United States Agency for International Development

Evaluation of the Central Asia Microfinance Alliance (CAMFA) Program

Submitted to:

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Submitted by:

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INCORPORATED

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Mr. Michael T. Fritz,
Deputy Director
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Dear Mr. Fritz, Dr. Norris and Ms. Serikbayeva:

Bankworld Inc. is pleased to submit to you a draft report on Evaluation of the Central Asia Microfinance Alliance (CAMFA) Program.

The evaluation was conducted by Bankworld advisors Mr. Timothy O'Hare, Team Leader, Dr. Delbert Fitchett, Mr. Ronald Bielen and Mr. Narzullo Oblomuradov working in cooperation with Mr. John A. Berry, USAID's Microfinance Development Advisor.

The underlying premise of the report and the recommendations, therein, are to provoke Mission's thinking and stimulate discussion on the means for improving the impact on Mission's ultimate customers. We gratefully acknowledge your encouragement and support in meeting these objectives.

Bankworld is honored to serve USAID in this capacity and thanks you very much for the opportunity. We are grateful for your kind support and counsel, and for the active cooperation of a number of multinational, public sector and private sector institutions and organizations engaged in CAMFA and related activities in Central Asia.

Sincerely,

Bharat Bhargava

Bharat Bhargava
President

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Evaluation of the Central Asia Microfinance Alliance (CAMFA)

I. Executive Summary

The United States Agency for International Development's (USAID) Central Asia Microfinance Alliance (CAMFA) Program is building and strengthening the institutional capacity of microfinance institutions (MFIs) in Kazakhstan, Tajikistan, Kyrgyzstan, and Uzbekistan. The project is implemented through a four-year cooperative agreement with the Agricultural Cooperative Development International and Volunteers in Overseas Cooperative Assistance (ACDI/VOCA) that was executed on September 30, 2002 with a budget of US$11,548,399.

A. CAMFA

The term microfinance, as it pertains to CAMFA's activities, refers to an economic development approach that benefits the economically active poor, the rural poor, and women by providing them direct financial services. It specifically refers to the provision of small loans to low-income people by secure, conveniently located, market-based financial institutions. The term recognizes that appropriately designed products and services enable the poor to expand and diversify their economic activities, increase their incomes, and manage economic crises.

CAMFA addresses three primary constraints to the development of the regional microfinance industry: the limited capacity and capital of existing MFIs, an unclear legal regulatory environment, and the limited availability of microfinance programs and services for MFIs in Central Asia.

CAMFA has three components:

1. Developing Central Asian MFIs by providing technical assistance support to a network of selected partners;

2. Strengthening what it refers to as best practice financial institutions, and

3. Supporting the creation of identified new MFIs.

Under its first component, CAMFA conducts diagnostic assessments of MFIs desiring to become CAMFA partners. Support to prospective partners begins with a comprehensive diagnostic that provides a valuable contribution to capacity building for the MFI whether it becomes a CAMFA partner or not. Those who become partners are assisted with the development of accounting and information management systems in accordance with international standards. When an MFI qualifies as a CAMFA partner, it is eligible to receive specialized technical assistance and training. Study tours are conducted on the behalf of MFI managers and best practice materials are disseminated to them and their organizations. . Legal support is available to assist with restructuring. The MFIs are eligible to receive small capital grants and CAMFA works to facilitate their access to loan capital on commercial terms. The type of lending promoted by CAMFA is characterized by:

- Small loans, especially for petty trade and working capital;
- Informal appraisal of borrowers and investments;

- Collateral substitutes, such as group guarantees;
- Access to repeat and larger loans, based on repayment performance; and
- Streamlined loan disbursements and monitoring.

To achieve the second component objective of strengthening the best practice institutions, CAMFA is providing direct support and lending capital to the Kazakhstan Loan Fund (KLF). CAMFA also assists FINCA/Kyrgyzstan with its expansion/transformation by financing the installation of the SIEM management information system and providing technical assistance.

CAMFA's work related to the third component of providing assistance to FINCA includes establishing new MFIs in Uzbekistan and Tajikistan.

B. The Evaluation

The USAID's Regional Mission for Central Asia (USAID/CAR) contracted the services of Bankworld, Inc. to conduct an evaluation of CAMFA to determine its program performance and to propose prospective approaches for the promotion of microfinance development in the future.

The evaluation team reviewed the CAMFA program in the context of the financial systems approach to microfinance development.. This approach emphasizes large – scale outreach to the economically active poor, to borrowers who can repay small loans from household and enterprise income. It focuses on institutional self-sufficiency as the only possible means of meeting the demand for convenient and appropriate financial services.

Financial sustainability features prominently in CAMFA's strategic approach. The evaluation was guided by empirical research that has shown that sustainability is enhanced when donors establish or promote select financial institutions dedicated to the development of large scale microfinance services. Building sustainable institutions – by funding equity, technical assistance, information systems, management and staff training, and the identification of best practices - permits donors to maximize the return on their investment. This is because self-sufficient microfinance institutions can leverage substantial additional funds for their portfolios by mobilizing public savings, accessing commercial debt, or attracting for profit investment.[1]

The evaluation team conducted field interviews and undertook an inventory of CAMFA-sponsored microfinance activities in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. The team relied on the set of questions that was contained in the evaluation scope of work prepared by USAID/CAR. These questions were not intended to be all-inclusive, but rather illustrative of issues germane to the evaluation of an activity designed to strengthen existing MFIs in Central Asia, support more transparent lending operations, and create new lending entities in underserved markets. Collectively, the questions represent a comprehensive examination of a microfinance program that captures information on corporate governance, markets and clients, credit methodology, transformation, human resource development and management, computerization, and financial management. The evaluation team prioritized its questions in consultation with USAID before undertaking fieldwork in an effort to present the most relevant questions necessary to achieve the evaluation's objective.

[1] *The Microfinance Revolution, Sustainable Finance for the Poor*, Marguerite Robinson, World Bank, 2001.

This report documents the findings, conclusions, and recommendations of specialists recruited by Bankworld Inc., working in cooperation with a microfinance development advisor from the Agency for International Development's Office of Poverty Reduction. Section III, Findings, addresses the questions discussed above, and forms the bulk of this document.

C. Conclusions and Recommendations Summary

To summarize, the evaluation team recommended that USAID/CAR remain engaged in microfinance development. CAMFA should focus donor support on and through the region's new Microfinance Center (MFC). It recommended that CAMFA avoid both overextending its limited resources to new partners at this relatively late date in the project's implementation and refrain from allocating resources to non-MFIs. Sustainability would be enhanced by the establishment of a reimbursement mechanism to defray the costs of delivering some of the services provided by CAMFA. USAID and CAMFA are encouraged to reconsider the indicators applied to CAMFA partners and those pertaining to FINCA and Partners' sustainability. Ways of promoting better donor coordination are identified, as are ways of encouraging a broader range of financial services for the poor through the commercial banks' medium and small enterprise (MSE) development programs. An exit strategy is proposed.

II. Background

CAMFA responds to a serious economic development challenge in Central Asia. Poverty rates in the region are high, ranging from 28 percent of the population in Kazakhstan to 83 percent in Tajikistan. [2] The formal financial sector remains underdeveloped. With the demise of the region's centrally planned economies, there has been significant increase in small business development and self-employment. At the same time the formal financial sector has in many cases only slowly shaken off the problems associated with its Soviet-era practices. It has often proven reluctant or slow to adopt modern banking practices or – especially – to provide financial services to these emerging entrepreneurs, most of whom lack a track record of borrowing or do not have the collateral required by banks. In the various CAR countries, governmental intervention in the financial sector may occasionally be far from benign.

Microfinance pushes the frontiers of the overall financial sector by allowing the economically active poor to participate in the national economy. It offers financial services to segments of the economy that the formal banking system regards as unbankable because of transaction costs, perceived risks, low margins, and the lack of traditional collateral.

Although MFIs in Central Asia are still in the early stages of development, there are encouraging signs as these institutions endeavor to become actors in their countries' financial systems. However, they face constraints as they attempt to develop their potential. Most of the successful MFIs in the region are "large, internationally supported or managed organizations, and their client base is largely urban."[2] They focus on short-term working capital loans based on social collateral, accompanied by high interest rates.

[2] *Microfinance and the Poor in Central Asia, Challenges and Opportunities*, World Bank, Washington, D.C. 2004, p. xi.

[2] Ibid, p. xii.

MFIs have limited geographic coverage and depth of outreach with penetration of the poor population estimated at less than 2 percent. There remain large un-served or underserved segments of the population, especially in the rural areas where the poverty levels are highest. Respondents to surveys of the rural poor have cited the lack of access to credit as the most serious constraint to enterprise. For the MFIs, the constraints to the expansion of their outreach include uncertainty about their legal status, tax requirements, and other regulatory issues. Sustainability is a challenge for MFIs, as they operate with high costs and have limited ability to manage risk.

Other donors and a number of NGOs are supporting microfinance in Central Asia. Donors with programs in the region include: the World Bank's International Finance Corporation (IFC), Germany's GTZ, the United Nations' Development Program (UNDP), the European Bank for Reconstruction and Development (EBRD), Japan, the Asian Development Bank (ADB) the International Labor Organization (ILO) and Switzerland's State Secretariat for Economic Affairs (SEC). The NGOs active in the region include ADCI/VOCA, FINCA, CARE, Mercy Corps International (MCI), the Aga Khan Foundation, OXFAM, the Eurasia Foundation, Swiss CARITAS, WOCCU, ICCO and NOVIM.

III. Findings

A. <u>Overall CAMFA</u>

1. What has been the impact of the technical and the financial assistance via CAMFA? Impact can be measured by indicators such as an increase in the outreach, the portfolio, the efficiency, and quality services to target clientele, governance, increased sustainability, or any other indicators that the contractor deems appropriate.

The CAMFA reporting system may need strengthening such that the breadth and intensity of its support to its partner institutions can be monitored in a timely manner. Some recommendations have been made to CAMFA about expanding its quarterly and annual reporting to place more emphasis on the timely presentation of quantitative tracking information and financial statements of partner institutions, CAMFA budgets, FINCA operations, and Frontiers operations. Much of the current reporting, while informative, is of a narrative nature, largely reflecting activity related to the action plans of individual partners. The narratives on action plans report on how technical assistance activities are progressing. The technical assistance should result in expanded financial product offerings, increased outreach, and reduced portfolio at risk (PAR). As USAID's performance monitoring plan (PMP) tracks active clients and outstanding portfolio, these two indicators and PAR exceeding 30 days should be included in the respective partner section of quarterly reports to USAID. Furthermore, since partners joined CAMFA at different times, the baseline (as of the date the partner joined CAMFA) statistics for each of the indicators should always be listed for reference purposes.

In the absence of careful baseline studies and systematic monitoring of client income, consumption and capital expenditure patterns, impact cannot be unambiguously measured. In Tajikistan, for example, there appears to be considerably more economic activity than there was three years ago. It would be incorrect to attribute all or even a significant part of this to MFIs. Client data maintained by ACTED, which is not a CAMFA partner, in Tajikistan suggest improved prosperity in its service areas, but it is uncertain how much of this is attributable to MFI activity. Individual CAMFA partners have mixed records with respect to portfolio growth. USAID could consider the option of separately funding an independent statistically rigorous review of operational impact on MFI clients, starting with good baseline information and control groups, in order to address these questions in an unambiguous manner, rather than rely on casual empiricism.

One interesting indicator for economic development might be the graduation of MFI clients from the typical small group-based loan instruments to larger individual loans provided by commercial banks through the micro and small enterprise (MSE) lending programs supported by USAID, the European Bank for Reconstruction and Development (EBRD), and other donors. CAMFA for its part does not appear to have focused on this promising trend. (Curiously, it seems that MFIs occasionally exhibit an almost proprietary view of their clientele, and that any "loss" of clientele is worrisome, rather than thinking that the shift of a client to another financial institution might mean that the client is better off.) The FINCA operations, which provide (or are designed to provide) individual loan products are well placed to capture information on increased outreach, portfolio, and enhanced sustainability for their clientele.

CAMFA's indicators and the achievements they capture are described in the two tables below. Information presented in those tables was taken from CAMFA's 2003 Annual Report and 2004 Work Plan. Examining the tables reveals that stated goals have been met for both years of project implementation. While the indicators mentioned above are clearly more results oriented, the data to assess them was not available to the evaluation team. Further discussion of the evaluation team's impression of CAMFA impact is discussed in Sections Two and Three below.

TABLE 1: CAMFA Goals Matrix: Goals Vs. Achievements 2003	
CAMFA GOALS: 2002 – 2003	CAMFA ACHIEVEMENTS: 2002 - 2003
6 MFIs strengthened	11 MFIs are assessed and 10 are strengthened and supported trough and mini grants
10 accredited MFIs	10 MFIs are accredited
2"infant"NGOs registered	8 NGOs are registered in Kyrgyzstan
100 MFI staff trained	200 MFI Staff are trained
1 Regional Workshop	1 Regional Workshop is held
6 Best Practice Articles Translated	7 Best Practiced translated distributed throughout the region
3 MIS Installed	4 MIS are funded and installed (including staff training at each institution)
5 Up-Grades to Accounting Systems	5 Up-Grades to accounting system
2 Technical Trainings Held	4 Technical trainings held
25 Individuals Attend Study Tours/At Policy Workshops	70 individuals attended study tours policy forums

TABLE 2: CAMFA Goals Matrix: Goals Vs. Achievements 2004	
USAID Benchmarks 2004	**CAMFA Achievements as of September 30, 2004**
6 MFIs strengthened	17 MFIs strengthened
17 (total) accredited as partners	17 NGOs accredited as partners
1 Infant NGO registered	1 Infant NGO registered
100 MFI staff receive training	233 MFI staff received training

6 Best practice reports translated	7 Best practice reports translated
1 Regional workshop	1 Regional workshop presented
3 MIS systems installed	6 Integrated accounting and MIS packages installed
5 Upgrades to accounting systems	1 Entire accounting system developed and computer system installed
2 New product-based trainings developed	2 New product-based training events designed and presented (risk management and good governance)
25 Collaborative trainings/study tours/policy dialogue workshops	71 Individuals trained through study tours and policy dialogue workshops

2. How have those MFIs grown over time? Who are they serving? What do the key financial indicators tell us about their operations? To what degree do they have the management skills to expand their operations?

CAMFA has worked with 17 partners through October 2004. One of those partners, AMFOK, is an association, not an MFI. Of the 17 partners, 4 have left or will leave the partnership relationship, resulting in a balance or 13 partners. Two partners were agents of Mercy Corps International and, as such, lacked ownership of the loan portfolio. Mercy Corps International's decision to consolidate the two organizations with two others renders continued partnership non-viable. WOCCU, which originally encouraged partnership with two Uzbek credit unions, has found the resources to bring them into its technical assistance program. Al-Maral-Yuk in Kazakhstan is unhappy with the Mercy Corps International consolidation and has a small fund independent of its Mercy Corps portfolio. They would like to continue operating with CAMFA if a portion of their organization survives with the secondary portfolio. While it is unlikely that there will be sufficient portfolio available to meet CAMFA criteria, the situation should be reviewed when the MCI consolidation process is complete.

MFIs have grown during the life of CAMFA both in terms of numbers and value of loans. Financial indicators such as average loan size of US$265 indicate that CAMFA is reaching poor clients. Furthermore, 90 percent of the loans are to women, additional proof of CAMFA's reaching the poor. Loans are primarily for trade (61 percent), followed by livestock production (13 percent) and general agricultural production (10 percent). These indicators show that operational capacity is improving, as the portfolio at risk (PAR) and loan losses decline and returns on assets increase. While there may be a question as to how much of this growth can be attributed directly and solely to CAMFA, there has definitely been progress on many fronts. Management skills have definitely improved as a result of CAMFA-sponsored training. As mentioned below, it is the lack of access to capital that is most frequently cited as the most serious constraint to MFI expansion, rather than management deficiencies.

Individual CAMFA partners have mixed records with respect to portfolio growth. The National Association of Business Women (NABW) in Tajikistan, which enjoys strong on-going support from an external donor has grown and expects to continue mobilizing lending resources.[3] ASTI, on the other hand, has more limited lending resources and is unlikely to achieve full sustainability at its current level of operations. Consolidation with other, larger operations may be the only option for ASTI's survival.

