PD-ABT-056
107895

Technologies • Inc.

World Relief Corporation

1993-1998 Matching Grant
for Microenterprise Development

Final Evaluation
December 1998

Project No. 938-0158

Cooperative Agreement
No. FAO-A-00-93-00076-00

U. S. Agency for International Development
Bureau for Humanitarian Response
Office of Private and Voluntary Cooperation
Matching Grant Program

A

This report was prepared by AMA Technologies, Inc. under contract number FAO-C-00-95-00036-00 with the Office of Private and Voluntary Cooperation, Bureau for Humanitarian Response, USAID.

Evaluation Team Leader: Beth Porter
Evaluation Team Member: Elisabeth Rhyne

B

Forward to Final Report

This report was prepared in Fall 1998 by a two-person evaluation team. The team consisted on two experts in microenterprise development and microfinance. Beth Porter, the team leader, conducted the evaluation of World Relief headquarters and the country program in Burkina Faso. Elisabeth Rhyne, based in Mozambique, conducted the evaluation of the WRC Mozambique country program. This final report is a compilation of three separate evaluation trips. The report should be taken as a whole, but as written may also be appreciated in the three separate parts.

c

WORLD RELIEF CORPORATION

1993-1998 MATCHING GRANT
FOR MICROENTERPRISE DEVELOPMENT

d

TABLE OF CONTENTS

E

Annexes

1. Evaluation Scope of Work
2. Persons Interviewed
3. Responses to Recommendations from the Midterm Evaluation of the Matching Grant
4. Matching Grant Budget, Actuals, and Variance Analysis
5. WRC Organizational Chart
6. Field Visits
7. Conferences, Workshops, and Trainings
8. Materials Development and Contribution to Microfinance Sector
9. Resources Available
10. Program Statistics
11. Sample Reporting Formats for Future
12. Documents Consulted

F

ACRONYMS

CB	Community Bank
CCB	Cambodia Community Building (Cambodia)
CCS	Christian Services Society (Bangladesh)
CREDO	Christian Relief and Development Organization (Burkina Faso
DAI	Development Alternatives International (consulting firm)
DIP	Detailed Implementation Plan
FFH	Freedom from Hunger (INGO)
FHA	Bureau for Food and Humanitarian Assistance (of USAID)
FY	Fiscal Year
GY	Grant Year
INGO	International non-governmental organization
LEAP	Local Enterprise Assistance Program Liberia)
MED	Microenterprise Development (also microfinance, microcredit, poverty lending, and income generating activities)
MEDTU	Microenterprise Development Technical Unit (at WRC)
MG	Matching Grant
NAE	National Association of Evangelicals
NEICORD	Northeast India Commission on Relief and Development (India)
NGO	Non-governmental organization
PVC	Private Voluntary Cooperation (of USAID)
SEEP	Small Enterprise Education and Promotion Network
USAID	United States Agency for International Development
WRC	World Relief Corporation
WR/H	World Relief Honduras (Honduras)
WR/M	World Relief Mozambique (Mozambique)
WR/R	World Relief Rwanda (Rwanda)

Executive Summary

A. World Relief Corporation and Matching Grant Background

World Relief Corporation (WRC), founded in 1944 to assist victims of WWII, is the international relief, development, and refugee services arm of the National Association of Evangelicals (NAE). WRC focuses its development activities on counterpart enablement, health improvement, and income generation. WRC specializes in working in countries experiencing complex disasters (e.g., war, as distinct from natural disasters such as drought). Initially, WRC is often a direct implementor, and then shifts to working increasingly through partners as its work becomes more developmental.

WRC's work in Microenterprise Development (MED), initiated in 1970 in Bangladesh, benefited greatly from USAID support beginning in the 1980s. The 1993-1998 Matching Grant was for a total of $3,929,018. Of the total, $1,700,000 was from USAID, a cash match of $1,700,000 from WRC, and $529,017 from interest income from the community banks which was used to pay for program operating expenses. Participating primary country programs included Honduras, Burkina Faso, Mozambique, and Rwanda (Nicaragua was dropped from the original proposal and Rwanda was added in GY4). Using Matching Grant funds, and in three additional countries with non-matching grant funds. Liberia was included as a secondary country in GY2.

B. Evaluation Purpose and Methodology

The main purposes of the final evaluation were as follows:

- Assess the effectiveness of the Matching Grant in fulfilling objectives outlined in the grant application and Detailed Implementation Plan (DIP).
- Enable WRC to use the findings in refining the DIP for the subsequent Matching Grant and more generally to improve its microfinance activities.
- Assist WR/Mozambique and CREDO in Burkina Faso improve microfinance program operations.
- Provide PVC with information to utilize in its annual Results Report and review of the DIP.
- Fulfill the requirements of the USAID/BHR/PVC Matching Grant Program.

The evaluation was carried out at the Wheaton headquarters of WRC, WR/M in Mozambique, and CREDO in Burkina Faso. The evaluation in Wheaton consisted of interviews and document review. At the country level, institutional assessments were carried out of both programs, using modified versions of the CGAP Institutional Assessment Tool, which looked at the role of the Matching Grant in each institution's evolution as well as their current status. This report contains the overall findings from the evaluation. Detailed findings on the WR/Mozambique program (conducted by Beth Rhyne) and CREDO program (conducted by the main evaluator, Beth Porter) can be found in separate reports.

C. Main Results

The goal of the program was to increase disposable income among the poorest populations in selected countries in Central America and Africa in order to improve the health and welfare of their families. The purposes were to:

- Develop self-sustaining microenterprise credit programs in Burkina Faso, Honduras, and Mozambique, with matching grant funds and in three other countries;

- Provide training and financing to community banks serving primarily poor women in order to help them achieve self-sufficiency;
- Expand the capacity of World Relief to evaluate, monitor, and extend its successful microenterprise methodology to other countries;
- Enable WRC counterparts in seven countries to improve the health and well being of children.

Each country program exceeded nearly every target that was set for the Matching Grant. A total of over 56,159 people benefited directly--279% of the target of 20,100. The total number of community banks at the end of the Matching Grant was 1,002. Average loan size ranges from $57 to $160, with the total outstanding loans totaling $1.97 million. The repayment rate ranges from 87% to 100%. Member savings total $1.36 million. Ninety four percent (94%) of the program participants were women, compared to a target of 91%.

During the course of the Matching Grant, WRC has developed an expertise in initiating microfinance programs in the wake of complex disasters. This is evident by its work in Liberia, where clients continued to repay their loans in the midst of civil strife, in Mozambique, where everyone said it could not be done, and in Rwanda, where the population was highly mobile and insecure following the genocide and return of refugees. Even in Burkina Faso, the program continued in the face of drought. A painful test of the resiliency of the community banking approach and of the microentrepreneurs themselves will be made in the coming months in Honduras following the devastating hurricane and floods in October 1998. WRC has also established successful MED programs in other non-matching grant countries in political turmoil, in Cambodia and Peru.

WRC has been recognized within the microfinance and donor communities for its achievements, particularly in demonstrating that microfinance can be a successful developmental tool in complex disaster situations. The role of the Matching Grant in achieving this impact has been crucial. It enabled WRC to continue to work with partners as well as with country offices during a downturn in overall institutional income, and to provide technical assistance to non-Matching Grant countries. It has also influenced thinking in other program areas and promoted collaboration across program areas and departments.

