billable days)

Final Report due: **July 31, 2001**

5. Proposed Partners To Be Visited

Haiti: If there is sufficient time, Larry could visit all 5 areas in the North where micro credit programs have been established. If time is limited, we suggest Larry visit Robillard, Port-Margot (the first 2 programs that started) and Grande Riviere du Nord (one of the three most recent programs).

Mozambique: MEDA's partner in Mozambique is MEDA Mozambique/Kulane ka Ntwanano located in Maputo.

Annex 2

Schedule of Activities and People Met

Date	Location	Activity	Place	People Met
June 10/01	Waterloo	Travel to Waterloo	Waterloo	
June 11/01 am	Waterloo	Project overview and meet TRU	MEDA Offices	Attend weekly Staff meeting; Briefing with Ed Epp, Director, International Operations and Julie Redfern, Manager, TRU; Julie Redfern, Manager, TRU; Pam Fehr, Technical Advisor/Consultant, and Cherie Tan, Technical Advisor/Consultant
June 11/01 Lunch	Waterloo	Program Overview	MEDA Offices	Alan Sauder, Executive Vice President, International Economic Development Division
June 11/01 pm	Waterloo	Program Details interview and document review	MEDA Offices	Ed Epp, Director, International Operations
June 12/01	Waterloo	Document Review; SARONA, MEDA investments; budget/accounting and briefing on Haiti	MEDA Offices	Scott Beech, Capital Fund Manager; Gerhard Pries, Director, MEDA Investments Inc.; Gerald Morrison, Financial Manager, International Economic Development; Cherie Tan, Technical Advisor/Consultant
June 13/01	Waterloo	Document Review	MEDA Offices	Julie Redfern, Manager, TRU; Cherie Tan, Technical Advisor/Consultant
June 14/01 am	Waterloo	Document review and interviews	MEDA Offices	Mary Herbert, Program Officer, USAID; Kim Pityn, Director Human Resources; Jennifer Helmuth, Human Resources
June 14/01 pm	Waterloo/ Toronto/ New York	Travel to Maputo		
June 15/01	New York/ Johannesburg/ Maputo	Travel to Maputo		
June 18/01	Maputo	Meetings with MEDA Mozambique staff and USAID mission briefing	MEDA Offices and USAID	Trudi Swartz, Country Manager; Dionisio Matos, Operations Manager; Herminio Tchauque, Loans Officer; Sergio Chusane, Loans Officer; Assia Abdul, Loans Officer; Olga Bernardino, Loans

Date	Location	Activity	Place	People Met
				Officer; Brad Martens, MEDA Consultant; Sydney Bliss, USAID; Christine De Voest, USAID
June 19/01	Maputo	Review of files, interviews and attended a Credit Committee Meeting	MEDA Offices	Trudi Swartz, Country Manager; Dionisio Matos, Operations Manager; Credit Committee (Loans Officers, Operations Manager and Finance/ Administrative Manager
June 20/01	Maputo	Review MIS	MEDA Offices	Trudi Swartz, Country Manager; Dionisio Matos, Operations Manager; Helder Goncalves, Finance/ Administrative Manager; Irine Duvane, MIS Operator
June 21/01	Maputo	Report writing		
June 22/01	Maputo	Client visits	Estrela and Xikelene Markets	Dionisio Matos, Operations Manager; Herminio Tchauque, Loans Officer
June 23/01	Maputo	Report Writing		
June 25/01	Maputo	Report Writing		
June 26/01	Maputo	Visit Clients	Fomento and Matola #1 markets, and ADEMINO	Dionisio Matos, Operations Manager; Olga Bernardino, Loans Officer; Sergio Chusane, Loans Officer and 5 group members
June 27/01	Maputo	Document Review and visit clients	MEDA Office and Association of Informal Markets	Sergio Chusane, Loans Officer; and president of association plus two officials
June 28/01	Maputo	Document review and visit clients	MEDA Office; Mavalene and Fogardo markets	Dionisio Matos, Operations Manager; and Sergio Chusane, Loans Officer;
June 29/01	Maputo	Document review and Debriefing	MEDA Office	Sydney Bliss, USAID; Trudi Swartz, Country Manager; and Dionisio Matos, Operations Manager
June 30/01	Maputo to Atlanta	Travel		
July 1/01	Atlanta to Ottawa	Travel		
July 5/01	Ottawa to Port au Prince	Travel		
July 6/01	Port au Prince	Meetings with MEDA Haiti staff	MEDA Office	Jean Claude Cerin, Country Manager; and Emmanuel Noel, CB Development Coordinator
July 7/01	Port au Prince	Report Writing		
July 9/01	Cap Haitien	Travel to north		
July 10/01	Cap Haitien	Visit 4 Community Bank's clients in Bahon	Bahon	Jean Claude Cerin, Country Manager; Pam