[3] The NABW in Tajikistan represents some 15% - 20% of the outstanding loan portfolio of all CAMFA partners.

Most of the loans are extended to small traders. However, the Development Fund and SogdAgroServ are focusing much of their effort on businesses in rural areas, such as small-scale livestock and cotton production. Women make up an important share, frequently the majority, of borrowers. While group solidarity represents the major lending vehicle, there is interest in larger individual loans. Movable property and gold are frequently pledged as collateral.

A complaint heard from some CAMFA partners and other MFIs, especially in Tajikistan and Uzbekistan, concerns availability of additional loanable funds.[4] These MFIs expect these resources to continue to be provided on a grant basis, while they regard themselves as having the required operational, managerial and institutional information systems capacity to expand lending volume. (Provision of free CAMFA support allows them to allocate their own resources to higher priority activities; e.g., lending capital.) However, the need for an on-going relationship with CAMFA to understand and implement these systems suggests that additional work is required to bring these MFIs to sustainable levels. The NABW (Tajikistan) is the exception to this determination. It intends to apply for a license from the Central Bank of Tajikistan as a non-bank financial institution (NBFI) within the provisions of the law on banks and banking, rather than under the auspices of the microfinance law passed in May 2004.

Growth in portfolio of Kazakh and Kyrgyz partners cannot be attributed to CAMFA assistance due to the limited time it has worked with them, as seen in the tables below. Only one of the established partners in the two countries, Asia Credit Fund, has an approved Frontiers loan and that had not been disbursed at the time of the evaluation. KLF, technically not a partner, has received USAID support through CAMFA to open branches in Taraz and Turkistan, both of which are located in the economically depressed area of southern Kazakhstan. The two branches hold an outstanding portfolio valued at slightly less than US$ 1 million. Establishment of the two branches can be attributed directly to CAMFA's assistance. The two branches might have been established without CAMFA's assistance, but just when is hard to say.

As mentioned above, CAMFA should expand and strengthen its quarterly and annual reports. There do not appear to be any baseline studies or case studies that would permit a clear analysis of CAMFA's effect on the MFI's borrowers. Data collected on jobs created and retained are not reliable, unambiguous indicators of program impact; i.e., they fail to establish the counterfactual case.

The principal loan product, group lending, imposes on the clients important transactions costs, which would probably deter richer, more creditworthy loan clients from participating in the loan programs of CAMFA partners. Of course, formal financial institutions in the region also tend to impose high transaction costs on their smaller clients.

Based on visits to ACF and FSF, there is wide variation among the management skills of the partners. It is the evaluation team's impression that FSF will require considerable capacity building to enable expansion, whereas ACF has the necessary capacity for expansion.

[4] CGAP Donor Brief No. 3 (May, 2002),"Water, Water Everywhere, but Not a Drop to Drink," discusses the paradox of apparently abundant donor resources and apparently unmet MFI "needs".

TABLE 3: CAMFA Partners & Frontier Borrower History			
CAMFA Partners	Month Partnership Began	Months Partner As of 9-30-04	Months as Frontier Borrower As of 9-30-04
Kazakhstan			
Asia Credit Fund	09-03	12	Pending Disbursement
FSF Shymkent	12-03	9	N/A
AMFOK	05-04	4	N/A
MCC Atyrau	07-04	2	N/A
Kyrgyzstan			
Ak-Maral-Yuk	03-03	Closeout began 08-04 16	N/A
Ak-Peil-Talas	09-03	Closeout began 08-04 11	N/A
CU ABN	09-04	< 1	1
Tajikistan			
NABW	02-03	17	Pending
Development Fund	02-03	17	N/A
SAS	02-03	17	N/A
ASTI	10-04	New	N/A
Uzbekistan			
CU Ishonch	01-03	Transition to WOCCU 18	N/A
CU Lastochka	01-03	Transition to WOCCU 18	N/A
Barakot	03-03	16	N/A
JDA	09-03	12	N/A
Daulet	10-03	11	N/A
SABR	03-04	6	N/A

3. Are CAMFA partners adopting the advice provided by CAMFA and applying it over a period of time? Is the program changing the behavior of partner MFIs' management, thus making operations more sustainable and yet outreach-oriented?

CAMFA partners agree to a jointly developed action plan, which forms the basis of their interaction with CAMFA. The plan clearly articulates the area of assistance, inputs required from each party, responsible persons from each party, deadlines for each party, and exact performance benchmarks. CAMFA personnel follow this action plan when dealing with partners. The evaluation team found that partners interviewed are following the agreed action plans. The plans themselves foster behavioral change in partners. The MFIs appear eager to adopt the advice that accompanies the equipment and training provided by CAMFA. They may not yet fully understand the reasons for the changes in their operations and policies recommended by CAMFA, but they associate them with the prospects of additional lending resources.

The table below indicates CAMFA is collecting such information, although it may not have included it in the quarterly report to USAID.

Table 4 - CAMFA Partner - Financial Analysis

Ratio name	2003	2004	
	4Q/2003	1Q/2004	2Q /2004
Portfolio size	5,766,232	6,051,894	6,705,982
Number of clients	23,809	24,203	25,276
Number of Female Clients	19,089	21,976	22,747
Number of Loans Disbursed (Period)	18,182	12,027	12,167
Value of Loans Disbursed (Period)	3,110,905	3,274,697	5,712,509
Average Loan Size (By Product for Individual Lending)	3,361	2,125	2,324
Average Loan Size (By Product for Group Lending)	562	341	297
PAR < 30 days	0.6%	0.4%	0.5%
PAR 31-90 days	0.5%	0.4%	0.3%
PAR 90-80 days	1.3%	0.9%	0.5%
Number of Loan officer	124	139	175
Number of Clients per loan officer	192	174	144
Number of Jobs Created & Retained (for the Period)	664	3,620	6,018
Asset Productivity	81%	79%	80%
Portfolio Yield	13%	13%	13%
Effective Interest Rate	19%	18%	15%
Nominal Interest Rate (IR) %%	11%	9%	8%
Operational efficiency	10%	6%	7%
Return on Equity	-	8%	6%
Return on Assets	-	6%	5%
Total Operation Self Sufficiency	124%	223%	180%
Operation Self Sufficiency (without commercial activity)	117%	221%	176%
Financial Self Sufficiency (without commercial activity)	67%	135%	111%

Total (Gross) Financial Income (total income with commercial activity)	733,065	793,429	836,238
Gross Financial Income (without commercial activity)	694,581	784,760	818,845
Total Operating Expenses	593,049	355,184	465,063
Net operating income	126,889	435,358	363,176
Total Assets	7,098,594	7,704,148	8,429,505
Total Equity	5,188,978	5,778,978	6,311,424
Average Assets	7,098,594	7,401,371	8,066,827
Average Equity	5,188,978	5,483,978	6,045,201

Av. Net Fixed Assets	294,552	336,341	394,587
Inflation Rate	9%	4%	5%
Number of active loans with loan size < $ 500	22,377	22,355	22,730
Portfolio by Sector			
Trade	62%	63%	62%
Manufacturing	10%	10%	7%
Services	6%	6%	8%
Livestock	11%	11%	13%
Agricultural Production	11%	10%	10%

There may be a perception on the part of some MFIs that their reporting to CAMFA leads primarily to repeated questions about correcting data. What is not readily apparent to these MFIs is that CAMFA provides them timely, useful analytical commentary on the information they provide CAMFA**.**

It does not appear that the CAMFA partners are properly incorporating into their budgeting and planning procedures adequate provisions for maintaining and upgrading their staff skills and their computer/software systems. It is essential that they do so because the availability of CAMFA support is limited in both quantity and time. While CAMFA is providing grant aid to a number of MFIs who have well-endowed foreign sponsors/benefactors, it has refrained from -- and appears to be reluctant to -- introduce a policy of cost-recovery for filling in the resource gaps of these foreign-supported MFIs.

Introducing the principle of requiring reimbursement for provision of equipment, training, and technical assistance to MFIs appears to be well established. For example, attendance at the well-known MicroFin Course, provided by Charles Waterfield and his associates, is on a fee basis. Both the training and technical assistance provided by the MFC/Poland to its client MFIs is reimbursed, as is the training provided by the ILO in microfinance. The cooperative agreement anticipated the principle of cost reimbursement when it stated, "An integral part of CAMFA's strategy will be to have the local organization "buy-in" to the training and technical assistance package they will receive and support these efforts through in-kind or matching efforts."

Introducing the principle of cost recovery into the provision of goods and services to these partner MFIs is fully justified on the basis of the distinction between private goods and public goods. The equipment, technical assistance and training that CAMFA provides to MFIs are private goods and should, in principle, be charged to those institutions. A number of CAMFA partners have strong external supporters. In such cases, that donor or NGO should reimburse CAMFA for the goods and services, which CAMFA has supplied, to the MFI. (For example, CAMFA has committed some US$200,000 to provide free equipment, software, training and technical assistance to three MFIs supported by Mercy Corps International in Tajikistan and Uzbekistan.)

When an MFI does not enjoy such support from a strong external donor, a case might be made for continuing, at least for a definite period of time, the current policy of providing private goods on a non-reimbursable or only partially reimbursable basis.

Not to introduce the practice of recovering the cost of private goods is inconsistent with the goal of establishing a sustainable support system for MFIs in the region. Furthermore, charging for the goods and services that it provides to partners would subject CAMFA assistance to a clear market test, and encourage CAMFA clients to consider the most cost-effective options for addressing certain of their demands.

Certain CAMFA products or services are "public goods"; i.e., commodities or services, which if supplied to one person can be supplied to others at no extra cost; e.g., the promotion of national MFI associations would be a public good. Reimbursement would not be sought from individual MFIs for the provision of these goods and services. However, attendance at CAMFA annual conferences would be reimbursed by sponsoring international NGOs for their local MFI agencies/partners, while CAMFA could sponsor the attendance of MFIs that do not have external sponsors.

4. Is CAMFA encouraging activities that the benefiting institutions would otherwise not undertake due to the lack of their own funds, technical skills, and/or qualified personnel?

Money is fungible. As may be the case with "lenders of last resort", there is no guarantee that the resources provided by CAMFA are a priority for the MFI. One would have to establish a counterfactual case; i.e., in the absence of CAMFA, how would the partner have allocated its resources. The "before and after scenario" is not relevant to this evaluation; rather it is the "without and with" scenario that is germane. It can be reasonably posited that the availability of the *free* CAMFA resources permits the partners to increase the allocation of their own resources to other uses, e.g., loan capital.

Many of the institution building activities of CAMFA's partners would not have been undertaken without its support. In the case of accounting and management information systems (MIS), the MFIs visited by the evaluation team recognized the importance of procuring and installing these systems, but frequently lacked the financial resources to do so or even the knowledge to select the most appropriate system. However, in the case of FINCA/Kyrgyzstan it can be argued that, after seven years of cooperation with an international NGO, it should have already purchased an MIS rather than relying on an Excel spreadsheet system. It can also be argued that FINCA/International should provide MIS to its affiliates rather than using U.S. government to pay another FINCA affiliate to install one.

CAMFA has accelerated the localization process of international NGOs and the registration and formalization of both local MFIs and international MFIs. Some of the international NGOs would have eventually registered locally, but the prospects of cooperating with CAMFA have encouraged them to accelerate the process, once the legal and regulatory framework was established; e.g., Tajikistan.

CAMFA's activities appear to primarily support a "horizontal" expansion of MFI activities in the region. It does not appear to have made a concerted effort to assist with the design and testing of new financial products, especially savings products, transfers and remittances, etc. This is unfortunate, as:

- savings services are not available to the many rural customers who desire them;
- other NGOs, e.g., ACTED, PAD are providing such services; and
- both the Kyrgyz and Tajiki MFI laws permit MFIs to mobilize deposits.

CAMFA's funding of training by the Microfiance Center (MFC) in Poland is universally praised. But much remains to be done to fully address the training needs of MFIs in the region. The CAMFA design process could have been more comprehensive in its scheduling of training so that a cadre of trained individuals could have been recruited and placed in the participating MFIs at an earlier stage in the project. Another option would have been to make CAMFA support contingent upon the recipient institution agreeing to provide internship opportunities for the staff of smaller MFIs.

To the extent that some partners have strong external sponsors, it is likely that their sponsors would in any case procure technical assistance, equipment, and training on their behalf. There is a danger that by supporting the stronger, externally supported MFIs, like NABW, the poorer, weaker MFIs would have a difficult time acquiring services, commodities, and training. This could have the unintended effect of compelling them to seek less-effective means of expanding their operations. However, given the variety of sources of support currently available from both private and official donors, it is hard to say that, in the absence of CAMFA, these MFIs have been absolutely underserved. Furthermore, and as suggested elsewhere, the "private goods"; i.e., technical assistance, commodities, and training provided to MFIs by CAMFA should be delivered on a cost reimbursable basis. Finally, in view of the limited quantity and time frame for continued CAMFA support, there is the issue that some MFIs may have yet to include in their budget projections adequate provision for training and upgrading of equipment and software in future.

5. Should CAMFA be providing additional services to enhance impact? If so, what are they?

CAMFA's resources are fully programmed. If it were to provide additional resources to enhance impact, it would likely have to reduce its current provision of services or outsource them. The needs of the MFI industry in the region are obviously greater than any single institution, such as CAMFA, can provide. Even the needs of its partners are greater than CAMFA can fully address. To provide the greatest impact, the assistance that CAMFA provides should be prioritized and then evolve as its partners grow. For example, an MFI partner needs to register and/or install an MIS only once. However, it may require continuing assistance with new product development, ratings, audits or transformation.

CAMFA should consider offering indirect assistance to the largest possible number of partners and non-partners. A prospective service menu might include specialized training events, conferences, case studies, best practices, translated articles, model by laws, and financial planning templates that would benefit large numbers of institutions at a low marginal cost.

Partners have requested additional assistance with strategic and business plan development, which is an activity CAMFA could outsource. They have also expressed an interest in acquiring quality and affordable accounting and audit services. These services may be beyond CAMFA's current capacity.

In these circumstances of limited resources and an impending completion date for the project along with the need to address new issues, it may be prudent to scale down the target number of CAMFA partners for the final two years in order to increase the depth of assistance available to them. But there are additional areas where CAMFA could play a leadership/promotional role:

- Promoting better donor coordination in some countries in the region, encouraging the donors to endorse and adhere to a Code of Donor Best Practices;[5]

[5] SEEP Network, "Recommendations on Donor Guidelines to Support Microfinance Associations, Prepared for the German Agency for Technical Cooperation (GTZ), June 30, 2004. The approach of the Microfinance and Investment Support Facility for Afghanistan (MIFSA) could also be considered for adaptation to some of the countries in the CAR.

- Supporting the formation and strengthening of national alliances/coalitions of MFI practitioners while encouraging them to sign on to and adhere to an MFI Code of Best Practices;
- Exploring with others the possibility of establishing credit information bureaus: and
- Improving the regulatory environment.

6. To what extent can MFIs' growth be attributed to CAMFA's assistance?

There are no reliable indicators for partners that establish a direct and unambiguous cause and effect relationship between the CAMFA support programs and the changes in partner operating levels. Few of CAMFA's partners have accessed increased lending resources through Frontiers. As indicated in Section A.2, KLF, which has received support from CAMFA, is technically not a partner. FINCA Tajikistan and FINCA Uzbekistan similarly are technically not partners, but have received CAMFA support. The FINCA loans, Frontiers loans and the branches of KLF Taraz and Turkestan can be attributed to CAMFA assistance. The table below illustrates the outstanding value and number of loans from these sources.

Table 5: CAMFA Results Attributable to Frontiers Portion of Component 1 plus Components 2 and 3			
MFI	$ Outstanding	No. Loans	Ave. Size ($)
FINCA Tajikistan	42,777	303	141
FINCA Uzbekistan	236,265	1,288	183
KLF Taraz and Turkestan	975,275	2,710	360
Frontiers (1.)	265,295	1,001	265
Total	1,519,612	5,302	
Source: Project documents			
(1.) The actual outstanding value of Frontiers loans to non-partners is listed and an average size equivalent to that of CAMFA Partners is assumed			

7. How appropriate are the indicators used by CAMFA to measure its performance and impact? How well do they measure results, impact and the returns to the USG investment?