D. Lessons Learned

The main lessons learned from managing and implementing MED activities during the Matching Grant are the following:

- Microcredit can work in complex disaster recovery situations.
- No program is immune from external forces.
- Bad practices of other programs can undermine the best practices of one's own program.
- What works draws attention.
- Institutional capacity building takes time, especially when complex disasters break down local systems and organizations and there are losses of trained human resources.
- Technical capacity at headquarters level must be sufficiently deep to be able to support the variety of situations and partners on a timely basis.
- Methodology evolves continuously.
- Prudent new product development is essential to meeting client needs and contributing to institutional sustainability.
- New issues are emerging which need to be addressed in the future.
- Partners need capacity building in strategic and business planning.
- The importance of good MIS grows as the institution and its portfolio grows.

- Better financial management is required as the programs become larger and more complex.
- Community banking can work with male clients, although there may be compelling reasons to focus on women.
- Many significant achievements and impacts are not reflected in proxy indicators and must be described rather than quantified.

E. Recommendations

WRC leadership is committed to microfinance continuing to be a core area long into the future at WRC, due to its positive impact on individuals, communities, and institutions. MEDTU is keen to build on its experience in microenterprise development to become an organization of excellence. Based on the lessons learned during the course of the Matching Grant, the findings during the evaluation, and WRC's commitment to continue in the field of microfinance in the future, a number of recommendations to WRC in improving its work in microfinance found throughout the report are briefly summarized below. WRC has already incorporated many of these lessons learned into the transition plans for the various countries and into the 1998-2003 Matching Grant proposal. Some of these recommendations may be useful to consider in the DIP or to incorporate as appropriate in the planning and implementation process at the headquarters and field levels.

1. Continue to focus on its niche in providing microfinance services in situations of complex disaster recovery.

2. Develop a clearly articulated strategy for institutional development.

3. Develop strategic planning capacity at headquarters level, and ensure that strategic and business planning takes place on a regular basis in MEDTU and in each of the MED programs.

4. Continue to deepen the technical capacity of MEDTU and of partners and country offices.

5. Continue its efforts to overcome the problems in its MIS.

6. Build better financial management capacity in partners and country programs.

7. Reinforce the portfolio management of coordinators and supervisors and indirectly of promoters through training and technical assistance.

8. Work closely with partners in the area of new product development.

9. Conduct ongoing informal action research on emerging issues amongst partners and in the microfinance sector and share findings and experiences with partners to help them anticipate potential challenges or take advantage of potential opportunities.

10. Work with partners and country offices in building networks and carrying out advocacy work.

11. Explore alternative sources of financing for its more advanced programs to enable the programs to continue to expand their outreach and product offerings.

I. INTRODUCTION

A. Overview of World Relief Corporation

WRC is the international relief, development, and refugee services arm of the National Association of Evangelicals (NAE) , which represents 50,000 evangelical Christian churches, 75 denominations, and a service constituency of more than 20 million Americans. World Relief Corporation (WRC) was founded in 1944 by U.S. evangelical churches to assist victims of WWII. Until 1970, WRC provided relief assistance in over 30 countries worldwide. At that time, WRC expanded its focus to include development. During the 1980s, WRC program budgets increased sevenfold from $2 million to $14 million as WRC implemented major refugee programs in Southeast Asia and Central America, a refugee resettlement program in the U.S., large scale famine response programs in Africa, income generation programs in eight countries, and child survival programs in six countries.

World Relief Corporation adopted a new mission statement in 1991, which states that WRC's purpose is to work with the church in alleviating human suffering around the world, with the goal of improving the welfare of children by strengthening their families thorugh community development. Specifically, WRC strives to develop effective church-based counterparts overseas, improve the health of children, increase income for the poorest of the economically active poor, assist refugees and victims of disaster, and educate the U.S. public about solutions to human poverty and suffering. The mission statement requires WRC to focus its development activities on counterpart enablement, health improvement, and income generation. Although World Relief Corporation seeks to work through local church structures, participation in and benefits from WRC and partner activities are directed to the larger community rather than just evangelicals. Moreover, WRC works closely with local governments, indigenous NGOs, American NGOs, and international organizations. WRC has assisted in forming 15 indigenous non-governmental organizations (NGOs) over the past 25 years, and has partnered with another 15 independent, indigenous NGOs.

WRC tends to begin initial work in a country through disaster response. WRC specializes in working in countries experiencing complex disasters (e.g., war), rather than natural disasters (e.g., drought). Initially, WRC is often a direct implementor, and then shifts to working increasingly through partners as its work becomes more developmental. Criteria for going into a new country are as follows:

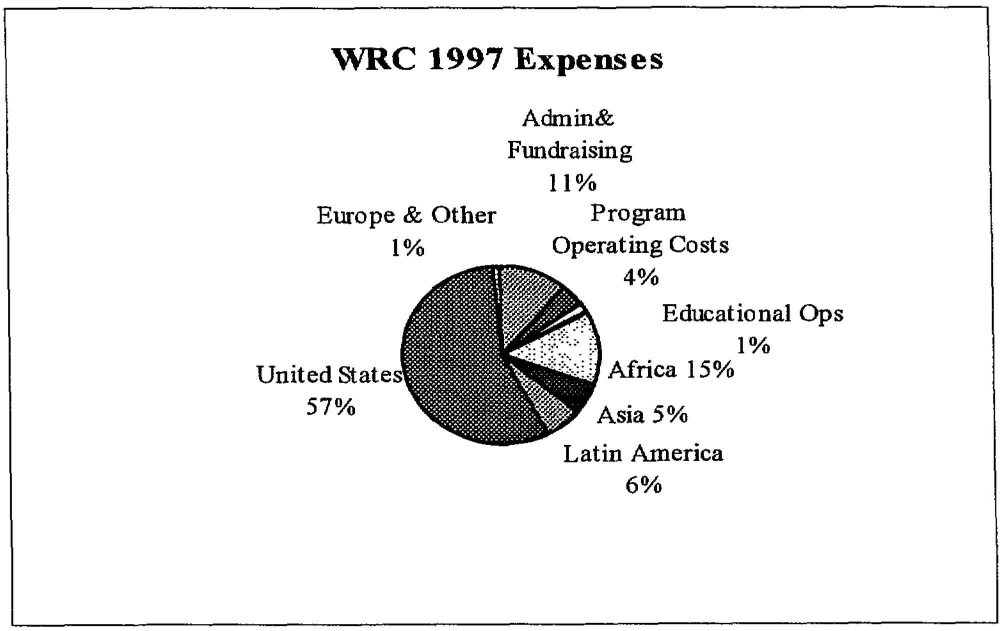
- Presence of church and capacity to do the kind of work required;
- Guidance by church constituency in the U.S., e.g., if a group has interest in working in a particular country;
- Need in country, as determined by two indicators: (1) GNP (overall, 75% of WR programs in countries with GNP in the bottom 50% globally) and (2) under 5 mortality;
- Geographic: WR has targeted utilization of "annual funds" (i.e., private funds) as follows: 50% Africa, 30% Asia, 20% Latin America. Currently it is only involved in disaster response as needed in the Middle East and the CIS.

In some countries where WRC supports relief, rehabilitation, or development work, WRC provides existing local organizations with financial assistance, but is not operational. WRC currently works in 21 countries and administers a refugee resettlement program in theU.S. These countries are listed below by region. WRC has six overseas offices, in Kenya (for Sudan operations), Haiti, Rwanda, Mozambique, Nicaragua, and Cambodia.