Date	Location	Activity	Place	People Met
				Fehr, Technical Advisor; Phanorde Dejean, Credit Officer, Bahon and Mireille Dizidor, Credit Officer, Grande Riviere
July 11/01	Cap Haitien	Visit 7 community bank's clients in Grande Riviere	Grande Riviere	Jean Claude Cerin, Country Manager; Pam Fehr, Technical Advisor; Mireille Dizidor, Credit Officer, Grande Riviere and Phanorde Dejean, Credit Officer, Bahon
July 12/01	Cap Haitien	Visit 3 community bank's clients in Robillard	Robillard	Schiller Rosarion, Director, FEDEREC; Pam Fehr, Technical Advisor; Antonine Diminy, Credit Officer, Robillard, Nelson Jackson, Credit Officer, Thibault; Jacques Homere, Credit Officer, Port Margot
July 13/01	Port au Prince	Meetings with MEDA Haiti staff and document review	MEDA Office	Jean Claude Cerin, Country Manager; and Lionel Jean Baptiste, Finance Manager
July 14/01	Port au Prince	Meeting with Country Manager and Report Writing		Jean Claude Cerin, Country Manager
July 16/01	Port au Prince	Meetings with USAID and Fonkoze	USAID and Fonkoze Offices	Donald Sam, Private Sector Development, USAID; and Anne Hastings, Director General, Fonkoze
July 17/01	Port au Prince	Document Review and Debriefing	MEDA Office	Pam Fehr, Technical Advisor
July 18/01	Port au Prince to Ottawa	Travel		
July 19,20,23,24, 26,27, 28,30,31		Report Writing		
July 25/01	Waterloo	Debriefing	MEDA Office	Alan Sauder, Executive Vice President, International Economic Development Division; Julie Redfern, Manager, TRU; Cherie Tan, Technical Advisor/Consultant; Gerald Morrison, Financial Manager, International Economic Development; Kim Pityn, Director Human Resources; Wendy Dischke, International Operations

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Annex 3

Informal Market Survey

This informal survey about MEDA and its competitors was completed by interviewing approximately five members of the Xikelene Market Commission in Maputo on June 22, 2001. This was followed on June 27 with a brief interview with the president of the Association of Informal Markets and on June 28, 2001 with an interview with the Fajardo Market Commission and a senior individual borrower. The following is the combined results of the interviews and does not contain any analysis as to the validity of the comments received.

Characteristics – Strengths and Weakness of each Program

Novo Banco:

- It is a bank
- Has lots of conditions
- Its conditions are not flexible
- Takes a long time for loan officer to respond to request
- Want guarantor instead of asset pledge

SOCREMO:

- Almost like MEDA
- Provides individual loans
- Monthly repayments
- Does not work in other markets – possibly not enough capital
- Requires a guarantee similar to MEDA
- Collection methods are the same as MEDA
- Interest rate – thought to be higher
- Does not provide any training
- Thought to have repayment problems
- People who are failing, are doing so because the need training

Tchuma

- Take a long time to give credit

MEDA:

Strengths

- Has the best track record in working positively with clients
- Has an office in the Xikelene market
- If they could take savings people would use them
- Individual loans have been available since September 2000
- Training provided is good and necessary
- Current time of training best available
- MEDA has room to expand

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- MEDA knows the challenges of the informal sector whereas its competitors do not
- Solves problems in a caring ("lovingly" was the actual Portuguese word used) way
- The training MEDA offers is good. People need training in how to use their loan wisely
- Uses market commission as receptionist for credit officers outside Xikelene

Weaknesses

- People do not join because they think MEDA only provides group loans
- People say they don't have time to attend training
- Loan size too small MEDA needs to give loans of 2-3 million Meticais instead of 1 million
- Want charismatic speaker from MEDA at market commission meetings to promote the program
- MEDA could do better by being constantly seen in the markets so they are seen as one of them
- MEDA could do better by knowing what its competitors are offering and developing a better product
- The problem with the solidarity group is not trust but cashflow because weak businesses are not diversified
- If available, spouse should witness loan so they know about it
- Should use stall neighbors as primary reference instead of market commission