While they cannot establish a direct and unambiguous cause and effect relationship between CAMFA support programs and the changes in partner operations, the indicator framework under which CAMFA operates does capture and report aspects of institutional performance and, to a lesser degree, program impact. Change in partner indicators, such as a board of directors in place, local registration, implementation of computerized accounting and loan tracking systems; offer a reasonable indication of institutional development. Quantitative targets, such as size of portfolio, number of clients, portfolio at risk, and average loan size, among others, are industry-wide standard indicators of portfolio performance. In terms of return on investment, the number of active loans is a good indicator for the breadth of outreach, and average loan size is a fair indicator for depth of outreach. (Average loan size is sometimes divided by per capita GDP to get a better idea of what the average size loan means in the context of the national economy.) Another good return on investment indicator is cost per dollar loaned; i.e., total operating cost divided by average loans outstanding. This indicator is not included in the indicator framework.

While the above indicators do a decent job of measuring results, they are not impact indicators. In an effort to capture impact indicators, such as jobs created and retained, CAMFA has tried to create the capacity to accurately collect, analyze and report data generated by its partners. However, it is quite likely that CAMFA will be approaching its completion date before the collected job data is reliable enough to permit serious analysis.

Measuring the impact of a microfinance project is a worthy undertaking. It would also be a very ambitious one. In the most generic sense, impact analysis is any process that seeks to determine if an intervention has produced the desired outcome. Generally, the narrower the goals of the intervention, the less challenging the impact analysis. Decisions about the degree, frequency, and depth of the impact analysis involve consideration of the following factors: time and cost, the disruption of the institution and its clients, and the intended purpose of the analysis.

Broadly, the impacts of microfinance fall into three categories: economic, sociopolitical or cultural, and personal or psychological. Within each of these categories there are different levels of effect and different targets. There is a growing body of literature that may be of interest to USAID as it considers additional efforts to measure the impact of its investment in microfinance. One study by Gaile and Foster referenced by Ledgerwood in her *Microfinance Handbook* reviewed eleven studies and concluded that, “some form of quasi-experimental design is appropriate” along with multivariate statistical analysis. They recommend that microfinance impact analyses include a sample of 500, “which would allow for the effective use of control variables and for dealing with problems associated with longitudinal analysis.” Longitudinal studies should have an interval of 18 to 24 months between data collection rounds. The mentioned authors concluded that. “that none of the reviewed studies effectively controlled for the fungibility of resources between household and enterprise.” They recommended that control variables include:

- Statistically equated control methods that are sufficient to address most control issues;
- Gender, which is a critical control variable;
- Continued efforts to control for fungibility; and
- Control methods that are a function of available data.

As important as impact analysis may be to the effective management of CAMFA, a statistically rigorous analysis is beyond the scope of the project and would require a significant investment in time and money to design and test survey instruments, conduct surveys over an extended period of time, and analyze and report findings. This is a research activity better funded by one of the international financial or research institutions.

CAMFA's reports to USAID focus on loan portfolio parameters. These reports do not include the current or projected financial statements of partner institutions; thus, it is difficult to appreciate their individual performance and sustainability. In the absence of careful baseline and tracking studies and a legitimate counterfactual, CAMFA’s impact on partner clientele tends to be ambiguous.

The cost of delivering CAMFA services relative to project overhead and administrative costs is an indicator worth examining. USAID contributions to cover CAMFA’s direct costs were budgeted at $2.8 million, plus $0.9 million for its indirect costs and a further $0.9 million for CAMFA technical support grants to partner institutions for a total of nearly $4.7 million over the five years. Thus, less than one out of every five dollars of the CAMFA component was actually channeled to CAMFA partners. The remainder was absorbed by the agency administering the program. While some – if not the bulk -- of these administrative costs represent staff time and travel to support partners, it appears that CAMFA does not use or does not report a time/budget recording system which identifies the distribution of such staff/operational costs among specific partner institutions.

With respect to the $0.9 million for technical support to partner institutions, the final year target of 25 partners indicates an average of barely $35,000 per partner for equipment, software, technical assistance and formal training. This may be inadequate, but if foreign sponsors of MFIs were required to reimburse CAMFA for such goods and services, additional funds would be available to assist other MFIs.

While anecdotal reports indicate that CAMFA technical assistance is useful and responsive, the absence of baseline data on each MFI assisted and regular reporting of all key indicators makes a more rigorous analysis difficult. As indicated above, a comprehensive impact assessment would be needed to ascertain if strategic objectives were being effectively met in terms of return on USAID's investment. Certainly CAMFA's activities have had an important impact on both the sector as a whole and on individual MFIs. However, it is also difficult to make a full and detailed assessment the effectiveness of CAMFA funds as it doesn't make a complete allocation of its use of funds by individual sector-wide activities or by assistance to individual partners.

8. How much do Central Asian MFIs value or rate the consulting and training provided by CAMFA?

CAMFA grants are appreciated as useful and responsive to the partners' enterprise development and training requirements. MFIs interviewed generally described CAMFA's workshops, conferences, and information sharing as valuable and of high quality. They are especially appreciative of the training CAMFA provides them through the MFC in Poland. Large and small MFIs, both partners and non-partners, praised CAMFA's information and advice regarding laws, regulations, and taxes affecting their operations. However, unless the partners are fully incorporating future training and technical assistance needs into their budget plans, the effect of the consulting and training will not be sustainable.

The evaluators did not ask the MFIs about their willingness to pay fees for services that have been provided by CAMFA for free, but that is normally not the key issue. It is more important that the MFIs do good financial planning and prioritize their plans for using funds against their expected sources of funds. MFIs will always value contributions, whether in the form of addition loan funds or in the form of free consulting, training or equipment, but it is important that they not become dependent on such donations. Donations are best used as catalysts to introduce new concepts, methods and options, especially for MFI that do not have the knowledge to accurately prioritize their expenditures or that can be jump-started to fill a need identified by the donor.

CGAP's Donor Guidelines on Good Practice in Microfinance, accepted by the G8 in 2004, include among its eleven points the following:

Microfinance can pay for itself, and must do so if it is to reach very large numbers of poor people. Unless microfinance providers charge enough to cover their costs, they will always be limited by the scarce and uncertain supply of subsidies from donors and governments.

Training, equipment, MIS services, and well-targeted advisory and consulting services are all normal costs of MFI operations. Some examples of valued and accepted fee-based MFI services include the Microfinance Center training, ILO courses and MicroFin. Banks, MFI associations, auditors, IT experts and rating agencies all charge fees that are routinely accepted by MFIs. The Russian Microfinance Center provides fee-based training, consulting, information, benchmarking and policy support services to Russian MFIs. The SEEP Network is now working with ten national microfinance networks to help them deliver demand-driven, fee-based services to their members and CARE India has developed an agreement with ICICI Bank to continue, on a for-profit basis, the funding and services it has been providing to MFIs after CARE's project ends.

9. Given the amount of resources that CAMFA has, is CAMFA working with the right size MFIs? If not, what is the optimal size of MFIs that CAMFA should target? Evaluate the selection criteria being used by CAMFA to pick partners.

The microfinance industry in Central Asia can be divided into 3 general groups: the top 5 percent which are strong performers with international supporters; the middle group, representing 45 percent of the MFIs, with varied performance and capacity; and the bottom 50 percent that are generally small local MFIs that receive little outside support.[6] CAMFA commenced its activities serving the "usual suspects"; i.e. the top 5 percent or larger MFIs with international backing. It has worked with the middle 45 percent, but only indirectly. Of the three groups, it is the top one that has the greatest potential for sustained growth and possible transformation into formal financial institutions. This transformation is already occurring in some countries; e.g., NABW in Tajikistan. Of the MFIs in the middle group, a subset has the potential to grow moderately. As for the MFIs in the bottom group, they will grow and mature only with significant outside support, if at all, while some may not survive as competition increases.

The optimal size of a partner MFI may be in the eye of the beholder. In other words, it depends on what USAID's goals are. Working with the top group of MFIs is a reasonable approach, if USAID is willing to limit its objectives to sustainable growth in the industry. If USAID were interested in increased rural outreach, its objectives would be well served by supporting, smaller local MFIs. In pursuing the latter strategy, USAID runs the risk of sustaining weak MFIs that might otherwise be candidates for merger, acquisition or closure. Given the state of the industry and the resources available to USAID, the current approach of starting with the top MFIs and working down is sound and reasonable. Criteria used to select partners are consistent with, and supportive of, this approach. CAMFA's decision to modify its selection criteria regarding portfolio size to the equivalent of US$30,000 to serve smaller MFIs reflects its realization that it has already serviced the "usual suspects" and is now ready to serve the top tier of the middle group of MFIs. In the present context, it should not be expected that CAMFA will partner with smaller MFIs from the middle group and those of the lower group, as most of them are unable to satisfy even the reduced selection criteria in their current configuration.

[6] Moreover, an important share of this market segment is provided financial services by Credit Unions and – increasingly – the MSE programs channeled through commercial banks and supported by, inter alia, USAID, EBRD, IFC, etc.

CAMFA should do more to disseminate and explain its criteria for selecting partners. The perception in Tajikistan is that CAMFA has focused its efforts on NGOs based in Khojund, near Tashkent. Others perceive that CAMFA has been much slower in moving to work with Dushanbe NGOs, and even more so with prospective NGOs in the poor southern part of the country, such as Kurgan Tyube.

Actually, the CAMFA selection criteria appear to have shifted recently, as it is now encouraging NGOs to register before becoming partners. But it is not clear that CAMFA has effectively communicated this apparent shift in criteria and the reasons for the change. It needs to improve the clarity and frequency of its responses to prospective partners when they inquire about the status of their applications and other administrative matters.

Given the time remaining in the project, it is reasonable to question the likelihood that CAMFA will have a lasting, meaningful impact on the number of MFIs targeted in the project work plan (25 MFIs). Furthermore, field visits and observations of CAMFA's operations raise the following issues:

- CAMFA may be, at least on occasion, "cherry-picking"; i.e., bringing aboard as partners such institutions as the NABW in Tajikistan, which have a long standing and continuing association with Mercy Corps International and other donors with ample resources to support it without recourse to CAMFA. (The NABW portfolio represents about one-fifth of the total loan portfolio of all CAMFA partners.);

- Similarly, CAMFA's move to support SogdAgroServ was made to correct deficiencies in the IFC's design and inadequate funding in original project plans; i.e., failure to provide adequate resources for computers, software and staff training. One would expect better project preparation from a widely recognized investor-donor such as the IFC, and its ability to correct such flaws without recourse to *ad hoc* assistance from CAMFA; and

- Rather than grant to each partner institution a computer/soft-ware package, CAMFA could have used some of its considerable resources to establish a central service bureau to perform some of these functions for MFIs, both partners and non-partners, on an ascending fee basis that would enable it to attain sustainability and continue to provide these services when CAMFA concludes. (It is unclear that partners are adequately depreciating the hardware and software resources provided by CAMFA grants in order to assure that replacement and upgrades can be procured without having to resort again to grant funding.)

  o Concern has been expressed that software promoted/financed by CAMFA should continue to be serviced and upgraded when the project concludes.

  o CAMFA appears to have been slow to work with and strengthen local/national MFI alliances. These are grassroots organizations that could be more effective advocates of MFI interests than the few CAMFA partner institutions in each country acting on their own. Moreover, these "home-grown" alliances could play a role in interfacing with donor institutions and service providers, such as the new MFC office being established in Almaty. Additionally, these national coalitions could embrace or reflect the interests of other institutions not likely to be CAMFA partners in Tajikistan, such as a new microfinance bank opened by the Aga Khan Foundation and the small and medium enterprise lending facilities operated by three commercial banks under a program supported by the EBRD, IFC, USAID, the European Union, SECO, and the UK's Department for International Development (DFID).

o CAMFA also appears to have been slow to develop new lending and savings products for its partners. While there may be few MFIs presently qualified to take advantage of these new products, foresight suggests that it is not too early to plan for them. This situation is especially the case in Kyrgyzstan and Tajikistan, where the legislation permits MFIs to take deposits.

A specific ***caveat*** is in order with respect to two CAMFA partners, SOGDAGROSERV (Tajikistan) and New Life Agro (Uzbekistan). In these two instances, CAMFA is working with institutions that are difficult to legitimately depict as microfinance institutions. Both are pursuing the "service nucleus /out grower" agribusiness model, the former for cotton and grains and the latter for poultry. In neither instance does it appear likely that the entity will really evolve into a MFI. In both cases, project management has indicated that they do not foresee registering as an MFI in the near future. We are told that CAMFA was asked to work with these organizations. In view of the limited resources at CAMFA's disposal, it is not clear why CAMFA should shift to working with this business model, rather than focusing on its prime objective of strengthening MFIs as outlined in the cooperative agreement. CAMFA's involvement in both instances represents a distraction from CAMFA's mission, as set out in the cooperative agreement. USAID/CAR should review this situation.[7]

10. Should CAMFA work with MFI Associations? How does this fit into USAID's strategy of supporting MFI development?

CAMFA is presently working with associations and should intensify efforts with them. It designed a specialized application for MFI associations and coalitions during the first quarter of 2004. It held individual meetings with the Kazakh and Tajik groups to introduce them to the forum. AMFOK, the Kazakh association became a CAMFA partner during the second quarter of 2004. The Tajik coalition, which initiated activities at the time of the February 2002 donors' conference, has been in negotiations with CAMFA for sometime. It expects to become a partner in the near future. CAMFA has facilitated the development of the first Uzbek micro finance networking group beginning in March 2003 and organized regular meetings thereafter. The Uzbek MFI network general assembly met in the third quarter of 2004 to finalize organizational issues. CAMFA will provide a part-time staff person to assist registration of the organization. CAMFA/Frontiers hosted the first meeting of a potential Kyrgyzstan MFI association during the second quarter of 2004. An initiative group was formed as a result, with the general manager of Frontiers serving as group chairperson. At the end of June, the second meeting of the initiative group was held, and tasks were delegated toward registering the group as a legal entity in the Kyrzyz Republic. Frontiers has made a loan to ABN, a credit union in Kyrgyzstan. The manager of ABN appears headed toward leadership of a new and dynamic national association of credit unions. This relationship may bring yet another partner into CAMFA.

These associations would form an important local base for coalescing and communicating member concerns and for sharing experiences. They could provide a channel for communicating with multiple external donors and the MZFC office being established in Almaty.

[7] Ironically, in each case it may be that the affinity group serviced by the "nucleus estate" would be an appropriate base to establish an independent credit union. It does not appear that CAMFA has discussed that option with either partner

Viable grass roots organizations/alliances of MFIs represent a potentially important legacy for the CAMFA program. Membership in such associations could be based on the individual MFIs signing on to a Consultative Group to Assist the Poorest (CGAP) – consistent Code of MFI Best Practices. Those MFIs not willing to sign on to the code would be accorded only “observer” status in the association.

Devoting resources to association building can leverage USAID and CAMFA resources and it is suggested that more intensified association building should be substituted for reduced partner numbers. Working with associations is a natural fit for supporting MFI development.

11. How should CAMFA work with the “international” NGOs vis-à-vis the local NGOs and partners? How much should CAMFA be interacting with the founders of the local NGOs and partners that still have almost complete control of their MFIs? To date, this interaction has been left to the NGO/partners?

Due to the way CAMFA was designed, “international” NGOs must be divided into ACDI and FINCA on the one hand and other groups are classified as “all others.” ACDI and FINCA were promised significant funding from the project’s outset; and, therefore, CAMFA’s relationship with them is different from that of other NGOs. In many ways CAMFA has less influence over FINCA’s execution of grant funded activities than it does over those of MFIs that have competitively applied for grant funds. For example, when FINCA opened an office in Dushanbe rather than Kurgan Tyube, as specified in the cooperative agreement, CAMFA had no leverage to influence the decision. With that experience behind it, CAMFA should make a concerted and visible effort to be evenhanded in its treatment of international and local partners. Among some MFIs there is a perception that CAMFA favors the bigger and internationally connected MFIs (“Money follows money.”) Perceptions are important, even erroneous ones, and CAMFA management should go out of its way to dispel this perception.

With its current requirement that international MFIs complete local registration as a precondition to funding, CAMFA has encouraged them to “localize” and formalize their lending operations. Prior to CAMFA’s requiring them to do this, international NGOs maintained ownership of their lending portfolios in order to protect them from predatory taxation by local governments. As legal and regulatory environments have improved, international NGOs may become more amenable to this step. International NGOs should be encouraged to localize at the earliest practical date, but not before local legal and regulatory conditions permit. However, in terms of CAMFA’s interaction with international NGOs and their local partners, it may not be advisable for a third party to directly interject itself into an established relationship between two partners. If CAMFA strongly disagrees with the way in which an MFI is conducting its business, it has the option of not funding it.