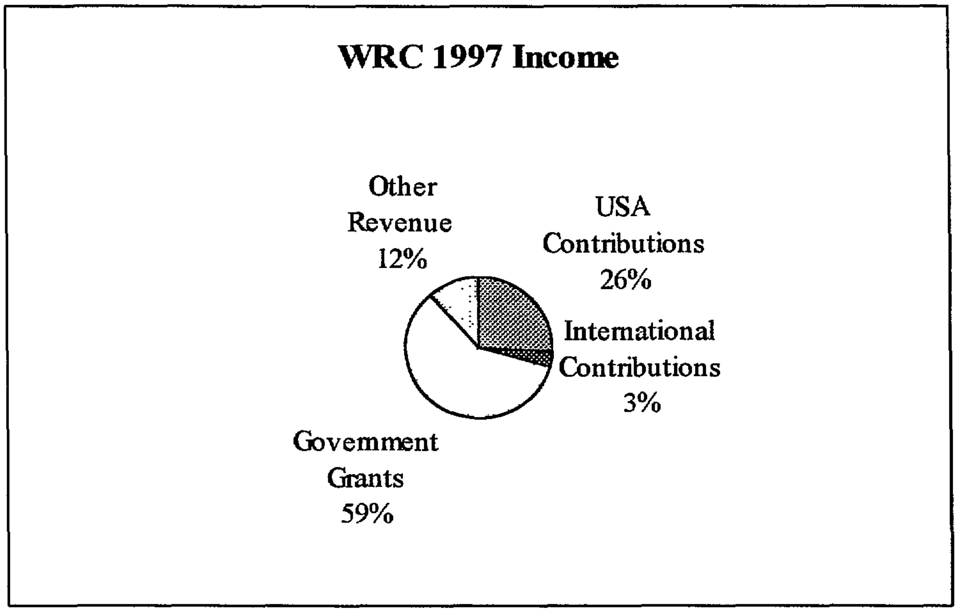
Africa	Asia	Latin America
Benin	^Bangladesh	Haiti
*Burkina Faso	^Cambodia	*Honduras
Congo-Zaire	^India Mongolia	Mexico
#Liberia	Myanmar	Nicaragua
Malawi	Pakistan	Peru
Mali	Thailand	
*Mozambique	Vietnam	
*Rwanda		
Sierra Leone		

* primary Matching Grant countries;
\# secondary Matching Grant countries;
^ other MicroCredit Network members.

In 1997, WRC's total expenses were $18,589,034, of which $16,465,282 was spent in program ministries and the balance of $2,123,752 was spent in supporting ministries (general and administrative and fundraising). Eleven percent (11%) of expenses are for overhead. The distribution of expenses is shown in the chart below. The bulk of the 57% of expenses in the U.S. is spent on refugee resettlement, as WRC has the second largest refugee resettlement program in the U.S..



WRC's income in 1997 of $19,935,000 was provided from contributions from within the U.S. and internationally, government grants, and other revenue. The distribution of sources of income is shown in the chart below.



In 1999, WRC's budget is $27 million, of which nearly $8.3 million will be for international. This represents a 20% increase over the previous year.

B. Matching Grant Background

WRC's experience in income generation began in Bangladesh in 1970 and continued over the next two and a half decades through work in three regions. In the mid-1980s, WRC determined that its microenterprise development or MED (also known as microfinance, microcredit, poverty lending, and income generation) would: (1) focus its efforts on improving the well-being of children; (2) upgrade the quality of impact of its economic development programs; and (3) improve funding from WRC's constituency through the appeal of effective and sustainable MED interventions.

Support from USAID played a critical role in enabling WRC to achieve its MED objectives. In the early 1980s, WRC received grants from USAID, Bureau for Food and Humanitarian Assistance, Office of Private and Voluntary Cooperation (AID/FHA/PVC) to develop its regional capability and strengthening its counterparts. In 1987, WRC received a Matching Grant of $1,860,000 to "develop World Relief's ability to provide technical assistance primarily in the area of income generation...so that World Relief's network of national counterparts will have the ability to carry out effective income generation projects on their own."

Based on its success in implementing the first Matching Grant and on outstanding needs for further capacity building at country offices and partners as well as Wheaton headquarters, WRC was awarded another Matching Grant. The Matching Grant being evaluated covered the period October 1993 to September 1998 for a total of $ 3,929,018. Of the total, $1,700,000 was from USAID and $2,229,017 was the match from WRC, which included a cash match of $1,700,000 from WRC and $529,017 from interest income from the community banks which was used to pay for program operating expenses. Another Matching Grant has been awarded to WRC for the period October 1998-September 2003. Although the grant proposal has already been designed, submitted, and approved, this evaluation will help to inform the design of the Detailed Implementation Plan (DIP).

The 1993-1998 program was initially planned to take place in Honduras, Nicaragua, Burkina Faso, and Mozambique using Matching Grant funds, and in three additional countries with non-matching grant funds. While Honduras, Burkina Faso, and Mozambique remained primary countries; Nicaragua was dropped from the Matching Grant (because the local USAID mission was not supportive of some best practices such as charging market rates of interest). Rwanda was added in GY3 as a primary country, and Liberia was added as a secondary country in GY2, but experienced nearly 18 months of inactivity due to civil unrest.

The goal of the program was to increase disposable income among the poorest populations in selected countries in Central America and Africa in order to improve the health and welfare of their families. It was anticipated that 20,100 people would benefit directly from this program for a total of 109,140 indirect beneficiaries, as family members of program participants. At least half of the program participants were to be women.

C. Prior Evaluation Recommendations and Responses

Below are highlights of two prior evaluations: the final evaluation of the prior 1987-1993 Matching Grant and the mid-term evaluation of the current 1993-1998 Matching Grant. The main recommendations are *italicized.* They are followed by WRC responses that are <u>underlined</u>, and then by the current evaluator's assessment of the nature of the WRC response to those recommendations during the current Matching Grant in regular font. More detailed observations can be found in relevant sections of this report.

The final evaluation of the previous Matching Grant (1987-1992) concluded that WRC had developed a "modern income generation program" and made a number of recommendations. WRC accepted the final evaluation recommendations and incorporated them into the design of the current Matching Grant (1993-1998). Below are the main recommendations and current evaluator's assessment of WRC's response during the current Matching Grant.

1. Focus on strengthening and consolidating successful programs in Honduras and Burkina Faso.
WRC has facilitated the consolidation of the program in both countries, with varying results. In Honduras, the country office separated its microfinance activities from its other activities (primarily health, including child survival), but remains a multi-sectoral NGO. It has experienced tremendous growth in outreach to 22,132 clients, which represents growth of 440% over five years) and become sustainable (at 140% operational self-sufficiency). In Burkina Faso, the country office also evolved into an independent, but multi-purpose non-governmental organization, which has experienced moderate growth in outreach (to 5,973 clients, which represents growth of 305% over five years) and reasonable progress towards sustainability (at 83%). Both will benefit from continued targeted technical assistance beyond the current Matching Grant.

2. Develop an expansion strategy to gradually replicate WRC's CB strategy to other countries in Central America and Africa.
WRC has launched programs in Mozambique, Rwanda, and Liberia under the current Matching Grant and provided technical assistance to other country offices and partners through the World Relief MicroCredit Network. [1] WRC's strategy and results have been particularly impressive in countries recovering from complex disasters. WRC should continue to focus on consolidation of its expertise in this area and build its expansion strategy around this niche.