As noted above, there are a number of MFIs supported by well-endowed foreign sponsors. CAMFA should not be expected to fill in the gaps arising from the failure of these well-endowed foreign sponsors to provide appropriate technical assistance and training to their progeny. In these cases, CAMFA should be reimbursed for the full costs of the support it provides these institutions. This approach would:

- Make an important contribution to institutionalizing the concept of reimbursable services, fundamental if a sustainable service system for MFIs is to be established in the region;
- Put CAMFA's services to a market test; and

- Recycle resources generated through such repayment to the benefit of poorer MFIs that do not have foreign sponsors, permitting CAMFA to broaden its outreach to a wider clientele.

12. With the recent trend of MFIs desiring to transform into banks, should CAMFA (and hence, USAID) be assisting this process? If so, what should be the requirements for such MFIs to get the assistance?

With the numerous other demands on CAMFA anticipated in the final two years of the project, it is unlikely that it will be able to effectively assist the small number of MFIs who may be ready and willing to transform their programs into banking operations. The type of assistance required for an effective transformation function would include MIS expansion and improvement, legal advice, strategic planning and expert counsel of capital adequacy and reserve requirements. USAID's assistance to MFIs endeavoring to transform into full service commercial banks should be conditioned on an accompanying equity investment with a strategic partner, private sector or donor, with experience establishing this_type of bank. As interesting as this initiative might be, it should remain a relatively low priority for the time being, and is not an area in which CAMFA has a comparative advantage.

The Aga Khan Foundation's recent establishment of a microfinance bank in Tajikistan is an example of a donor assisting an MFI with the transformation of its lending program into a fully developed banking operation. (The evaluation team met with the manager of the microfinance bank in Dushanbe.) The approach used by the EBRD and associated investors to establish a microfinance bank in Azerbaijan offers another model of assisting MFIs with transformation. Yet another approach to extending banking services to the economically active poor would be to encourage commercial banks to move down market to provide a variety of financial services, including savings, to a poorer clientele. In this regard, the technical assistance accompanying some donor lines (e.g., the EBRD, USAID, etc., for credit targeted to smaller, poorer clientele) is a very promising approach to reduce financial market segmentation. Broadening the variety and range of financial products to the poorer clientele and micro and small enterprises (MSEs) represents an important strengthening of overall financial market development, savings mobilization and improved allocation of resources in response to market signals. Research conducted by the World Bank, DFID, and other institutions demonstrates the positive effect of such strengthening on both poverty alleviation and overall economic growth.[8]

13. Is CAMFA's approach appropriate for the varied environments throughout the region or are there other approaches that would be more appropriate?

CAMFA's management has tailored its approach to assist relatively unsophisticated MFIs under local conditions. Its approach is context sensitive and appropriate, but with limited impact and outreach. Recommendations to improve the approach have been outlined above. With the strengthening of the national alliances/coalitions and the forthcoming presence of the MFC in the region, the raison d'etre of the CAMFA approach, which does not seem to have pursued a sustainable business model, may not be appropriate. One should expect that some of the more sophisticated and ambitious MFIs will move beyond the limited range of services provided by CAMFA, as – with the help of their foreign NGO sponsors -- they seek to provide a broader range of financial services to their clients and access donor/investor funds.

[8] DFID, "The Importance of Financial Sector Development for Growth and Poverty Alleviation," Policy Division Working Paper, August 2004.

14. Do the CAMFA consultants have the knowledge and skills necessary to effectively provide CAMFA services? If not, how can CAMFA strengthen its services?

The CAMFA consultants are qualified by education and experience to deliver the relatively limited range of services needed to promote the relatively limited microcredit services typically provided by CAMFA partners. The staff recruited to assist with CAMFA's operations is bright, well-educated, energetic and highly motivated. After an initial learning curve when CAMFA was training and orienting its staff, the quality of services offered has improved markedly. If CAMFA were to move beyond providing the current relatively limited range of assistance to partner MFIs with only one or a few loan products and instead move to new product development (e.g., savings services, remittances, etc.) some retraining/upgrading of staff will be required.

15. How effective is the alliance between the Microfinance Center in Poland and CAMFA in meeting the training needs of MFIs? Should this model continue or should other approaches be pursued? What approaches can this be?

CAMFA has worked closely with the MFC to identify and schedule training events in the region and at its facilities in Poland for the benefit of MFIs. Placing the MFC regional center in Almaty and enhancing the role of the national alliances/associations will reduce the need for CAMFA to identify, schedule, and finance training events. In the future, multiple donors could - in a coordinated manner - jointly provide resources to the regional MFC office to provide training and technical assistance.
Partner MFIs regard the MFC's programs as high quality, but more expensive than those offered by the Russian Microfinance Center. This concept will undoubtedly change when the MFC opens its regional center in Almaty, scheduled for March 2005. The establishment of a regional center in Almaty holds out the prospects of increased access to services and training at a reduced cost. Its opening represents an opportunity for national alliances of MFIs, CAMFA, and donors to more fully coordinate their activities. The Center in Almaty might be the repository for CAMFA resources after the project ends.

16. What are the major constraints or issues facing the implementer?

Major constraints facing the implementer include:

- Legal and regulatory environment for MFIs
- Divergent conditions in each of the four target countries
- Difficult and lengthy travel which detracts from time available to assist partners

These constraints significantly add to the effort required of CAMFA, however, as evidenced in Tables 1 and 2 in Question 1, CAMFA has met its goals for 2003 and 2004.

The design document for CAMFA is the cooperative agreement. Among the design features present in the document and accepted by the implementer and USAID, it is clearly articulated that the Frontiers component of CAMFA was meant to be sustainable, whereas the other features were not intended to be sustainable. Opinions in this evaluation related to the non-viability of CAMFA operations other than

Frontiers are valid considerations for design of future microfinance programs. Drastically altering the implementation philosophy of CAMFA at the midpoint of Project life could significantly reduce effectiveness.

The original operating model of working with a number of small, but potentially viable MFIs, raising them to full sustainability in a couple of years may have been overly optimistic. Institutions admitted to partnership in the final year or two of the project may benefit relatively little from their relationship with CAMFA.

The approach failed to adequately account for the inhospitable local situations in some of the countries and the likely changes in each of them. Progress appears to have been slower than expected and the variety of institutions chosen as partners may not have always been the most appropriate, as observed above with their selection driven more by numerical targets.

17. Does the CAMFA structure ensure effective administration of its assistance? How can it be more client-friendly while still achieving results? How can the functional structure of CAMFA be improved?

Considering budgetary constraints, CAMFA's structure is suitable for effectively administering its assistance. CAMFA needs to be in close contact with clients and the primary means of increasing this feature would be to have representatives in each country, which would not be cost-effective.

Some CAMFA partners believe that it is slow communicating with them and potential partners do not clearly understand the reasons for its decisions. Specifically, communications need to improve regarding the requirements to qualify as a partner and the status of pending applications. CAMFA needs to clarify with its partners and prospective partners the project specific requirements and USAID general requirements; e.g., local registration and portfolio size. Partners tend to view CAMFA and USAID as one and the same.

Rejected partner applicants expressed the need for a well-defined appeals process and probationary system for rejected applicants who follow CAMFA advice and improve their performance. For example, an MFI that is rejected for poor loan performance, but later improves portfolio management, should know whether and when its application is eligible for reconsideration.

The roles and responsibilities of CAMFA relative to FINCA should be clarified. For example, CAMFA has a supervisory role over all funds it grants partners, except those granted FINCA. The costs arising from the physical separation of CAMFA and Frontiers has already been mentioned.

It may be necessary to scale down some of the original CAMFA objectives in order to both better concentrate resources and to address new issues, such as donor coordination and strengthening national MFI coalitions. CAMFA may have overburdened itself by trying to attain the initial program goals regarding the number of partners.

CAMFA's functional structure could be improved if Frontiers and CAMFA's main office were at one location. This would unify accounting and office management functions and make more effective use of the IT specialist. However, unifying offices in Bishkek is not practical at this point in the life of the project.

18. How does CAMFA's being based in Tashkent affect the effectiveness of the program?

As illustrated in Table 3 in Question Two, six of CAMFA's partners are located in Uzbekistan and five of those partnerships began in 2003. This is two more than any of the other countries and proximity of the office appears to be the reason for this. Travel is difficult among the four countries and results may well have been similar for the host country regardless of which other it might have been.

Locating CAMFA in Tashkent rather than Almaty does not appear to be an issue for its MFI partners. Almaty is viewed by many partners as more expensive than Tashkent and saturated with development projects. Being located in Tashkent has meant that CAMFA staff needs to get visas to travel to other countries in the region, which complicates project logistics. Complicating matters in the fact that Tashkent is not as well served by public transportation as Almaty. Both of these constraints are surmountable and neither can be said to have overwhelmed the project's effectiveness. (However, there is the perception that that CAMFA has concentrated its Tajiki operations in Khojund, near the Uzbek border, and has been slow to move to work with MFIs in Dushanbe and, especially, the southern poorer part of the country, such as Kurgan Tyube.

When CAMFA was designed in 2002, the contractor may not have fully appreciated the depth of the inhospitable policy environment for microfinance in Uzbekistan, nor the difficulties all financial institutions encounter operating in Uzbekistan. It would be unfortunate if CAMFA had been given the impression that it was required to locate in Uzbekistan.

Finally locating the Frontiers operation in Kyrgyzstan, rather than in closer physical proximity to the CAMFA headquarters may have increased the operating costs of CAMFA and complicated management, as both the financial and transactional costs of travel in Uzbekistan are reportedly high. . (It should be noted, although, that the original project design had a Frontiers' office in each of the four countries.) In retrospect, it might have been preferable to base CAMFA in Bishkek.

19. Does the way the program is designed effectively address the potential conflict of interest between CAMFA and its support to ACDI/VOCA-founded MFIs? How great is the risk stemming from perceived conflict of interest on the program effectiveness?

Although the way the project was structured created the perception of conflict of interest among some partners, actual conflict of interest appears minimal. In fact, the evaluation team discerned no indication of conflict of interest in its review of CAMFA's programs in Kazakhstan and Kyrgyzstan. The selection process has all the appearance of fairness and transparency, but smaller MFIs have complained that CAMFA favors large MFIs and/or those with international partners or a prior relationship with USAID. This exacerbates the perceived lack of competition when FINCA and ACDI received significant funding directly from USAID at the start of the project, and, while the CAMFA chief of party has distanced herself from a direct management role in ACDI's partner, KLF, she sits on its board of directors and that of Bai Tuchum. One sophisticated CAMFA partner expressed the opinion that this creates a perception of conflict of interest.

There may be a problem of a perception of a conflict of interest arising from Frontiers' lending to MFIs associated with ACDI/VOCA. The issue might also arise if FINCA associates were to access Frontiers' resources.

20. Is the current collaboration of CAMFA with USAID's Community Action Investment Program (CAIP) appropriate and effective in terms of achieving overall CAMFA and the AID Mission objectives? Does the collaboration advance both projects' objectives in the best manner possible? Provide recommendations as to how such collaboration can be improved.

Pursuant to the cooperative agreement, CAMFA has made a contribution to CAIP. The collaboration between CAIP and CAMFA has been productive, as indicated by the following joint activities conducted under the auspices of the two projects:

a. CAMFA prepared and co-funded with CAIP training on rural-based rotating savings and credit associations (ROSCA);
b. CAMFA management devotes time to CAIP collaboration, including advising five CAIP partners on CAMFA activities. CAMFA staff regularly visits CAIP sites and engages local community groups. They ensure that CAIP communities receive marketing information from CAMFA partners. They review CAIP business plans to identify potential grant opportunities; and
c. CAMFA supports direct lending in several CAIP communities. In Kazakhstan the KLF is lending in all the CAIP cities, including Taldykorgan, Taraz, Shymkent, and Turkistan. In Uzbekistan, CAMFA's Ferghana partner, Barakot, is directly lending in CAIP communities. In Kyrgyzstan, CAMFA has partners in Osh and the outlying communities that are CAIP beneficiaries.

Collaboration across USAID/CAR's strategic objectives is good in principle, but emphasis on collaboration could conceivably distract from attaining core project objectives. CAMFA is in itself sufficiently complex and pressures to collaborate with other projects can add a layer of management burden and detract from the attainment of its objectives. An investment in microfinance can stand on its own merits. Microfinance can deliver a set of financial services to a large group of low-income people to achieve economic development, social cohesion, and poverty reduction. "When disasters hit and people unexpectedly lose their jobs, homes, incomes, and assets, many survive by turning to self-employment in the informal sector. At such times access to microfinance can make a critical difference in these people's ability to care for their families and turn around the household economy. In such circumstances microfinance serves as a safety valve for the wider society; people who are able to feed and clothe their families are less likely to cause social disruption than those who cannot" (Robinson, p. 117)

With respect to areas where collaboration can be improved, it is the evaluation team's opinion that sufficient synergies between the two projects have been captured and that the current level of collaboration is adequate.

21. Do the PMP indicators adequately measure the progress and impact of the project? Are they achievable? Are there additional indicators that are currently not in the PMP that can better measure the project's impact in its current stage of progress?

The PMP indicators provided to the evaluation team by USAID along with the SOW (Annex I, PMP and corresponding Annex I PMP Data Quality Assessment) cover three countries only, Kazakhstan, Kyrgyzstan and Turkmenistan. The PMP was developed for 2001-2005 and contains no reference to CAMFA. The data quality assessment, which was apparently created at a later date, makes reference to CAMFA and discusses the number of clients of microfinance institutions as an intermediate result level indicator. The PMP itself indicates in the section on SO 1.3 that "There are a number of current and upcoming activities in the CAR that are not yet fully integrated into the Office of Market Transition's Performance Monitoring Plan. …. As the information for these projects becomes available, it will be integrated into the PMP in order to accurately monitor progress within the SME environment." However, the evaluators did not see evidence that CAMFA indicators had been integrated into the PMP.

CAMFA falls under IR 1.3.2**:** More Responsive Financial Institutions, Instruments, and Markets (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). A section in the PMP under 1.32 articulates the indicators for only three countries as indicated above: Kazakhstan, Kyrgyzstan and Turkmenistan. The indicators are Active Clients, Outstanding Portfolio and Extraordinary Related Results. The indicators were only quantified for Kyrgyzstan. Narrative in the Data Quality Assessment mentioned only clients and not portfolio. Additionally, the language indicated that the indicator included, in the case of Uzbekistan, credit unions. While there may have been some difference in the past as to whether credit unions are MFIs, they are a part of the broader range of MFIs. Credit unions in Kyrgyzstan should clearly be included in data for this indicator. Additionally, portfolio at risk should be included to monitor the quality of the portfolio.

22. How well is CAMFA contributing to USAID/CAR's SO 1.3 relative to the amount of resources being dedicated to it?

In general, supporting microfinance has contributed to achieving USAID' S.O. 1.3. The MFIs have a potentially sustainable and positive effect by increasing assets (particularly in cashless rural areas), expanding economic activity, diversifying income, and decreasing overall household economic risks. Microfinance can make an important contribution to the region's transition to a market economy by fostering a culture of credit and the promotion of social capital. It may have increased social confidence, community cohesion, and participation in civil society. The return on the investment in supporting microfinance through CAMFA may not be limited to the duration of the project to the extent that many CAMFA partners are sustainable; the resources invested in these institutions will continue to have a positive effect over the life of the institution and not just the life of the project.

CAMFA has promoted economic growth by increasing the capacity of MFIs to serve poor clients. CAMFA partners cite increased efficiency, improved strategic planning and financial management, and strengthened institutional capacity as the products of CAMFA assistance.

Market opportunities for microfinance are good, particularly in the rural areas. The demand for financial services, both lending and savings instruments, that promote economic growth remains strong.

Overall, CAMFA is contributing substantially to SO 1.3 relative to the resources allocated to it. Assisting four countries in the area of microfinance over four years with a $12 million budget, three of which are allocated to Frontiers leaves an average per country per year of $560,000. This amount is very modest in comparison to the challenges facing the countries.