3. Increase WRC's MED capacity by adding staff with expertise in MED.
WRC has increased its MEDTU capacity by adding staff with MED experience with the hiring of the Assistant Coordinator in 1993, the Technical Specialist for Institutional Development (part-time position) in 1994, and identifying three new positions for the 1998-2003 MG, two of which were filled near the end

[1] WRC and its partners in microcredit began functioning as a network in 1993-94. The first key event was the 1994 workshop in Honduras, immediately following the Village Banking Conference in Guatemala. WRC did not begin using the term "MicroCredit Network" until 1996. The main purpose of this network is to facilitate lateral learning.

of the 1993-1998 Matching Grant. Although MED was short-staffed for much of the Matching Grant, the hard work and heavy travel of the three main team members compensated for the shortage of staff. MEDTU is now well positioned to provide timely and quality technical assistance to the field.

4. Strengthen WRC's approach to institutional development.
WRC has experimented with various tools to facilitate institutional assessment and development, including the "Monitoring Institutional Development Tool." It has worked on a one-to-one basis with country offices and partners to build institutional capacity, including a strategic planning session with CREDO and WR/Honduras. This is an area that requires further attention, particularly in regard to dealing with multi-sector offices and/or partners and on whether and how to promote independent microfinance institutions. The Africa Regional Director will continue to have institutional development responsibilities (as Institutional Development Specialist). MEDTU should reflect on what its goals are in the area of institution building and how these goals can be achieved. The MEDTU Coordinator and Institution Building Specialist should then ensure that efforts in this area are made in all regions, not only Africa where the specialist will be based. This will be achieved through liaising with other members of the MEDTU, as well as the Asia Regional Director (currently being recruited) who will share information, tools, and materials with partners in other regions.

5. Develop a monitoring/evaluation system to track CB progress, make adjustments as needed and learn from the experience of its CB programs.
There have been significant improvements in the area of management information systems, including refinements in CLAMS, technical assistance to country offices and partners, and better utilization of CLAMS. There is still a long way to go, however. In recognition of the outstanding needs, WRC has hired a MIS Specialist, who will oversee a review of the various MISs being used and the upgrading of CLAMS or adoption/development of a new MIS. WRC has just adopted a new financial and portfolio reporting format, which should help programs focus on the key indicators. More work is needed, however, in assisting programs to better utilize the information generated by their MIS for decisionmaking and management purposes.

A Mid-Term Evaluation of the current Matching Grant was carried out in mid-1996. The evaluation concluded that implementation of the Matching Grant occurred on schedule and that the community banking programs were successful to varying degrees. The relationship between WRC and its partners was deemed "collegial." The evaluator commented that there was a need to increase loan size and number of community banks served, in order to move towards sustainability. The main recommendations to WRC at headquarters level appear below along with summarized responses from the field, and finally the current evaluator's assessment of the adequacy of the responses. The full responses from headquarters as well as the three country programs evaluated (Honduras, Burkina Faso, and Mozambique) can be found in Annex 3.

1. WRC should deepen its technical capacity in headquarters, particularly to develop materials, and acquire sociological analysis skills.
<u>WRC continued training and providing learning opportunities for existing staff; and added three new positions; a number of materials were developed including technical manuals in collaboration with the SEEP Network, a videotape, a periodic newsletter, and country-specific operations manuals. Consistent with other microfinance practitioners, WRC decided not to conduct formal impact studies.</u>
WRC provided a number of training and learning opportunities for its headquarters staff, which will continue, especially with the addition of new staff. The MEDTU should look more strategically at its capacity building needs and develop MEDTU and individual capacity building plans (See section IV.C.) Of the three positions added during the Matching Grant, two modified positions (based on a reassessment of needs) were filled during the grant; the third remains unfilled, but recruitment efforts are underway. MEDTU is now well positioned to provide enhanced and deepened support to the field. The materials

developed during the course of the Matching Grant have generally been of high standard and accessible and relevant to the field. MEDTU's collaborative work with The SEEP Network has done much to advance not only WRC's work, but also the work of the microfinance sector as a whole; it has also raised the profile of WRC as a serious provider of microfinance services. The evaluator concurs with WRC that a focus on impact is not a good investment of time or resources until more cost-effective tools are developed.

2. One or more of headquarters staff should master French.
<u>While recognizing the desirability of this recommendation, WRC responded that it is constrained by limited resources and that French skills are not necessarily a top priority, given the English language skills at the country offices and partners.</u>
Although CREDO certainly would have benefited from more technical assistance being provided in French, one MEDTU member can read French and has some verbal skills to carry out workshops. Given the profile of countries involved in WRC MicroCredit Network, the evaluator agrees with WRC's response that French may not be the top priority for headquarters staff. Should this change in the future, however, WRC should consider building its language capacity in this area. It should be noted that MEDTU already has team members with Spanish and Portuguese language skills.

3. WRC should support greater development and analysis of case material on beneficiary impact.
<u>As indicated above, WRC decided not to conduct formal impact studies</u>.
The evaluator concurs with WRC's response.

4. WRC should increase its level of support to the field, especially to CREDO. Another program should be envisaged, possibly in Haiti or Rwanda.
5. Technical assistance to CREDO should focus on strategic planning and program development.
6. Increase the amount of face to face interaction with CREDO through more field visits.
<u>Through field visits and a strategic planning workshop as well as email communication and participation in a network meeting, MEDTU facilitated positive movement by CREDO. Many of the changes were slow to come, but did occur during the last year of the Matching Grant.</u>
With MEDTU's assistance and facilitation, CREDO has made significant improvements, especially late in the Matching Grant. It is debatable whether the results would have been any different if more frequent interaction or more interaction in French occurred. It is clear, however, that CREDO will continue to need technical assistance beyond the end of the Matching Grant if it is to build its microfinance program into a sustainable high quality program. WRC did launch additional programs, in Rwanda as a fourth primary country, and in Liberia as a secondary country.

D. Purpose of Evaluation and Scope of Work

The main purposes of the final evaluation are as follows:

- Assess the effectiveness of the Matching Grant in fulfilling objectives outlined in the grant application and Detailed Implementation Plan (DIP).
- Enable WRC to use the findings in refining the DIP for the subsequent Matching Grant and more generally to improve its microfinance activities.
- Assist WR/Mozambique and CREDO in Burkina Faso improve their microfinance program operations.
- Provide PVC with information to utilize in its annual Results Report and review of the DIP.
- Fulfill the requirements of the USAID/BHR/PVC Matching Grant Program.

The Scope of Work is found in Annex 1. A summary of the major categories to be covered is below. Although the evaluator has adopted a different report outline, the categories identified by PVC are covered in the report.

Categories to be covered in Final Evaluation Report
1. Program Implementation a. Progress towards objectives b. Progress towards sustainability c. Status of partnership d. Lessons learned 2. Program Management a. Strategic Approach and Program Planning b. Monitoring and Evaluation c. Financial Management d. Information and Reporting e. Logistics f. Supervision g. Human Resources Development

E. Evaluation Methodology and Evaluation Team

The evaluation was carried out in three locations: the Wheaton, Illinois headquarters of WRC; the Maputo, Mozambique office and branches of WR/Mozambique; and the Ouagadougou, Burkina Faso office and branches in Bousse and Bobo Dioulasso of CREDO. In Wheaton, two days were spent interviewing WRC headquarters staff, particularly MED program staff, and reviewing documents. The analysis for the Matching Grant as a whole follows a more traditional evaluation approach.

At the country level, six days were spent in Mozambique and six days in Burkina Faso. Country level work included interviews of management as well as program and support staff, document review, visits to branches that included interviews with management committees, group interviews with members, and individual client interviews. Findings were presented to management and staff in both Mozambique and Burkina Faso before the end of the field visits. Both evaluators used the CGAP Institutional Assessment Tool for the evaluations of WR/Mozambique and CREDO. This tool was selected due to its power as a diagnostic and analytic tool for microfinance institutions. As such it should be more useful to the institutions in advancing their microfinance activities than a traditional evaluation. This tool was supplemented as appropriate in both reports by observations regarding the impact of the Matching Grant on program status and achievements.