Specifically, in Kazakhstan, CAMFA assistance resulted in increased outreach through the turnkey opening of two KLF branches, Taraz and Turkistan in CAIP designated areas. As of September 30, 2004, these two branches had 2,710 borrowers with an outstanding portfolio of just fewer than one million dollars, a substantial contribution toward SO 1.3. Frontiers has provided a loan of $250,000 to ACF in Kazakhstan and approved a loan of $200,000 to KLF. These values can also be included in CAMFA's allocation toward SO 1.3. Based on KLF's average loan size, about 430 clients will be served with the $200,000. For the $250,000 placed with ACF, about 63 clients will be served.

Overall, as of June 30, 2004 CAMFA partners held an outstanding portfolio of just under $5.8 million in 24,200 loans.

23. With the success of the EBRD/commercial banks' micro lending program and credit unions in Uzbekistan, does it make sense to continue to support the development of MFIs?

The EBRD Program has done a commendable job. As of September 30, 2004 the Kazakhstan and Kyrgyzstan programs had an outstanding portfolio of $245 million in just over 51,000 loans. The aggregate figures mask dramatic differences among the countries; average outstanding loan sizes of $5,300 in Kazakhstan vs. $1,400 in Kyrgyzstan. Kyrgyzstan's program began in April 2002, four years after the Program's inception in Kazakhstan. Despite the excellent results, average loan size differences between MCOs and banks indicate that they are serving different market segments. In Kazakhstan, KLF's average loan size is $467, less than one tenth of the EBRD Program average. In Kyrgyzstan, FINCA's average loan size is $377, less than one third of the EBRD Program average size there. The dramatically lower average loan sizes for NGO programs indicate market differences. The only exception is Bai Tushum, which has an average loan size of $1,515, about $100 more than EBRD in Kyrgyzstan.

There is competition at the upper fringe of NGO loan sizes, as indicated by the non-credit union NGOs interviewed. This, however, is estimated by the Evaluators to be modest. In the opinion of the evaluators, USAID should continue to support MFI development, should USAID wish financial services to have greater depth of outreach in Central Asia.

Donors should continue to fund a range of financial institutions serving the poor. The efforts to facilitate commercial bank's entering the microfinance market – supported by the EBRD, USAID, IFC, etc., -- should be viewed as complementary to, not detracting from CAMFA's MFI support activities.

24. Has USAID's support for microfinance promoted or hindered bank and overall financial market development, and if so, how?

MFIs are and will remain a fairly small segment of the financial market.[9] As just noted, microfinance is complementary to commercial bank services, even their microlending services. While an effort could be made to measure CAMFA's effect on MFI partners, its effect on the entire financial market is harder to

[9] This appears to be the experience in other regions, e.g., Latin America, Africa, etc., as the boundaries between MFIs and formal financial institutions become increasingly blurred, the MFIs continue to be a relatively small – although important – player in the overall financial sector.

quantify. In a country like Tajikistan where CAMFA has disseminated information on a new legal and regulatory framework and the mechanics of registration and supported the local association, the project's impact would be positive. In Kazakhstan, where the economy is large and relatively well developed, CAMFA's impact will be just as positive, but not as pronounced in relative terms.

Similarly, USAID/CAR's support for a reinforced credit union movement is a significant contribution to financial market development. Its efforts to establish a transparent legal environment for MFIs in collaboration with the IFC and others are another important contribution to financial market development. The support USAID/CAR provides the MSE technical assistance program, in collaboration with the EBRD and other donors in Tajikistan and Kyrgyzstan, also constitutes an important effort to broaden and deepen financial markets in those countries.

USAID's support for the development of modern legal and regulatory environments has had a marked effect in the region by fostering a more level playing field for MFIs. The success of the Tajik authorities in finalizing their MFI law is a clear achievement. This support for legal and regulatory reform not withstanding, serious problems remain in that environment in Uzbekistan. The IFC's microfinance legislation project in Tashkent, supported by USAID, has an uneven record of success as regards the MFI sector in Uzbekistan. In fact, one observer characterized it as a "failure." That may be an unfair exaggeration. However, the results as they pertain to Uzbekistan may be disappointing. The project has been terminated and its staff transferred to other assignments. While originally intended to be a new microfinance law, it now appears that the goal is the more modest one of a resolution from the Cabinet of Ministers to replace the current flawed Resolution 309. While the evaluation team did not conduct a thorough examination of the draft resolution, its description in a report prepared by the IFC suggests some serious problems:

- The draft only relates to "microcrediting", although a couple of MFIs in Uzbekistan have financial instruments, which include client savings. This approach legally closes the door to permitting MFIs to continue such practices and to design and pilot new financial products of this type for poor clients. The draft proposal represents an inferior approach to that taken in Kyrgyzstan and Tajikistan MFI laws, both of which include a Central Bank licensing category for deposit-mobilizing MFIs.

- The licensing authority is not clearly identified to be the Central Bank. This may reflect a view that the finance ministry is more "sympathetic" to microfinance than the Central Bank. This may be a serious error. Experience suggests that the prudential norms and regulations of financial institutions - banks, credit unions and MFIs - should be based on the consistent application of norms and standards, most likely to be assured when vested in a single financial supervision authority. Overall, rather than providing scope for the MFIs to adapt and refine their financial products to better serve a variety of demands of their clientele, the proposed legal framework in Uzbekistan appears to limit and hamstring what should be a dynamic and evolving process of MFI development. It certainly appears out of step with the situation in Kyrgyzstan and Tajikistan.

USAID's varied support efforts to microfinance in the regions have made an important contribution to the overall development of financial markets. It is important to not lose sight of the fact that the informal, MFI sector in these countries is not static. CAMFA's ultimate success will be reflected in the improved access of the poor and microenterprises to a wider variety of financial products and services provided through a broader range of competitive, prudently managed financial institutions. MFIs can play an important role in this process, and it is important to note that these MFIs themselves are evolving from mere providers of microcredits into more sophisticated financial service institutions covering a more diverse clientele. If the experience from other parts of the world is a guide, five to ten years from now the "MFI sector" in the CAR will be radically different from what we are now observing. Ironically, client graduation from the limited loan services provided by CAMFA partners over to becoming creditworthy clients of formal financial intermediary institutions would be an important indicator of CAMFA success, yet this phenomenon may not be adequately appreciated and apparently is neither tracked nor studied.

25. What is the most effective way to build on the success and progress achieved by USAID/CAR's microfinance programs? How should future programs be designed to capitalize on past progress?

It is the evaluation team's recommendation that USAID/CAR remain active in the field of microfinance development and promotion and build upon its experience advancing CAMFA. That does not necessarily mean that it is proposing an extension or replication of the CAMFA model of microfinance development and promotion. While certain follow-on activities emerge logically from the lessons and experiences of CAMFA's first years, how to build on those lesson and experiences will depend largely on USAID's budgets and priorities. From its work with its partners, CAMFA has learned much about the structure and function of the microfinance industry in Central Asia. If there is to be a successor project for CAMFA, some of the activities currently supported by the project need not be continued; e.g.:

- Some CAMFA partners could be "graduated" from project assistance or at least graduated from certain types of project assistance. For example, among the top 5 percent of the MFIs in the region, CAMFA has financed the procurement and installation of a number of MIS. As these MFIs are typically supported by foreign donors, future support of this nature from CAMFA should be on a reimbursable basis. Of course, this particular group of partners may continue benefiting from publications, and participating (on a cost reimbursable basis, in conferences, workshops, and training events;
- Other less developed partners who are now receiving basic assistance could also be "graduated" to more sophisticated forms of assistance; e.g. new savings and lending products, remittances, leasing, risk management, corporate governance. Whatever follow on activities that are developed should move with the market; and.
- Careful consideration should be given to the likely comparative advantages of Frontiers and arrangements started to address the possibility that it will not be able to achieve financial sustainability as currently designed and tasked.

USAID/CAR's various involvements in supporting the development of the financial sector to better serve the poor and the development need of microenterprise are wide ranging. In the course of the assignment, mission members also had the opportunity to observe some of these activities. Other donors, whether multilateral, bilateral or private, are similarly involved. The efforts of USAID and other donors have tended to be of several general types:

- Support to individual MFIs;
- Support to MFI development institutions, e.g., Microfinance Center (MFC/Poland); Credit Union development projects, CAMFA, etc.;
- Support to micro/small enterprise lending activities by existing commercial banks;
- Establishment of specialized "Greenfield" microfinance banks, (e.g., in Tajikistan and Azerbaijan); and
- Support for the improvement of the regulatory/supervisory and legal framework for microfinance in the respective countries, e.g., the recently completed project based in Tashkent.

USAID has been providing support in several of these areas, e.g., assisting new MFIs in the Ferghana Valley, supporting the MFC/Poland and CAMFA), participating in the Tajikistan Micro and small enterprise lending program for commercial banks, and the aforementioned USAID/IFC legal project based in Tashkent. While this report focuses on the CAMFA project, this question raises the issue of which "mix" of strategies may be the most appropriate one for USAID/CAR, in line with the agency's comparative advantages. Perhaps at least a few preliminary observations can be made:

- In the absence of a supportive regulatory supervisory and legal environment, it is difficult to develop and expand a healthy MFI sector in the CAR;
- While perhaps a lengthy and expensive process, when commercial banks acquire confidence in the viability and profitability of providing financial services to microenterprises and the poor, they are doing so;
- The Credit Union modality, when suitably supported by technical assistance and an appropriate legal framework, provides a useful format for providing savings and lending products to its members, as demonstrated in several CAR countries;
- Centralizing the provision of reimbursable technical assistance and training through specialized institutions, such as the MFC/Poland (which is now establishing an office in the region) is an efficient use of USAID's resources. It also permits a broader sharing of experiences among participating MFIs;
- USAID/CAR may not have a comparative advantage in participating in the establishment of "Greenfield" Microfinance Banks and may not wish to enter into that activity, rather leaving it to, e.g., EBRD, IFC, private investors, etc.; and
- Finally, there are some relatively new "players" on the block, in the form of national MFI alliances/associations, which may become very useful channels for communication and transfer of resources and technical support between MFI members and their respective governments, external official and private donors, etc.

In these circumstances, tailoring the type of assistance offered by a second-generation microfinance project to its partners' involves making choices with respect to the elements that would be emphasized. Even if CAMFA's activities were to be extended for another four years beyond the current completion date, there is no practical way in which the project could or should assist every MFI in the region. Thus choosing which partners to work with is a continuing issue. The prospective project's choice of partners would have to reflect USAID/CAR's priorities in this sector and the selection criterion based on those priorities. One promising approach is a three-tiered strategy focused on supporting the top group of MFIs who are ready for transformation, the middle group who are capable of significant growth, and industry-wide actors such as the MFI associations.

Eligibility requirements such as portfolio size and quality can be designed to maximize breadth of outreach by working with larger institutions or depth of outreach by working with institutions reaching the underserved; i.e., the economically active poor or rural poor and women. Eligibility requirements can also be tailored to maximize the number of partners reached or to work more closely with a limited number of partners. One of the lessons learned from the CAMFA's first years of operation is that maximizing the number of partners does not necessarily maximize long-term impact.

A clear option for USAID/CAR's future support of microfinance is to concentrate on the mid-level, particularly rural MFIs. However, this initiative would entail the risk of supporting MFIs that would otherwise not be sustainable and which, in a competitive market, would either merge with a stronger MFI or terminate operations. Even among the smaller MFIs there are those that have greater potential for growth because of their investments in good management and procedures and market developments. USAID/CAR's limited resources would have the most impact by targeting those promising mid-level MFIs, while taking care not to distort the market. Selecting these partners will require a certain degree of subjectivity in assessing their potential for growth. Even in working with the most promising of these MFIs, this strategy will be management intensive and will require a generous amount of nurturing.

USAID/CAR's support for the sector's healthy growth should not be limited to only the smaller MFIs. There are a limited number of sophisticated MFIs that are ready for transformation into commercial microfinance institutions and they will require assistance with systems development, legal advice, strategic planning, and capital structure. However, and especially to the extent that there are foreign donors, the technical assistance, equipment, software support these more sophisticated MFIs and training provided to these MFIs should be provided on a reimbursable basis.

A successor microfinance project should continue industry-building activities such as legal and regulatory reform, specialized conferences, and training events. This will extend the project's benefits to both partners and non-partners. Increasingly, support should be channeled through national associations, and build on the new presence in the region of the MFC office.

Should USAID/CAR elect not to continue to support Central Asian microfinance development under the CAMFA modality in the future, then it should plan an exit strategy for CAMFA now. This should include:

- The transfer of self-sustaining assets; e.g., websites, library, and conferences to the national MFI associations and/or the new MFC office in the region;
- Identification of likely commercial suppliers of software services and providers of upgrades for goods and technical advisory services provided so far by CAMFA on a grant basis; and
- If it appears that Frontiers will not be able to achieve full financial sustainability by the end of the project, plans should be made for the transfer of the management (and run down) of its portfolio by a management team. Consideration could be made to transform Frontiers into a rating agency that would operate on a commercial basis, selling its services to interested donors or private investors; e.g., Blue Orchard.

B. Frontiers Wholesale Lending Institution

1. What are the overall prospects for and constraints to the Frontiers' future?

It could be useful to reconsider wherein lay the comparative advantages of Frontiers. There are several other donor-financed lines of credit available to MFIs in the region and social investment funds, such as Blue Orchard, may also become increasingly active.[10] As a "plain vanilla" apex lender, Frontiers may be redundant, unless it can differentiate adequately its product and demonstrate its unique "value-added." Provision of other services on a fee basis, such as ratings, provision of brokerage services, loan guarantees, etc., may offer the opportunity to generate non-lending revenue.

2. Is the goal of the Frontiers' reaching sustainability appropriate and realistic? What are the benefits and costs of the Frontiers' drive for sustainability? Are there feasible alternatives to the Frontiers? If so, what are they?

Sustainability may be an elusive concept when one is operating with donated resources. Moreover, future governance and ownership issues for Frontiers are unclear. A number of donors could consider contributing to a trust fund, administered by a qualified agent chosen on the basis of a competitively bid contract with clear performance parameters and performance-based incentives.

There is also the issue – already alluded to – of other sources of finance. For credit unions in Kyrgyzstan, the Financial Company for the Support of Credit Unions (FCCU) is an alternative to Frontiers. It has approximately US$5 million or the equivalent in loans outstanding and offers two products: loans for on lending; and a lease arrangement for computers and equipment.

Furthermore, although, unfortunately, in some countries, e.g., Tajikistan and Uzbekistan, there are subsidized lines of credit available from government agencies which some MFIs have expressed an interest in accessing, CAMFA guidelines naturally discourage such practices.

3. Is there sufficient demand from retail lenders for the Frontiers to achieve sustainability?

It is the evaluation team's determination that there is sufficient demand to fully utilize the US$3 million in loan capital scheduled for Frontiers by the project's conclusion. On the other hand, given the challenge of operating in four countries and the complex and varying policy environments in those countries, it is doubtful that the organization can attain financial sustainability with the mentioned amount. Frontier's plans indicate, however, that it can achieve operational sustainability by end of project.

Based on the premise that Frontiers is operationally sustainable at the end of the project period, the three million dollars of Frontiers equity may serve as a means a means of attracting commercial funding to smaller MFIs. Frontiers has a comparative advantage in identification and analysis of promising MFIs in Central Asia due to the corporate headquarters being sited in Bishkek and experience in lending with a number of MFIs in all four countries. Presumably Frontiers would be able to demonstrate a record of sound investments. Most clients of Frontiers lack a rating from an international rating agency.

[10] Patrick Goodman, "Microfinance Investment Funds: Objectives, Players, Potential", 2004 KfW Financial Sector Development Symposium, Berlin, 11 – 12 November 2004.

Additionally, with their smaller size, they are not attractive to international investors. Both of these circumstances limit MFI access to non-donor international funding.

Should Frontiers be able to demonstrate sustainability and a positive track record, it could seek a rating by an international rating agency. This may allow international investors and local banks to utilize Frontiers as a conduit for lending to smaller MFIs. Frontiers' equity could serve as an assurance to investors/lenders. Frontiers might onlend to MFIs directly, or for a fee, provide a guarantee facility for loans made to MFIs. A determination/clarification of various laws would be required for provision of guarantees.

The soon to be located in Almaty Microfinance Center (MFC), brings an opportunity for a coordinated facility of donor technical assistance to Central Asia, a be good compliment to a Frontiers operation. Deficiencies identified during due diligence by Frontiers could be addressed through MFC.

4. Should the Frontiers be providing a broader array of services to meet its goal and does it have the capacity and capital to do so?

In accordance with its business plan, Frontiers currently offers only term loans for loan capital. Based on the experience of other apex organizations, Frontiers should consider the merits of offering a revolving line of credit product and assist in funding capital expenditures related to the expansion of client institutions. Currently, the term lending product is sufficient for the needs of Frontiers' clients. Handling revolving credit lines will likely require increased loan funds for Frontiers and some type of stand-by arrangement to enable it to access commercial sources to pass funds on to clients during periods of peak demand. This is an activity better left to commercial banks.

Rather than providing Frontiers with lending resources, it could have been established as an agency operating on a reimbursable basis to provide services assessing MFI creditworthiness to interested investors/lenders.

If it appears that Frontiers needs additional lending resources, it could consider the option of selling a part of its loan portfolio to other investors, using the proceeds to extend new loans to its clients.

5. In your opinion, why has the Frontiers' success in finding clients been so difficult?

It should be noted that Frontiers was originally intended to have an institution in each of the four CAMFA countries. A review of the legislation in those countries indicated that the enabling legislation for microfinance institutions in Kyrgyzstan, while far from ideal, was the most conducive to the operations of an apex institution like Frontiers. Accordingly, CAMFA's implementation reverted to a single institution for the region to be placed in Bishkek. Frontiers was registered in July 2003 and its office opened in September of the same year. An expatriate manager was recruited and assigned to Bishkek in January 2004, at which time activities commenced in earnest.

Establishing an office and recruiting qualified staff and performing due diligence on clients in four countries took considerable time. The effort is bearing fruit as 8 loans totaling the equivalent of US$761,500 had been approved by September 2004. Another 12 loans worth approximately

US$830,000 are pending approval. While it took time to identify them, Frontiers is close to attaining its goal of financing 20 clients.

A further problem that may affect Frontiers' lending operations is the apparent dichotomy between the "need" often voiced by MFIs for additional lending capital and the difficulty donors often have in finding creditworthy MFI channels through which to provide such additional loan resources. This phenomenon was addressed in a CGAP donor brief in 2002, in which the distinction between "need" and effective demand was discussed. It remains relevant today in the region.[11]

6. Are the criteria being used by the Frontiers appropriate and reasonable?

Overall, Frontiers' criteria are reasonable and appropriate. In selecting its clients it evaluates them in terms of financial self-sufficiency, strong demand for existing products, efficient operational systems, and sound internal control systems. They offer latitude to work with small-inexperienced organizations, although the exhaustive due diligence process, which Frontiers follows, has resulted in selection of strong organizations. The following are suggested changes:

- Minimum of six months of lending experience be increased to one year
- Positive cash flow for a minimum of 3-months be increased to six months

Loan portfolio size should be a minimum of $100,000 equivalent and there should be reasonable prospects for Frontiers to make a profit from the prospective relationship within a year to a year and a half. (Presently, Frontiers has made one loan in the amount of $10,000 and another for $6,000. These figures are probably too small to generate much profit – much less cover processing costs -- for Frontiers.)

7. Is the Frontiers' structured in a way that will facilitate and enable its clients to gradually access domestic financial markets?

Frontiers have disbursed 6 loans as of October 1, 2004 with a value of US$318,000. One loan was made to the Kazakhstan Loan Fund (KLF) that already has access to domestic financial markets. Another loan has been approved and is pending disbursement for the Asia Credit Fund, which also enjoys access to domestic credit markets. The other four loans were made to Kyrgyz credit unions that have access to the FCCU, an apex organization capitalized in the amount of US$5 million. Through September 30, 2004, no loan agreements have been executed with MFIs in Tajikistan or Uzbekistan.

Facilitating client access to domestic financial markets might not be a realistic objective for Frontiers. A paper published by CGAP in 2002 stated that, "Apexes have not been successful in building bridges between MFIs and commercial funding sources. Indeed, the incentive to seek commercial banks is weakened by the availability of easier funding from the apex."[12] Since the first Frontier loan disbursement occurred only two months prior to this evaluation, there is no empirical evidence indicating that access is being facilitated. However, it is the conclusion of this evaluation team that in the case of credit unions that are CAMFA partners the technical assistance they have received makes

[11] CGAP Donor Brief No. 3, Water, Water everywhere, but not a drop to drink, May 2002.
[12] CGAP Donor Brief No. 5, Apex Institutions in Microfinance, July, 202.

them better prospects to access domestic credit markets. It would be reasonable to attribute this development to CAMFA's technical assistance rather than Frontiers' finance.

Rather than passing client MFIs over to domestic financial markets, Frontiers appears to be interested in increasing its lending resource base in order to expand its clientele. The best measure of Frontier's success would be the disappearance of the demand for its services, as successful MFIs increasingly accessed domestic financial markets and international investors.

Ironically, Frontiers' interest in lending to commercial banks would appear to constitute a significant distraction from its original MFI support mission. In the meantime, at least in Uzbekistan, a recent Asia Development Bank loan includes a provision for participating commercial banks to loan to MFIs. Moreover, a number of external donors are already providing such support to commercial banks. Furthermore, there are social investors, such as Blue Orchard that also provide such support. In these circumstances Frontiers may be redundant.

C. <u>FINCA Programs in Tajikistan</u>

1. Is lending structured in a way that ensures maximum outreach and yet does not hamper prospective sustainability?

Because of start up delays, FINCA/Tajikistan did not issue its first loan until December 2003 and it has not produced a significant volume of loans in the first 11 months of operations. FINCA/Tajikistan's portfolio is currently (as of September 30, 2004) 303 loans valued at the equivalent of US$42,777. Annex I, Table A provides more data on the program's current operations.

Pursuant to the cooperative agreement, FINCA was to have generated a loan portfolio consisting of 5,000 loans valued at US$1 million by September 2006. In its draft 2005 annual work plan; FINCA/Tajikistan proposes to disburse 743 loans worth US$253,000 by September 2005. At the current rate of operations, it may be unlikely that FINCA/Tajikistan will achieve the outreach goals contained in the cooperative agreement.

As discussed in more detail in the following paragraphs, it may be unlikely that the institution will achieve operational (much less financial) sustainability during the project period. It would be appropriate to undertake a new set of financial projections for this activity. One option, that might be considered, would be for the operation to be absorbed by another MFI currently working in the region or planning to establish a presence. (An informal observation in this regard was made to the mission by staff at the First Microfinance Bank of Tajikistan, and there may be other MFIs similarly interested.)

2. What are the prospects for FINCA's reaching sustainability in Tajikistan?

Despite the high interest rates FINCA/Tajikistan charges its borrowers, it will not reach sustainability by 2006. It would need to dramatically increase its loan portfolio and improve its cost structure by increasing the client to loan officer ratio if it is to capture economies of scale and achieve sustainability. The operational and financial projections, which would underpin such sustainability projections, should be carried out.

In order to track more closely and in a more timely manner the likelihood of FINCA Tajikistan's achieving operational sustainability, it is recommended that USAID request that CAMFA include in its regular reports – at least on a semiannual (if not quarterly) basis – an analytical comparison of the original performance projections for achieving sustainability and the current situation.

3. What are the major constraints or issues facing the FINCA program?

Poor management by the previous FINCA/Tajikistan director and inadequate oversight by FINCA/International are responsible for the anemic performance described above. Establishing two country offices, one in Dushanbe and the other in Kurgan Tyube, resulted in an unexpectedly rapid expenditure of the grant intended to cover the start-up and initial operating costs. About US$153,000 of the initial $180,000 allocated for loan capital has been disbursed. The new FINCA/Tajikistan management has expressed concern about the availability of loan funds to finance a portfolio conducive to sustainability. FINCA has stated its intent to approach USAID for additional lending capital. This request should be considered in light of FINCA's performance to date and the significant amount of money it has already received from USAID.

4. Are the current outreach, rate of growth and targets of FINCA programs reasonable, optimal and achievable?

At FINCA/Tajikistan's current outreach and rate of growth, program targets are unlikely to be achieved and should be revised downward. Other MFIs in the region have achieved much higher outreach and growth rates in similar circumstances. FINCA seems to have been less successful in attracting clients from other MFIs in the area. Additional (and salutary) competition from other suppliers of microfinance may be appearing, e.g., the USAID/EBRD/et al. program recently announced the availability of individual loans from local banks (in the range $100 - $1,000) at an interest rate about one-half of the FINCA rate.

In view of the costs of opening up both the Dushanbe and Kurgan Tyube offices, it may be useful to revisit the original program targets and the financial projections underlying them, in order to appropriately revise them.

5. Are the targets for each of the FINCA programs reasonable and optimal?

Given the challenges of promoting microfinance in Central Asia, FINCA/Tajikistan's goal of reaching 5,000 clients in four years was ambitious, but not unreasonable. (KCLF reached 7,000 clients within 4 years of commencing activities.) However, given FINCA's performance to date, the goal is not attainable. As of September 30, 2004, there were only 303 loans outstanding, for a total of US$42,777. Unfortunately, the CAMFA reporting format does not include cumulative loan approvals and disbursements since the start of the program. The program goals should be reviewed and in most cases revised downward.

6. Is FINCA in compliance with the goals of the agreement?

The cooperative agreement stipulated that FINCA's operation would commence in Kurgan Tyube, in the southern part of the Tajikistan. Instead FINCA opened its main offices in Dushanbe. Therefore, it is not in compliance with the agreement. If the installation of the main office in Dushanbe was undertaken at the behest of USAID, then the cooperative agreement should be revised accordingly.

7. To what extent does the FINCA program implementing structure in Tajikistan allow for effective lending in Kurgan Tyube?

Locating FINCA main offices in Dushanbe is a constraint to the implementation of its loan program in Kurgan Tyube. Senior management and some staff travel every day from Dushanbe to Kurgan Tyube (1.5 hours) at a management cost of 15 hours a week. In spending so much time on the road, the ability of FINCA's staff to effectively lend to rural clients outside Kurgan Tyube suffers accordingly. FINCA maintains that poor infrastructure (electricity, telecommunications, bank branches, etc.) in Kurgan Tyube as the reason it is located in Dushanbe. Such problems should have been more explicitly taken into account in the original program design prepared by FINCA. Interestingly, other MFIs such as the Millennium Development Fund and Sitorai Najot have offices in Kurgan Tyube and manage their lending programs from there.

8. Does FINCA possess the necessary knowledge, skills, and experience to run the program effectively?

FINCA/Tajikistan has experienced significant management and staff turnover. In the past year it has changed its director once and its office manager three times. The new director has been in the office for two months. According to CAMFA, the FINCA Regional Hub has also changed director three times. Despite management turnover, FINCA/Tajikistan director is confident that it is not difficult to recruit field staff at the loan officer level.

9. Do loan officers get adequate training to operate efficiently?

The optimal training program is a combination of theoretical instruction in the classroom and on-the-job training under the supervision of an experienced loan officer. Cost factors are making it difficult for FINCA to provide adequate training for its loan officers and it is unlikely that the three weeks of training provided new staff with no lending experience is adequate. Only management level staff receives outside training.

On a more positive note, a staff incentive system has been designed and will be introduced and new loan officers have been recruited for Kurgan Tyube. A separate training program will be established when the individual small enterprise loan product is rolled out.

10. Does FINCA have an effective means to measure the impact of its program?

It would have been helpful at the project's commencement to establish a tracking and monitoring program for a sample of clients, along with a control group, to effectively assess impact. In an effort to measure impact, FINCA Tajikistan collects data on the number of jobs created and retained at the beginning and end of each loan cycle. It also collects data on business turnover every cycle. The cooperative agreement (Section H) described a monitoring/impact reporting process, but it does not appear that CAMFA has abided by this reporting requirement or has chosen not to include the results in its quarterly reports. It would be useful for USAID/CAR to clarify the detail and format of the reports it desires with respect to CAMFA, its partners and the FINCA components.

FINCA/Tajikistan is using an Excel-based MIS for accounting and portfolio management. It is not considering using FINCA's own SIEM system. If FINCA/Tajikistan's portfolio grows, it will need a more effective means of data collection and processing.

D. <u>FINCA Programs in Uzbekistan</u>

The FINCA program in Uzbekistan made its first loan in June 2003. The current status of the program is presented in Annex I, Table B. During the 3rd quarter of 2004, the outstanding loan portfolio increased by 39 percent over the 2nd quarter to US$ 236,265.

1. Is lending structured in a way that ensures maximum outreach and yet does not hamper prospective sustainability?

FINCA seeks to transfer a growing number of clients over to its individual loan products, for which there appears to be a higher profit margin. This also reflects an interest on the part of some clients to avoid the transactions costs of the group-lending product. This suggests a certain tension between "maximum" outreach, via serving many small loan clients through group lending modalities, versus the likely more profitable larger individual lending modalities for which borrowers may incur lower transactions costs. In any case, product diversification better serves the FINCA clientele.

2. What are the prospects for FINCA's reaching sustainability at the end of the period?

The country director has managed to mobilize additional resources from the J.P Morgan Foundation and a private donor (about $50,000). Thus, total original loanable resources are US$230,000, of which US$167,000 of the original $180,000 provided by USAID has already been disbursed. To achieve this portfolio growth, FINCA has been covering its operating costs from the original grant, permitting it to pass about US$20,000 per month in interest income back to lending resources. The current portfolio is US$236,265.

The target outstanding loan portfolio required to achieve operational sustainability, is US$350,000 - US$360,000. (Self-sufficiency is currently reported to stand at about 70 percent.) Thus, in terms of volume of lending, FINCA Uzbekistan may achieve sustainability by the of the project period. However, it has done so by serving a smaller client base than originally envisaged. (See Question 5 below.) In order to track more closely and in a more timely manner the likelihood of FINCA Uzbekistan's achieving operational sustainability, it is recommended that USAID should request that CAMFA include in its regular reports – at least on a semiannual (if not quarterly) basis – an <u>analytical comparison</u> of the original performance projections for achieving sustainability and the current situation.

3. What are the major constraints or issues facing FINCA programs?

In Uzbekistan the current environment is not conducive to the promotion of NGOs and MFIs. FINCA shares the common complaint of MFIs with respect to the problems brought about by the government of Uzbekistan's cash rationing policies. This is a macroeconomic/financial sector issue affecting activities of both the multilateral/bilateral donors and NGOs across the board. It is also perceived as part of an "inhospitable" business environment.[13]

4. Are the current outreach and the rate of growth of FINCA programs reasonable and optimal?

In view of the current difficulties facing financial institutions operating in Uzbekistan, a measured rate of expansion for FINCA's activities there is recommended.

5. Are the targets for the FINCA program reasonable and achievable?

As of September 30, 2004, FINCA Uzbekistan had 1,288 loans outstanding. The goals stated in the cooperative agreement, paragraph 1.4.3.3, Project Goals and Objectives, with respect to number of clients (5,000) and aggregate (outstanding?) loan portfolio may be overly optimistic. For example, it may not account for graduation of FINCA clients to formal commercial banking institutions. However, it may be that a goal of 5,000 active clients may be overly optimistic. The program is near the 90 percent target with respect to client gender and its portfolio at risk is currently better than the "less than 5 percentage" target for year 3. Finally, through the nascent local MFI alliance FINCA is communicating "best practices" to its partners and other MFIs.

6. Is FINCA in compliance with the goals of the agreement?

There do not appear to be any significant areas of non-compliance with the agreement. The country director has signed an agreement with the Deloitte & Touche to conduct FINCA Uzbekistan's annual external audit. The initial draft audit report was scheduled to be completed on October 18, 2004.

7. Does FINCA staff possess the necessary knowledge, skills, and experience to implement the program effectively?

The new FINCA country director is experienced and energetic, and appears able to transmit his targets to staff. Management stresses the importance of staff training.

8. Do loan officers get adequate training to operate efficiently?

After a series of interviews with the village banking supervisor and country director, FINCA hired four additional universal credit officers, who began training on September 6, 2004. The four credit officers hired replaced three departing credit officers. The credit department's incentive plan was implemented in August 1, 2004, with first payouts under the program received in September 2004. All new credit staff go through a training program consisting of three weeks of classroom instruction and two weeks of field training. During the initial three-month probation period, new credit officers are assigned to an experienced credit officer who acts as a mentor.

9. Does FINCA have an effective means to measure the impact of its program?

[13] The policy is tantamount to a tax on financial sector activities.