Beth Porter conducted the overall evaluation of the Matching Grant as well as the institutional assessment and program evaluation of CREDO. Ken Graber, WRC MED Coordinator, joined her in the field. Beth Rhyne was responsible for the assessment of the WR/Mozambique program, and Dave Larson, WRC MED Assistant Coordinator, joined her in the field. Important support was provided by MED team members in Wheaton, particularly Kathy Beggs, MED Administrative Assistant, and by the management and staff of WR/Mozambique and CREDO.

This report contains the overall findings from the evaluation. Detailed findings on the WR/Mozambique and CREDO programs can be found in separate reports. Any comments in this report on country programs other than the two visited are based on documentation review and general discussions with MED management.

II. Program Objectives and Results

A. Objectives

The goal of the program was to increase disposable income among the poorest populations [2] in selected countries in Central America and Africa in order to improve the health and welfare of their families. The purposes were to:

- Develop self-sustaining microenterprise credit programs in Burkina Faso, Honduras, and Mozambique, with matching grant funds and in three other countries (one in Central America and two in Africa);
- Provide training and financing to community banks serving primarily poor women in order to help them achieve self-sufficiency;
- Expand the capacity of World Relief to evaluate, monitor, and extend its successful microenterprise methodology to other countries;
- Enable WRC counterparts in seven countries to improve the health and well-being of children.

B. Achievements

Each country program exceeded nearly every target that was set for the Matching Grant. [3] It was anticipated that 20,100 people would benefit directly from this program for a total of 109,140 indirect beneficiaries, as family members of program participants. A total of over 56,159 people benefited directly or 279% of the target, with over 60% of these clients in Honduras. The total number of community banks at the end of the Matching Grant was 1,002. Average loan size ranges from $57 to $160, with the total outstanding loans totaling $1.97 million. The repayment rate ranges from 87% to 100%. Member savings total $1.36 million.

In regard to gender issues, 91% of the program participants were to be women. The program exceeded its target in terms of women clients, with 94% women as a weighted average; Honduras brought up the average significantly where 100% of the clients are women. At 76%, Mozambique is the only program with less than 90% women. In terms of program management, the microfinance coordinator in Burkina Faso and the assistant microfinance coordinator in Rwanda are women. All promoters in Rwanda and most promoters in Burkina Faso and Mozambique are women. In Honduras, promoters went from all men to more than half women. At MEDTU at headquarters, only the program assistant is a woman. WRC has not performed as well as some of its peers in promoting women in management and program staff.

One of the challenges for most of the country programs is that they were operating in countries in which there were few if any other providers of microfinance services. Conditions in most countries were not considered favorable to operating microfinance programs (significant displacement of populations, lack of trust amongst people in general and between different ethnic groups in particularly, lack of transportation and communication infrastructure in the wake of conflict, low literacy rates, lack of regulatory framework). WRC found that it had to educate not only itself and country program staff, but also donors, government, non-governmental organizations, and the public in general in each country where it operated.

---

[2] WRC defines the "poorest" or "very poor" as that group of people who fall in the lowest 25% of per capita income in the country.

[3] Rwanda exceeded savings targets by nearly double and had a higher percentage of women clients than expected, but fell short on other targets, primarily due to the delay in starting the program. No targets were set for Liberia, with the reason provided that it was a secondary country.

WRC country offices or partners often took on a leadership role in the microfinance sector, through dialogue with government, educating donors, and leading networks of practitioners. In addition, a number of programs contributed to the advancement of the microfinance sector in many countries through demonstration effect of best practices at work. Country offices and partners provided other organizations with exposure visits (in Mozambique, the country office is setting up a separate training unit to provide exposure and training and has already been contracted to conduct a two week workshop for another INGO) and consultancies (the Director of CREDO has carried out consultancies in Burkina Faso and elsewhere in Africa drawing on the experiences of CREDO in microfinance). In addition, MEDTU members have conducted consultancies or been seconded by WRC to other organizations, within the SEEP Network, to UNCDF, and other INGOs and NGOs. Thus, in addition to achievements specific to their own programs, the contributions of WRC and its partners to the microfinance sector in each country must also be recognized.

"We at MEDTU used to pride ourselves on how much we did with so little. Then we realized how much more we could do with more," observed on MEDTU member. He continued that MEDTU needed not only to build capacity, but also to have some reserve capacity to deal with crises and to support growth. The Matching Grant provided WRC with the means to begin this capacity building. The new Matching Grant will enable WRC to consolidate and build on that base. The 1993-1998 Matching Grant built capacity by:

- helping WRC to develop its planning processes and resource management;
- promoting cross division cooperation (MEDTU has taken the lead in making fundraising, proposal writing, and hiring a collaborative effort; it has worked closely with the Child Survival Program; and coordinates with the various regional and country directors);
- enabling WRC to hire and train staff;
- encouraging participation in microfinance learning through conferences and materials development;
- promoting lateral learning amongst country offices and partners.

During the course of the Matching Grant, WRC has developed an expertise in initiating microfinance programs in the wake of complex disasters. This is evident by its work in Liberia, where clients continued to repay their loans in the midst of civil strife, in Mozambique, where everyone said it could not be done, and in Rwanda, where the population was highly mobile and insecure following the genocide and return of refugees. Even in Burkina Faso, the program continued in the face of drought. A painful test of the resiliency of the community banking approach and of the microentrepreneurs themselves will be made in the coming months in Honduras following the devastating hurricane and floods in October 1998. WRC has also established successful MED programs in other non-matching grant countries in political turmoil, in Cambodia and Peru. WRC has been recognized for its achievements in this capacity within the microfinance community, as evidenced by its role within the SEEP Network in developing the study *Microfinance in the Wake of Conflict: Challenges and Opportunities*. This recognition is also shared by some within the donor community, particularly USAID in providing a series of matching grants. In the future, WRC should continue to build on these strengths and position itself strategically. WRC must certainly increase its numbers, but it also must maintain the quality of products and services and overall portfolio performance in its competitive niche: microfinance in situations of complex disasters.

On the following pages is the logical framework, with the indicators and achievements of the program listed, along with the means of verification and assumptions. Overall, the objectives of the Matching Grant were achieved or surpassed. At the country level, the number of community banks and the number of clients were far surpassed in Honduras, Mozambique, and Burkina Faso. Rwanda (initially a secondary country) got off to a slower start in GY4, due largely to delays experienced when one million refugees came across the border at the beginning of the program, temporarily changing the focus from microfinance to resettlement. The program then made rapid progress in increasing outreach in GY5, once sufficient funds were in place. In Liberia, program activities as a secondary country began in GY2, but were halted for much of GY3 and GY4 due to severe civil unrest in the program area. In the following year, the Liberia program experienced rapid growth, with fourfold growth in number of banks and membership and nearly eightfold growth in savings. See the logical framework for achievements against targets and the country summaries in Section III for a country-by-country program evolution.

WORLD RELIEF CORPORATION
MATCHING GRANT
LOGICAL FRAMEWORK

	INDICATOR	ACHIEVEMENTS	MEANS OF VERIFICATION	ASSUMPTIONS
GOAL: To increase disposable income among the poorer populations in selected countries of Central America and Africa in order to improve the health and welfare of the family.	Family Wealth Indexes and/or growth charts of children under five years of age.	Anecdotal evidence and case studies showed additional resources being allocated to health (medicines), nutrition (improved quantity and quality of food), and education (school fees). Baseline studies were not followed up on, as MEDTU made a decision, consistent with the trend in the sector, not to use baseline studies for impact evaluation. WRC is awaiting results of AIMS, etc. to improve impact assessment, and is now relying more on financial systems approach of assessing impact (i.e., demand for products indicates impact)	Baseline and final sample population surveys.	Relative political and economic stability in target countries.
PURPOSE: 1. To develop self-sustaining microenterprise (MED) credit programs in four countries with matching grant (MG) funds and three other countries with non-MG funds. 2. To provide training and financing to community banks (CBs) serving primarily poor women in order to help them achieve self-sufficiency. 3. To expand the capacity of WRC to evaluate, monitor, and extend its successful microenterprise methodology to other countries. 4. To enable WRC counterparts in seven countries to improve the health and well-being of children.	1. Four direct country programs operating with matching grant funding (Honduras, Nicaragua, Burkina Faso, and Mozambique; Nicaragua not approved for inclusion). 2. Three indirect country programs initiated by and receiving technical assistance from MG program with program funding from non-matching grant sources. 3. An established in-house impact evaluation capacity for MED programs. 4. Level of participation in primary health care programs.	1. Four country programs operating with matching grant funding (Honduras, Burkina Faso, Mozambique, and Rwanda (which became a primary country). 2. Two indirect country programs initiated; of which (Rwanda) became a primary country. As a secondary country, Liberia received TA from MG program with program funding from non-MG sources. Other WRC MicroCredit Network countries (Bangladesh, Cambodia, and India) benefit from TA and participation in conferences, workshops, etc. supported through the MG. 3. Some baseline studies carried out, promoters trained in writing case studies, and some informal surveys conducted. Decision made to postpone capacity development in conducting more formal impact assessments.	Annual Reports Mid-Term Evaluation Final Evaluation	Key technical staff members are in place with minimal delays.

OUTPUTS 1. CB programs will be initiated in 2 MG countries. 2. Four MG programs will establish 548 CBs. 3. 20,100 individuals will receive loans through CBs. 4. Members will save an equivalent of 15% of each loan they receive. 5. CBs will be able to function on their own after participating for four years in the program. 6. 2,000 women will be trained in key health practices. 7. 2,300people trained in functional literacy. 8. The four Mg programs will reach operational self-sufficiency with respect to the credit program within the LOP. 9. WR counterparts will have the capacity to effectively monitor the programs. 10. Three indirect programs will have begun implementation of MED programs.	1. No. of MG count programs operating. 2. No. of CBs operating. 3. No. and amount of loans provided. 4. Amount of savings. 5. CBs' ability to function independently. 6. No. of women trained in key health interventions. 7. No. of women trained in literacy. 8. Level of operational self-sufficiency for the credit programs. 9. Regular reports received for the key outputs from each counterpart. 10. No. of non-MG countries with MED programs.	1. 2 new programs initiated under MG (Mozambique & Rwanda) in addition to 2 existing programs (Honduras & Burkina Faso). 2. Four MG programs established a total of 915 community banks. 3. 36,880 members received loans during the MG. The size of the loan fund at the end of GY5 was $1.97 million. Weighted average of women members is 94%. 4. At end of GY5, total members savings $1,358,000, or 70% of loan fund. 5. CBs have increased management capacity—some more than others. Not enough data available to indicate proportion that can actually function on their own. Graduation dropped as a program objective, for a number of reasons. 6. 6,356 women trained in key health practices in Mozambique over the LOP. 7. 773 women trained in literacy in Burkina Faso. 8. Overall weighted operational self-sufficiency is 115% (brought up by Honduras, rest range from 14%-85%) 9. Reports received regularly from country programs. 10. One secondary program being implemented in Liberia. Secondary program was started in Rwanda, and then graduated to primary status.	Project records and financial reports	Economic climate for the participants is conducive for business activities

INPUTS				
1. 4 loan program coordinators 2. 40 promoters and 15 support staff 33 regional MED specialists 4. WRC MED specialist and evaluation specialist 5. Funds for revolving loans 6. Training of counterpart staff by WRC staff and consultants 7. Vehicles, motorcycles and office equipment 8. Training of WRC staff through seminars and workshops 9. Operating funds	Budget expenditures by category	1. Program Coordinators in 4 primary and 1 secondary country MED programs. 2. 98 Promoters in place with adequate support staff. 3. Regionalization process begun at end of Matching Grant, with 2 regional specialists in place. 4. WRC MED Coordinator and MED Asst. Coordinator. MIS Specialist hired at end of grant. There was a part time evaluation specialist for the first two years of grant. Then strategy changed to have part time Institutional Development Specialist. 5. Adequate funds for revolving loans. Additional grants sought and received for Mozambique, Honduras, and Cambodia; some funds obtained for Liberia; Matching Grant will continue for Mozambique and Rwanda; additional funds required for Burkina Faso. 6. Training of counterpart staff was conducted by WRC staff and consultants; capacity building for HQ staff took place through participation in workshops and on the job training (see related table. No formal staff development plan at counterparts visited, nor overall formal plan for counterparts at WRC. 7. Programs have some transport and office equipment. Some programs need to study closer and provide for acquisition of additional equipment and especially transport for promoters. 8. WRC staff participated in some seminars and workshops. No formal staff development plan. 9. MED programs generated some or all of operating expenses, with WRC covering difference. Some programs need to reflect more on pricing and profitability plan.	Financial reports and project records	*Identify conditions precedent to project implementation for both AID and Host Government.*

C. Budget Comparison

Below is a brief year-by-year summary of revenue and expenses compared against budgeted amounts. The analyses are largely based on those found in the annual reports submitted by World Relief to USAID in compliance with the Matching Grant requirements. See the Matching Grant Budget Comparison in Annex 4 for details by line item and year of budgeted amounts, actual expenses, and variance.

During **GY1**, the budget was underspent by nearly 21%. This can be attributed to the following factors: many Mozambique program staff started later than anticipated and one person was hired part time instead of full time; the West Africa Regional Technical Specialist was not hired during the year; the Southern Africa Regional Technical Specialist and Mozambique Program Director were consolidated into one position temporarily; and in some countries, salaries were lower than expected. Other underspending included: no consultants were hired during the year except for a local hire for Honduras; lower transportation costs since no overseas relocation costs. In regard to loan funds, the loan sizes were on average smaller than expected and some deferrals were made for Honduras and Burkina Faso due to the decision not to graduate community banks. Interest income was also lower than expected overall, due to the smaller loan sizes and smaller portfolios than anticipated in Burkina Faso and Mozambique, whereas in Honduras the interest income was greater than expected. As a result of overall underspending, the indirect costs were lower than expected.

In **GY2**, the budget was again underspent by 37%. Reasons for underspending include: the West Africa Regional Technical Specialist was hired late in the year and on a part time basis, the Mozambique Health Coordinator position was reduced further from half to quarter time; the Southern Africa Regional Technical Specialist position was still not filled; salaries in general are lower than budgeted. Overspending on the loan fund was expected due to deferrals from the previous year. Interest income was lower than expected to due slower start up. Indirect Costs are again under budget due to overall underspending.

In **GY3**, underspending continued at about 32%. Salary and transportation underexpenditures continued for the same reasons as indicated in GY2. Subcontracts were underspent as USAID contracted the mid-term evaluator directly. Infusions into the loan funds were larger than expected as the programs have been growing more rapidly than expected. Interest income was commensurately higher by about 15% over planned.