It would have been useful at the start of the project to set up a tracking and monitoring program for a sample of clients, along with a control group, in order to assess impact. Reference is made to Section H of the cooperative agreement, which describes a monitoring/impact reporting process. But it does not appear that CAMFA has complied with this reporting requirement or has chosen not to include the results in its quarterly reports. Again, it may be useful for USAID to clarify the detail and format of the reports it desires with respect to CAMFA, its partners, and the FINCA components.

E. FINCA Programs in Kyrgyzstan

1. How realistic is FINCA's plan for transformation?

FINCA has taken a deliberate step-by-step approach to transformation. This process was the next logical step to take considering that the organization will eventually be operating without a donor subsidy. First and foremost, it has developed a sound portfolio with 22,500 clients and US$8.4 million outstanding as of September 30, 2004. FINCA/Kyrgyzstan has a strong capital base and solid earnings history. With this foundation, FINCA took the necessary steps in 2003 to become a legally registered microcredit company, pending application to and licensing by the National Bank. Full transformation to a microcredit company will allow FINCA to take deposits. Concurrent with its 2003 license application, FINCA submitted its operations to a rigorous examination by ACCION International pursuant to the issuance of an internationally recognized rating. This rating is one of the factors that lenders and investors will consider before providing funds to FINCA. The organization understands that transformation will take several years and has planned accordingly. A professional transition manager was recruited and assigned to Kyrgyzstan operations in October 2004 to lead the transformation process for one year. Based on its review of documents and an interview with the transition manager, the evaluation team is of the opinion that the FINCA Kyrgyzstan's plans for transition are quite realistic.

2. Is there a sufficient demand for FINCA's planned savings services?

A large part of FINCA's success will depend on its ability to capture deposits. The law will not allow FINCA to take deposits in the two years following its registration with the National Bank of Kyrgyzstan, which means the earliest date it can do so is July 2005. In a departure from its standard procedures, FINCA has made all savings voluntary. According to FINCA, this move was the result of a lack of demand for its saving product and an effort to keep old clients and attract new ones. This situation may reflect a genuine lack of demand or it may indicate that the specific product on offer was not attractive to FINCA clients.

Attracting depositors in Kyrgyzstan is a formidable task given the savings public's distrust of the financial system following the banking crises of recent years. Despite this difficult environment, several credit union managers interviewed by the evaluation team indicated that they had members interested in depository facilities. Important to these members was the credit unions' trustworthiness. FINCA also enjoys a reputation of trustworthiness, reliability, and transparency in its operations. Once it has completed the process of registering with the National Bank, FINCA can build on its reputation to attract depositors. However, it is the judgment of the evaluation team that when FINCA is authorized to accept deposits the demand for that product may not be forthcoming. It is not reasonable to expect this situation to change quickly. It will take time for the market for deposit products to develop and FINCA has planned accordingly. It recognizes that deposits alone will not satisfy the demand for loan capital in the near term.

3. How efficient is FINCA's operation?

FINCA's operations could be made more efficient. Operating efficiency is defined as total-operating expenses divided by the average outstanding loan portfolio. FINCA Kyrgyzstan was rated in September 2003 by ACCION International using an assessment tool that measures capital adequacy, asset quality, earnings, management, and liquidity management (CAMEL). ACCION International is widely recognized for its expertise in microfinance and the quality of its ratings.

ACCION International's rating assigned a score of "3" to FINCA's earnings component, which was significantly lower than its overall average score of "3.7" Of the four components contributing to the earnings score, operating efficiency (total operating costs/average loans outstanding) is by design assigned the heaviest weight. In 2003 the operating efficiency ratio was 50 percent versus a ratio of 20 percent recommended by the rating standards. The ratio has improved from the 54 percent in 2002 and hopefully signals the beginning of a trend. In the past, higher operating costs could be offset by higher interest rates. It should be noted that raising interest rates do not affect operational efficiency, but it may prolong high operating expenditures, as institutions are not forced to become more efficient. The ability to continue this practice will become untenable in the face of increased competition. Improvements in operational efficiency are derived from cost controls.

4. What are some issues/constraints faced by FINCA in Kyrgyzstan?

As discussed in the previous section, increased operational efficiency is clearly an important issue and one over which FINCA has control. With the downward pressure on interest rates in Kyrgyzstan, which is expected to continue, FINCA needs to improve operating efficiency to remain competitive, especially with banks. This is especially true with respect to FINCA's Small Enterprise Loan (SEL) Program. Loans issued under this program range from US$500 to US$10,000, a range similar to that offered by banks participating in the Kyrgyzstan Micro and Small Enterprise Finance Facility. Since much of FINCA's growth is expected to come from lending to SMEs, enhanced efficiency will take on a greater urgency.

Another issue of concern to FINCA is deposit insurance, which is expected to be available to Kyrgyz financial institutions within a year. As developed by the National Bank of Kyrgyzstan, deposit insurance will not be available to MFIs, such as FINCA, placing them at a disadvantage.

FINCA wants to increase its investment capital by amounts that are not currently available. At the same time, it wants to limit its borrowing while attracting equity investors. While it expects the IFC to convert its debt with FINCA to equity when the loan rolls over in July 2005, this outcome is not certain. FINCA may face increased competition from Mercy Corps International when it consolidates its programs into one organization in an effort to attain economies of scale.

F. <u>Kazakhstan Loan Fund</u>

The Kazakhstan Loan Fund (KLF), formerly the Kazakhstan Community Loan Fund (KCLF), was established with the support of USAID and ACDI/VOCA in 1997. Its first loan was disbursed in November 1997 in Taldykorgan. Later branches were opened in Shymkent (2000) and Almaty (2001). With additional support provided by CAMFA, KLF was able to expand its operations to include two additional branches, one in Taraz and the other in Turkistan. Both opened in 2003. As of September 30, 2004 KLF's 5 branches managed a high-quality outstanding loan portfolio of US$5.3 million held by 10,900 borrowers. Portfolio at risk is less than 0.1 percent.

The Funds' name and logo were changed in February 2004 to better reflect its current status and intent to offer a wider range of financial products beyond its original group lending product.

1. Does KLF staff possess the necessary knowledge, skills, and experience to run the program effectively?

Based on its interviews with senior management in the head office, managers of branches, and loan officers, the evaluation team found KLF staff to be knowledgeable, enthusiastic, and highly motivated. The team is of the opinion that KLF staff at all levels is well trained and adequately compensated and possesses the skills and experience to effectively manage a growing microfinance program.

2. Do loan officers get adequate training to operate efficiently?

Based on its observations of KLF's operations in Almaty, Shymkent, and Taraz, the evaluation team is of the opinion that its loan officers receive the training commensurate with their responsibilities. KLF operates its own extensive staff training program and its has served as a training ground for other MFIs in Kazakhstan and some from Kyrgyzstan, Armenia, Russia, Tajikistan, and Uzbekistan. These learning visits by outsiders serve to strengthen the industry and deepen the skills of the KLF staff. The evaluation team did not examine their effect of these visits in any great detail, but, based on its knowledge of other programs; it is of the opinion that they enhance KLF's institutional capacity.

3. How efficient is KLF's operation?

KLF's operations, which historically have had a high operating expense ratio (ratio of operating expenses to average loan portfolio) improved dramatically in 2003. External ratings were conducted in 2002 and 2003 for each of the preceding financial years. In what were otherwise positive reports, the rating agency duly noted the high operating expense ratios of 51.6% and 53.2% for 2001 and 2002, respectively. Part of the high operating expense ratio was attributed to costs incurred opening a branch office in Almaty and then transferring the headquarters functions there. With those expenses behind it and a doubling in loan volume without any deterioration in quality helped spread fixed costs over a larger portfolio, KLF's operating efficiency for 2003 was recorded at 37.9%. The efficiency of KLF's operations has improved as a result of investments it has made in recent years, but further improvements are in order, especially with a downward trend in interest rates expected to continue.

4. Are the targets for each of KLF's branches appropriate and reasonable?

KLF's strength is its branches. These branches apply highly standardized systems and procedures to their operations, which has the effect of enhancing overall efficiency. The functions and responsibilities of each staff member are clearly defined and daily and weekly schedules of activities are made routine at all branches. Standardization as applied to KLF's operations facilitates the monitoring of performance, the expansion of outreach, and the attainment of operational efficiency. It has a responsible corporate culture with capable management, qualified and motivated staff, highly developed human resource systems, modern MIS and loan tracking systems, and rigorous training programs for its staff.

The KLF's portfolio is still rather limited, but it was the first MFI to borrow from a commercial lender, a significant achievement for the Central Asian industry. It was the first MFI in the region to be reviewed and rated by an independent rating agency M-CRIL, which awarded it an "alpha" rating for low risk and sound systems.

KLF's branch targets for outstanding portfolio and number of active clients are presented in the table below. Additionally, KLF has targets for portfolio quality and operational self-sufficiency, maintaining 0% portfolio at risk and 134% operational self-sufficiency as of September 30, 2004. Self-sufficiency is discussed in paragraph 7 below.

KLF's targets are challenging but achievable, with aggregate targeted growth rates of 87% portfolio growth and 62% client growth. Based on performance through September 30, 2004, the targets are well within reach by year-end. Some variances may occur in branches, but the targets are appropriate and reasonable.

Table 6

KLF Targets, 2004 with Comparisons to '03 Actual and '04 Performance to Date

Branch	Outstanding Portfolio (KZT)			No. Active Clients (Borrowers)		
	Actual 12/31/2003	Target 12/31/2004	Actual 9/30/2004	Actual 12/31/03	Target 12/31/04	Actual 9/30/04
Taldykorgan	131,675,077	203,391,770	179,726,389	2,246	3,076	2,984
Shymkent	168,750,294	245,171,813	234,799,533	2,302	3,000	2,892
Almaty	100,617,481	201,148,184	171,875,223	1,694	2,400	2,292
Taraz	37,159,572	113,216,562	91,444,590	954	2,018	1,748
Turkistan	1,610,000	61,241,102	40,217,509	54	1,235	962
Totals	439,812,424	824,169,431	718,063,244	7,250	11,729	10,878

5. Are the current outreach and the rate of growth of KLF reasonable and optimal?

As of September 30, 2004 KLF had 10,878 borrowers and an outstanding portfolio equivalent to US$5.3 million. This represents a significant increase over the financial standing at the start of the year when it had 7,250 borrowers and an outstanding portfolio valued at US$3.25 million. Indicators of KLF's growth in the years since 2001 are documented in the table below. The addition of four branches in the period from 2000 to 2004 and the transfer of headquarters to a new branch in Almaty occurred during this period. The KLF managed this expansion well and balanced the accompanying growth with excellent portfolio quality. Strong portfolio growth can occur at the expense of quality, but it is the evaluation team's considered opinion that KLF's growth has been reasonable and appropriate.

Table 7 – KLF Portfolio Growth			
Date	No. Borrowers	Outstanding Portfolio (KzT millions)	Equivalent amt.($ millions)
9-30-04	10,878	718	$5.3
12-31-03	7,250	440	$3.3
12-31-02	4,882	249	$1.6
12-31-01	3,133	120	$0.8

6. What are the major constraints or issues facing KLF?

The greatest challenge facing KLF is competition. As banks become increasingly competitive in terms of interest rates, KLF will have to become more responsive with both the services and interest rates it offers its members. Higher operating costs have prevented KLF from lowering the interest rates on its loans in the past. In the future, it will have to aggressively pursue operational efficiencies along the lines of those discussed above to charge competitive interest rates on its loan products.

The legal framework in Kazakhstan governing microfinance poses a major constraint to KLF's future growth. The current framework covers only microlending and the potential for funding loans with deposits is precluded. Microlending organizations are not permitted to issue securities, excluding them from capital markets.

Taxation is another major constraint to KLF's operations as it affects its operating costs. As of this year, non-commercial organizations such as KLF have lost the tax-exempt treatment of their interest income. The 30% rate applicable to this income will affect operating efficiency.

7. What are the prospects for KLF's reaching sustainability in the near future?

KLF has reached sustainability as evidenced by measures of operational and financial sustainability in the table below. In the future, it may intermittently waiver below financial sustainability measures during the addition of new branches. However, a sound backbone is in place for expansion: five branches, well-trained and motivated staff, a solid customer base, adequate capitalization, and state of the art information systems. The evaluators did not examine the reasons financial sustainability declined relative to operational sustainability, but believe it is due to increased levels of external borrowing.

Table 8				
Trend in KLF Sustainability Measures				
Sustainability measure	12-31-01	12-31-02	12-31-03	9-30-04

Operational	110.0	107.7	136	134
Financial	86.5	96.4	129	120

8. Does KLF have an effective means to measure the impact of its program?

KLF's portfolio performance is the best indicator of program impact. This is the "market test," which is to say, "Do borrowers value the opportunity to obtain credit enough to repay the principal and relatively high interest rates necessary to keep KLF sustainable." The answer is a resounding "YES", as evidenced by the portfolio's impressive expansion while quality has been maintained. Since its inception in 1997, KLF has disbursed more than 94,000 loans with a value of US$43.9 million. The average loan was US$467, which, in the setting of a country where the 2001 annual average per capita income was US$1,350, indicates loans are being extended to the poorest elements in society.
In addition to the "market test", KLF's information system tracks performance to measure impact on gender (81 percent of clients are female), job creation, and job retention. Additionally, KLF has conducted impact assessments and interviews with more than 1,500 clients. For the purposes of operational research, KLF has adequate and effective means to measure the impact of its program.

9. Should USAID or any other donor provide any more grant funding to KLF for capitalization purposes?

KLF is borrowing from commercial sources to expand its loan portfolio. Accordingly, allocating ever-scarcer donor resources for loan funds is not appropriate. However, if USAID and other donors wish to sponsor additional outreach to microentreprenuers through KLF, the provision of funds to defray the costs of additional branches or contact offices would be appropriate. The example of KLF's Taraz branch is germane to this discussion. That branch disbursed its first loan in February 2003 and by the end of August that same year KLF reported that it had achieved operational self-sufficiency (OSS). CAMFA allocated US$576,000 in grants to establish the Taraz branch. Of the mentioned amount, US$200,000 was dedicated to loan capital and the branch drew only US$188,000 to cover operating expenditures before attaining OSS. The balance of the allocated funds was, with USAID concurrence, applied to the opening of the Turkestan branch.

As of September 30, 2004 the Taraz branch had 1,748 active clients and an outstanding portfolio of US$677,367. The branch manager estimates that retained earnings had already generated about US$79,000 to finance the branch's loan capital.

KLF is pilot testing an agricultural loan product in Taldykorgan. It has also identified a number of sites where it could expand its outreach through either branches or contact offices. Donors interested in expanding microfinance outreach in Kazakhstan would gain better return on their investment by promoting KLF (through funds for branch expansion other than loan funds) than putting their funds in a nascent organization.

IV. Conclusions

CAMFA has clearly made an important contribution to the technical process of building institutional capacity and management systems in the MFIs of Central Asia. In doing so it has supported the efforts of its partners to deepen financial markets and promote a culture of credit in the countries of the region.

The basic technical assistance and training provided under CAMFA's auspices is well designed and responsive to the management and outreach needs of the MFIs in Central Asia. The management capacity of those MFIs partnering has been strengthened by the provision of training at the MFC in Poland and portfolio management hardware and software.

CAMFA has had a positive effect on increasing industry level capacity in terms of the legal, regulatory and support infrastructure on a regional level. For example, CAMFA has helped MFIs with the process of registration and incorporation while supporting the creation of industry associations in Kazakhstan, Tajikistan, and Uzbekistan. Much more needs to be done in the legal and regulatory environment.

CAMFA's support of the transformation of institutions, such as FINCA in Kyrgyzstan, has deepened financial markets there. CAMFA has helped the NGO community in Tajikistan to understand the intricacies of the new MFI law and the two annual regional conferences it sponsored has helped the MFIs in Central Asia understand financial products and issues.

Delivering microfinance services to many small, scattered MFIs is expensive by the very nature of the activity. Still, CAMFA, because of its overhead rates and charges, has proven to be an expensive means of service and finance delivery. If possible, it would be useful to see a more detailed allocation of CAMFA's costs by sector-wide task and MFI assisted.

Costs notwithstanding, CAMFA's structure and administrative system is conducive to the efficacious delivery of finance, commodities, training, and technical assistance. Overall, CAMFA is perceived as client friendly.