In **GY4**, underspending continued but was less than in prior years at 9%. The drop in underspending was due primarily to the addition of Rwanda as a primary country eligible for operational funding and loan fund capitalization. Salaries and benefits continued to be underspent due to a later start to the Rwanda program than planned and overall lower salaries than planned. Travel and transportation were close to budget. Expenses under Other Direct Costs were lower than expected due again to the late start in Rwanda and lower expenses in Mozambique despite rapid program growth, due mostly to small loan size. The budget for the final two years of the Matching Grant was adjusted following the approval of inclusion of Rwanda as a primary country (Modification Number 5 of the Cooperative Agreement).

In **GY5**, the budget was overspent by about 7% from the adjusted budget (after inclusion of Rwanda as a primary country). Salaries and benefits were overspent as the programs in most countries were larger than planned. Travel and transportation were close to budget. Other Direct Costs were slightly lower than expected due to the slower start in Rwanda. Indirect expenses in GY5 were higher than budgeted due to the overall overspending during the fifth year. During the fifth year, additional funds were allocated to three field programs to utilize the underspent funds. The additions were as follows:

- Mozambique: an additional 24 CBs with 720 new clients would be established
- Rwanda: 69 CBs with 2,277 new clients
- Honduras: 500 clients accessing larger loans of more than $300.

Over the life of the Matching Grant, WRC's portion of cost increased progressively until it reached 50%, as targeted in the initial proposal and Cooperative Agreement. This does not include the interest income earned by each country program or partner, which was used to defray, and intended to eventually cover, operational expenses.

D. Reporting

Country program directors prepared quarterly statistical and narrative reports to Wheaton management. These reports included a hard copy summary as well as a diskette copy from the CLAMS system. Financial reports were submitted quarterly. The quality of the reporting was generally good, with reporting excellent from Mozambique and fair from Burkina Faso.

According to the terms of the Matching Grant, WRC submitted monthly cash flow reports to USAID and quarterly financial reports. In addition, WRC submitted annual reports to USAID. [4] WRC also submitted reports to USAID in any unusual situations, for example, the impact of Hurricane Mitch on the Honduras program. The reports were submitted on a timely basis, and were complete, concise, and informative. WRC was successful in ensuring that country program and partner reporting was sufficiently timely and complete to enable it to report to USAID. Due to its close relationship with country programs and partners and its regular visits to the field, WRC was able to assess the completeness and accuracy of the reports and seek clarifications or adjustments when warranted.

The timing of the Matching Grant reporting requirements necessitated that country programs or partners submit annual reports after 9-10 months, so that WRC could compile them and incorporate them into its own report to USAID, due in August, for a grant year which ended at the end of September. This requirement was not only inconvenient, but also resulted in a mix of actuals and projections for each year, rather than actuals. The timing has been adjusted in the new Matching Grant to facilitate reporting on the actual achievements and financials of a complete fiscal year.

The initial reporting format from country programs or partners to WRC was much more along the lines of project reporting (achievements, problems, case studies) rather than microfinance institution reporting on the portfolio quality and financial health of the institution. In the new Matching Grant, WRC has adopted three main quantitative reports which includes the key information required to ascertain the status of a microfinance institution: balance sheet, income statement, and portfolio report (see Annex 11). Other elements of the reporting will include key ratios ("The 16 SEEP Indicators") and performance monitoring. This type of reporting, supplemented by changes a key areas (management and staffing, staff development, delinquency management, etc.) and targets and plans for the next period, is more appropriate for microfinance institutions. WRC is also permitting country programs or partners to report on the basis of their own fiscal year, rather than be locked into USAID reporting timeframe; WRC will then compile information from quarterly or annual reports as appropriate for its own reporting requirements to USAID. This more flexible approach on the part of both WRC and USAID will go far in promoting a more institution-minded rather than project-minded organization. WRC should be prepared to provide the extra support that may be required to assist country programs or project partners in separating their finances for the microfinance activities, determining appropriate allocation of indirect

---

[4] The Resource Development Division found that the quality and quantity of information available from MEDTU was much better than in some other programs and could easily be used for public education and fundraising. This can be attributed in part to the program design and reporting requirements of the USAID Matching Grant.

expenses, preparing financial statements, and ensuring that the MIS is producing appropriate portfolio quality information.

Part of the reorientation required both at WRC and country programs or partners is a move away from cumulative figures (such as number of loans made since the beginning of the program) [5] to outstanding figures (such as the number and amount of loans outstanding) and away from popular indicators of little value (such as repayment rate) to more useful measures (such as aging of arrears and portfolio at risk). Finally, these reports should be useful in the first instance to management and staff in their day to day decisionmaking rather than simply fulfilling a donor requirement. This necessitates not only appropriate design and relevant timing in terms of compiling the reports, but also awareness raising among the country programs or partners where relevant of the importance of such information and assistance on how to utilize the information for planning, control, and management.

[5] WRC has recognized that whereas figures such as Cumulative Amount Lent can be useful as a public relations tool, it should not be used to measure performance between organizations, as the figure is dependent on average loan length and age of the organization (see CREDERE, Vol. 1., No. 1, June 1997). Furthermore, cumulative figures do not provide information on the current status of the program, which is more relevant to management and potential donors or investors. Despite recognition of these limitations at WRC, some of the partners and programs continue to use these figures internally, sometimes in lieu of more relevant outstanding figures.

III. Country Results and Analysis

In the sections below are brief overviews of the Matching Grant microfinance programs and their evolution during the grant. The final section includes some of the ways in which the non-Matching Grant programs benefited from WRC's participation in the Matching Grant. The information is taken from the annual reports made during the Matching Grant, and supplemented by field visits by evaluators in the cases of Burkina Faso and Mozambique. Also see Annex 10 for program statistics by country for quantitative results. See separate reports for more details on Mozambique and Burkina Faso.

A. Honduras

GY1: The Honduras microfinance program began in June 1991 as a local office of WRC, but then became an indigenous NGO in 1995. Honduras began outperforming its targets from early on it the grant, reaching 151 active groups and 7,410 clients in the first year, well beyond the target of 94 active groups and 2,820 clients. By contrast, the loan portfolio exceeded targets by only 4% and net savings by only 15%. The program reached its target of 100% women clients. This variance can be attributed in part to availability of additional funding, as well as the turnover in membership with a reduced average loan size and savings amount. In the first year, 33% of members became inactive during the year, with an average of 20% of the membership leaving the bank each cycle. The reasons for the turnover in bank membership include the following: (1) members expelled by the CBs for poor attendance or poor repayment; (2) members moved away from area; (3) members discontinued their business activity; and (4) many reach their savings goals and then self-graduate before reaching program maximums. Honduras introduced a monitoring tool to track bank membership fluctuations. Honduras experienced very good end-of-cycle repayment, but some within-cycle fluctuations. The Honduras program reached 100% self-sufficiency during the first year of the Matching Grant. Honduras introduced its own loan tracking system tied into the financial accounting system and supported locally; this system took longer than expected to introduce. Honduras changed an objective from "bank graduation" to "individual member graduation."

GY2: The second year of activities brought some challenges for the WR/Honduras program, with three separate cases of corruption discovered amongst staff whereby they diverted money from WR/H and or the internal accounts of some of the CBs. These cases of corruption were discovered by internal audits. In addition, five promoters were dismissed for disloyalty and dishonesty, when it was discovered that they had created their own NGO and tried to poach WR/H's best clients. These incidents took a lot of management time, hurt program performance, and hampered WR/H's institutional development. In GY2, WR/H introduced a new individual loan product for loans greater than $300 offered through the solidarity group mechanism, whereby individuals are eligible for loans up to three times their savings. Over 350 such clients were served during the year. Although fewer banks were added due to the change in the graduation policy, the number of active banks was higher than anticipated. The operating self-sufficiency dropped slightly due to problems of corruption and a decision to allocate a higher percentage of general and administrative expenses to the program.