The development of credit unions in the region, especially the Kyrgyzstan and Uzbekistan, is an important dynamic in the development of microfinance in the region. As financial institutions owned and governed by their members with a geographic or professional bond, they are generally not regarded as MFIs. With their tradition of deposit services and consumer lending and an emerging interest in MFIs providing a wider range of services, there is a convergence of goals and objectives. This development is worthy of CAMFAs' support.

IV. Recommendations

It is the evaluation team's recommendation that USAID/CAR remain engaged in microfinance development. There are two years remaining in CAMFA and much can be gained from consolidating its achievements.

It recommended that CAMFA avoid both overextending its limited resources to new partners at this relatively late date in the project's implementation and refrain from allocating resources to non-MFIs.

The prospects of CAMFA's enhancing the microfinance industry's sustainability would be improved by the introduction of an element of cost recovery to its operations. Making a distinction between public goods and private goods, CAMFA could capture revenue from services and commodities it delivers for which there is a market price. Revenue earned, or reimbursement from donors financing MFIs, could be devoted to financing the provision of public goods in the development of MFIs. CAMFA should work with other donors to develop and implement a cost-recovery program for the goods and services they provide MFIs.

CAMFA should focus donor support on and through the region's new Microfinance Center (MFC).

CAMFA should accelerate its efforts to promote local MFI associations and networks. MFIs can benefit by mutual efforts to form national organizations that will advance their interests and empower them to advance a policy agenda responsive to their needs. A national association could provide the means of providing public goods to MFIs at costs to be defrayed through membership dues and cost recovery for services and goods delivered.

Frontiers' viability is a concern. Apex institutions that concentrate on retail MFIs have frequently found limited retail capacity to absorb those funds. Experience suggests that what MFIs often need from apex institutions is not additional funding sources, but institutionalized capacity building. If Frontiers is clearly not sustainable at the end of this project, alternate roles for it could be considered. An appropriate role for an apex institution would be the conduct of market research and market development for MFIs. There are currently no credit bureaus or credit rating systems in Central Asia and these are services an apex institution could provide at a cost. An apex institution can serve as a source of technical assistance for improving operations, including the development of management information systems and training courses. They can offer innovative sources of funds, such as guarantee funds or access to line of credit from external sources.[4]

The evaluation report has spoken of the need to provide the economically active poor with savings services, especially women and the rural poor. USAID/CAR could develop a program to assist sustainable MFIs with the mobilization of public savings, remittances, etc. This might include designing and pricing savings instruments. MFI would need assistance sequencing their savings programs. Further assistance might be provided with the logistics of expansion and the techniques of market penetration.

The evaluation team was impressed with the depth and quality of CAMFA's data base, but would like the see the information more fully incorporated into its reporting to more completely track partner and FINCA performance and sustainability.

VI. Future Directions

The CAMFA experience could provide the basis for a project that would provide support for a growing financial sector in Central Asia.

If savings are a key symptom of macroeconomic health, then a sound and dynamic banking system is a crucial ingredient of financial health. At one end, capital markets cannot exist without banks to finance their operations; at the other, medium and small-sized firms, which generate the bulk of employment, cannot grow unless they have access to credit at a reasonable cost and a maturity that is reasonable to them.

[4] Ledgerwood, Joanna, *Microfinance Handbook*, The World Bank, Washington, D.C. 1999, p. 107.

To mobilize savings effectively, an enabling environment must be in place. USAID could assist the national governments of the region to establish policies that allow new entrants into the market and regulations that set reasonable capital requirements. Governments must supervise institutions that mobilize public deposits, either directly or through an effectively managed body that it approves. This usually implies a willingness on the part of the government to revise its banking regulations to provide adequate supervision and regulation to banks and other financial institutions.

USAID could expand its focus on regulation and supervision for MFIs to include a regulatory framework that accommodates different institutional structures, recognizing that there is no one "correct" model for MFIs. It could assist the national governments to apply that framework in a way that their capacity to regulate MFIs is strengthened. USAID could help national governments reduce contradictions in their laws and regulations and establish a tax regime that is fair, transparent, and uniform.

Recognizing that CAMFA has helped deepen financial markets in Central Asia, USAID may want to build upon that experience to promote financial sector modernization and strengthening in the region. This would be an ambitious and expensive undertaking, but it holds out the prospects of strengthening the foundations for growth in the region.

The banking sectors in the region need to be consolidated since they are over-banked in terms of overall numbers and under-banked in terms of capital, products offered, and coverage.

The building up of a competitive and dynamic banking system is a long-term task that requires a series of pedestrian tasks such as better informed banking supervision, credit information, and changes in regulations (that favor holdings of government paper) .

The type of activities that could be included in a comprehensive financial sector modernization and strengthening program would include:

- Insurance;
- Capital markets;
- Housing finance;
- Expanded access of the financial sector by MSEs and MFIs;
- Credit reporting systems;
- Payment systems;
- Cost effective transfer of remittances;
- Collective investment schemes;
- Developing debt markets; and
- Banking regulation and supervision.

ANNEX I

TABLE A: FINCA/TAJIKISTAN
STANDARD PORTFOLIO INFORMATION
June 30, 2004 - September 30, 2004
IN US$

DELINQUENCY

Portfolio at risk	0 – 30 days	30 – 90 days	90+ days
Amount	**$5,540.70**	**0**	**0**

Period for which loans were written off	Write-off Amount	
	0	
Portfolio Information		
Number of loans outstanding	303	56 Groups
Number of loans to first time borrowers	101	
Value of loans outstanding	$42,776.91	
Number of Loans less than $500	263	
Number of Loans between $501 – 1,000	40	
Number of Loans between $1,001 – 5,000	0	
Number of Loans above $5,000	0	
Number of Loans by Sector:	0	
Trade	300	
Manufacturing	0	
Services	3	
Livestock	0	
Agricultural Production	0	
Impact Information		
Loans held by women	204	
Number of jobs created & retained by sector:	-	
Trade	201	
Manufacturing	0	
Services	3	
Livestock	0	
Agricultural Production	0	

% Increase in Income (for borrowers that have completed at least one loan cycle) *	N/A
Number of Repeat Borrowers	115

Efficiency Information	
Number of loans disbursed in the quarter	216
Value of loans disbursed in the quarter	$62,704.10
Number of Loan Officers	4

Other Information	
Average loan term (weeks)	14
Nominal IR	54.00%
Institutional Effective Interest Rate	72%
Inflation Rate (Source: National Bank)	8%

* The reporting will be as of September 30 of each year. Therefore, only those borrowers that have completed a full loan cycle by September 30 will be counted.

Source: CAMFA

TABLE B: FINCA/UZBEKISTAN
STANDARD PORTFOLIO INFORMATION
AS OF SEPTEMBER 30, 2004
IN US$

FINCA UZBEKISTAN
DELINQUENCY

Active Portfolio at risk	0 – 30 days	30 – 90 days	90+ days
Amount	**$6,370**	**$0**	**$1,206**

Period for which loans were written off	Write-off Amount
January 1, 2004 -September 30, 2004	408

Active Portfolio Information	
Number of loans outstanding	1,288
Number of loans to first time borrowers	341
Value of loans outstanding	$236,265
Number of Loans less than $500	1,138
Number of Loans between $501 – 1,000	135
Number of Loans between $1,001 – 5,000	15
Number of Loans above $5,000	0
Number of Loans by Sector:	-
Trade	1,189
Manufacturing	64
Services	33
Livestock	0
Agricultural Production	2
	-

Impact Information for Active Portfolio	
Loans held by women	1038
Number of jobs	
Created	124
Retained	1683

Number of jobs created & retained by sector:	-	
Trade	1,447	
Manufacturing	131	
Services	219	
Livestock	0	
Agricultural Production	10	
% Increase in Income (for borrowers that have completed at least one loan cycle) *	4%	Estimate
Number of Repeat Borrowers	869	

Quarterly Efficiency Information	
Number of loans disbursed in the quarter	943
Value of loans disbursed in the quarter	$309,973
Number of Loan Officers	13

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Other Information		
Average Group loan term	4 Months	
Average Individual loan term	6 Months	
Nominal Group Loan IR	4.0% Monthly	Flat
Institutional Effective Group Loan Interest Rate	108%	Flat Annual
Nominal Individual Loan IR	6.0% Monthly	Declining
Institutional Effective Individual Interest Rate	141%	Declining Annual
Inflation Rate (Source: Uzbek Government)	3.80%	Annualized

* The reporting will be as of September 30 of each year. Therefore, only those borrowers that have completed a full loan cycle by September 30 will be counted.

Note: Inflation Rate as reported by Uzbekistan Government in 'BVV Business Report' newspaper

Source: CAMFA

ANNEX II

BANKWORLD'S MEETINGS

The following meetings were held to gather information relative to Bankworld, Inc.'s evaluation of the Central Asia Microfinance Alliance:

- Victoria Milovanova, Deputy Director Asian Credit Fund Almaty, Kazakhstan
- Zhanna Zhakupova, Executive Director Asian Credit Fund Almaty, Kazakhstan
- Shalkar A. Zhusopov, General Director, Kazakhstan Loan Fund Almaty, Kazakhstan
- Janice K. Stallard, Regional Director Central Asia Microfinance Alliance Tashkent, Uzbekistan
- Patricia Gates, General Manager, Frontiers Bishkek, Kyrgyz Republic
- Maurizio Guadagni, World Bank Almaty, Kazakhstan
- Dennis Voelzke, Bank Coordinator, European Bank for Reconstruction and Development Almaty, Kazakhstan
- Klaus Lehrke, Team Leader, GTZ, Bishkek, Kyrgyz Republic
- Heike Nonnenberg, Programme Coordinator, IPC/European Bank for Reconstruction and Development, Bishkek, Kyrgyz Republic
- Gulnara Shamshieva, General Manager, Bai Tushum, Bishkek, Kyrgyz Republic
- Everett Gong, Microfinance Coordinator, Mercy Corps International, Bishkek, Krygyz Republic
- Elnura Mametova, Technical Assistance and Training Advisor, ACDI/VOCA, Almaty, Kazakhstan
- Larry Hendricks, President and CEO, Hendricks and Associates, Bishkek, Kyrgyz Republic
- Fred Huston, Advisor, Bankworldinc, Bishkek, Kyrgyz Republic
- Jason S. Meikle, General Director, FINCA, Bishkek, Kyrgyz Republic
- Erkinbek Jumabaev, The National Bank of the Kyrgyz Republic, Bishkek, Kyrgyz Republic
- Irena Krapivina, Project Management Assistant, USAID/CAR, Bishkek, Kyrgyz Republic
- Mark Hannafin, Program Manager, USAID/CAR, Almaty, Kazakhstan
- Eamon Doram, Private Sector Advisor, USAID/CAR, Almaty, Kazakhstan
- David Besch, Agricultural Development Specialist, USAID/CAR, Almaty, Kazakhstan
- Kazakhstan Loan Fund Branch Office Shymkent, Kazakhstan
- Kazakhstan Loan Fund Branch Office Taraz, Kazakhstan
- Zabeema Credit Union Osh, Kyrgyz Republic
- Ak Maral Yug Credit Union Osh, Kyrgyz Republic
- Kairat Bol Credit Union Ozgun, Kyrgyz Republic
- Nurinisso Rustamova, Director, Oila MFI and Executive Director, Tajikistan MicroFinance Alliance, Dushanbe, Tajikistan
- Gulov Shamsiddin, Director Dushanbe Branch, National Association of Business Women, Tajikistan
- Suhrob Tursanov, Project Management Specialist/Enterprise and Finance, USAID, Dushanbe, Tajikistan
- Rojkov Viacheslav, Country Director, FINCA Tajikistan.
- Nuralieva Gulnora, Loan Officer, Kurgan-Tyube, FINCA Tajikistan
- Husein Abdurahmanov, Loan Officer, Kurgan-Tyube, FINCA Tajikistan

- Lola Karimova Ibragimova, Executive Director, Sitorai Najot, Kurgan-Tyube, Tajikistan
- Joachim Jaeckle, Program Director, Microenterprise Development, Millennium Development Partners, Kurgan-Tyube, Tajikistan
- Genevieve Abel, Country Director, Care, Dushanbe, Tajikistan
- Mavsuda Vaisova, MicroCredit Coordinator, Care, Dushanbe, Tajikistan
- Christoph Zeiger, Project Manager, Tajikistan EBRD Micro and Small Enterprise Fund, Dushanbe, Tajikistan
- Iodoor Fairov, Executive Director, Aga Khan Foundation, Dushanbe, Tajikistan
- James Gibson, Acting Director, ACTED, Dushanbe, Tajikistan
- Jim Egan, Chief Executive Officer, The First MicroFinance Bank (Aga Khan Foundation), Dushanbe, Tajikistan
- Nelya Shevchenko, Coordinator, Development Fund, Khojund, Tajikistan
- Sanavbar M. Sharipova, Executive Director, National Association of Business Women, Khojund, Tajikistan
- Gary R. Burniske, Country Director, Mercy Corps International, Dushanbe, Tajikistan
- Yulia Yaroshevich, Administrative Assistant, National Association of Business Women, Khojund, Tajikistan
- K. A. Sharpe, Advisor, National Association of Business Women, Khojund, Tajikistan
- Beate Schoreit, Project Field Manager, Mennonite Economic Development Associates, National Association of Business Women, Khojund, Tajikistan
- Abdusattor K. Khaidarov, Deputy Executive Director, Sugdagroserv, Khojund, Tajikistan
- Olim Homidov, Credit Officer, Sugdagroserv, Khojund, Tajikistan
- Farrukh Tyuryaev, General Director, ASTI (Association of Scientific and Technical Intelligentsia, Khojund, Tajikistan
- Emile L. Salou, Chief of Party, Ferghana Valley Regional Microlending Program, ACDI/VOCA, Uzbekistan
- Edward Greenwood, Country Representative, FINCA International, Tashkent, Uzbekistan
- Ulugbek Isayev, Project Management Specialist, USAID, Tashkent, Uzbekistan
- Normunds Mizis, Project Director, WOCCU, Tashkent, Uzbekistan
- Dan Balke, Project Manager, MSE Banking Advisors, EBRD Japan Uzbekistan Small Business Program, Tashkent Uzbekistan
- Dilbar Ilkamova, Legal Specialist, IFC MicroFinance Legislation Development Project, Tashkent, Uzbekistan
- Rustam Turkmenov, Legal Assistant, IFC MicroFinance Legislation Development Project, Tashkent, Uzbekistan
- Bakhtiyor Dedabaev, Director, Barakot MFI, Tashkent/Ferghana Valley, Uzbekistan
- Jason E. Bennett, Microfinance Program Director, Partnership in Academics and Development, Tashkent, Uzbekistan
- Saiyora Ubaydullaevna Hamdamova, Chairwoman, Ishonch Credit Union, Jizzak, Uzbekistan
- Mavluda Rasulovna, SABR MFI, Samarkand, Uzbekistan,
- Jay M. Wettstone, Project Coordinator, Joint Development Associates International, Inc., Shahrisabz, Uzbekistan
- Abbas Ofarinov, Project Officer, Asian Development Bank, Tashkent, Uzbekistan
- Umidjon Mirzamukhamedov, Director, Financial Sector Development Agency, Central Bank, Tashkent, Uzbekistan

- Nodir Khaydarov, Consultant, Financial Sector Development Agency, Central Bank, Tashkent, Uzbekistan
- Zafar Bobajanov, Ferghana Valley Project Manager, ACTED, Tashkent, Uzbekistan
- Larina Khamidova, Loan Officer, Ferghana Valley Project, ACTED, Tashkent, Uzbekistan

ANNEX III

DOCUMENTS AND MATERIALS REFERENCED BY BANKWORLD

Asian Credit Fund, *Annual Report 2003*, 2004, Almaty, Kazakhstan

Iskander, Magdi R. Nadereh Chamlou, 2000, *Corporate Governance: A Framework for Implementation*, The World Bank, Washington, D.C.

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Ledgerwood, Joanna, *Microfinance Handbook*, 2000, The World Bank, Washington, D.C.

Robinson, Margerite S., *The Microfinance Revolution*, 2001, The World Bank, Washington, D.C.

The World Bank, *Doing Business in 2005*, 2004, Oxford University Press, Washington, D.C.

The World Bank, *Microfinance and the Poor in Central Asia*, 2004, Washington, D.C.