GY3: Highlights from GY3 for Honduras include: 33% more groups established than planned; 245% more members receiving loans than planned; operational self-sufficiency surpassed target by 14%; member savings 30% above planned, and repayment rate at 96% (lower than the 100% target). Training played a significant role in program development during the year, with 19 new promoters trained and 14 existing promoters receiving additional training. Nearly 12,000 CB members benefited from general training, while an additional over 2,000 benefited from basic business education and mother/child health education training. Individual loans continued to grow to serve approximately 560 clients (who continue to be considered active loan clients in their CB) in GY3 with an average loan size of $1,030. A study conducted to analyze the high turnover rate among CB members found that the main reasons for not continuing in the CB were: (1) weekly repayments required were too frequent, (2) the rules and regulations set by the banks themselves (fines, etc.), (3) the high cost of solidarity (having to pay other's loans in case of default, (4) conflicts with program personnel, (5) need to use one's savings to repay the loan or for family emergencies (savings are not available while one is an active member), and (6) inter-personal conflicts between bank administrative committee and bank members.

GY4: Highlights from GY4 include: almost double the number of groups established over planned; 260% more members receiving loans than planned; operation self-sufficiency surpassing the target by 50%; member savings 33% above planned. Once again, training played a significant role with 20 new promoters trained. Over 13,000 community bank members were trained and over 3,000 clients benefited from basic business education and mother/child health education. The individual lending program posed continuous repayment problems since its inception in 1995, leading to its discontinuation in GY4, and replacement with a solidarity group lending window. Although the repayment rate for the community banking program is 100%, this figure decreases to 96% when the individual loans are included. The rate of promoter turnover was very high during this year at 45%; no observations were made about why this occurred.

GY5: Highlights from GY5 include nearly five times the number of community banks established over planned; 260 solidarity groups with 1,300 clients served (most started in GY5); about seven times more clients receiving loans than planned; operational self-sufficiency surpassing target by 40%. WR/H developed plans for and with WRC's help secured $1.0 million in USAID funding for *Paso a Paso* (Step by Step), a four-year expansion program which aims to reach a level of 30,000 clients by 2002. WR/H's superior performance is due to a decision not to graduate banks, underestimation in 1992 of the potential of microcredit, and especially the excellent management by WR/H staff. It is especially noteworthy that the outreach was achieved without substantial external funds beyond the matching grant, demonstrating the capacity to "pay for itself" once sufficient scale is reached. Problems encountered during GY5 included a few incidents of petty corruption among staff and clients. WR/H took the following steps to prevent future incidents: changes in its system of money handling (payments are made directly into commercial bank accounts) and improvements in staff selection, support, monitoring and training. In response to the problems encountered in GY4 regarding staff turnover, WR/H took the following steps: salaries were increased; staff were given more training; employees were assisted in forming a cooperative; and a plan was designed to give greater benefits and incentives to workers in rural areas, where turnover is the highest. Until WR/H is able to "clear out" the discontinued individual loans, they continue to bring down the overall repayment rate.

B. Burkina Faso

GY1: At the start of the MG, the program had 58 community banks on paper, but 20 were inactive due to problems from the beginning of the program in 1991 and had to be written off during GY1. During GY1, 30 new banks were added for a total of 68 active. All but one of the new banks were in rural areas, based on its early experience of defaulting banks from urban areas. The starting value of the loan fund was $75,290 [6] and injections totaled about $147,000. Nevertheless, due to the devaluation of the CFA in January 1994, the dollar value at year-end was only $104,000. Similar factors affected the accumulated savings figures, with a total of $27,000 of savings at year-end as opposed to the projected $38,000. In addition to the devaluation and longer loan cycles, members saved less initially than the recommended

[6] The initial value of the loan fund was projected to be $175,000 at the time of the writing of the MG proposal. Due to slower growth in demand than expected and longer cycles than anticipated (6 months instead of 4 months), the initial value of the loan fund was only $75,290.

minimum. The percentage of women increased to 83% overall, with the percentage of women in more recent banks considerably higher than in the older banks. This change in emphasis was based on the experience that many of the initial problems were with male clients. The devaluation also necessitated an increase in the maximum initial loan size from 25,000 CFA to 50,000 CFA (with the result that the dollar value of the maximum initial loans remained below $100). Interest income was significantly lower than expected at $5,500 compared to $85,214, due to smaller than expected initial loan fund, large amount of payments in arrears, and lower than anticipated initial interest rate. In response, a number of changes were made, including increasing the interest rate from 12% per year to 30% per year, an increase in maximum initial loan size, and a strategy to increase loan demand growth. A major milestone for the year was the recognition of CREDO as an independent NGO.

GY2: This year was considered a "break through year" for CREDO. During GY2, CREDO began working in three more rural provinces, bringing the total number of provinces to seven. The number of active banks was increased to 107, which is significantly over the target of 60 active banks. One of the most impressive achievements during the year was the increase in the operational self-sufficiency from 6% in the GY1 to 50% in GY2. This can be attributed to the increase in interest rates charged by CREDO, cost cutting and expansion to new areas. During this year, CREDO maintained the policy of graduating banks which have completed three years of lending operations, with the graduation of 13 banks. Nevertheless a smaller number of banks than eligible chose to graduate and even some of those banks that did graduate requested that CREDO continue to hold their collective savings—without interest. This demonstrates the value that clients place on having a secure place to keep their savings and the trust and confidence they have in CREDO. One of the main challenges during the year was the problem of "subsidized competition." A number of banks, particularly in certain branches ceased making repayments when another national NGO began giving out "loans" without any apparent attempt to collect repayments. This highlights the lack of understanding of local NGOs, government, and even World Bank representatives, about best practices in microfinance. Another problem affecting program performance was loan stagnation, with average loan sizes experiencing little to no growth between cycles.

GY3: CREDO extended its outreach to include two additional rural provinces during this grant year, bringing the total to nine provinces. The main highlights of the year include that the total active groups were far greater than planned with a commensurately larger number of loans being disbursed, operational self-sufficiency increased from 50% to 70%, and the repayment rate improved from 88% to 95%. In addition, the mid-term evaluation was carried out, providing some recommendations for CREDO on how to move forward. Finally, several training events were carried out. Only ten banks graduated during the year, with many members preferring to continue with the program, particularly if they can do so while accessing a portion of their savings. The graduation policy is therefore being reconsidered. Group discussions indicated that there are four areas of impact of the program: (1) enhanced health of the family; (2) improved nutrition; (3) increased school attendance; and (4) improved hygiene. The quality of the investigation of loan stagnation was disappointing and no conclusive results were drawn.

GY4: During this year according to the MG Annual Report, CREDO moved several steps forward, and a few steps back. While the community banking program experienced significant new growth through the addition of 53 new banks. The total active banks at 133 actually represented a decrease from the prior year at 139, however, due to the de-activation of 34 banks, mostly to graduation. The repayment rate declined from 95% to 89%. Both of these contributed to a decline in operational self-sufficiency from 70% to 65%. An important step was taken by adding Promoter Supervisors, responsible for playing the role of internal auditors in addition to management responsibilities. CREDO's practice of encouraging bank graduation resulted in the loss of 34 banks and approximately 1,000 members to graduation. In addition to the negative repercussions this graduation has on the sustainability of CREDO, it is not clear what these banks are graduating to. As part of a strategic planning exercise facilitated by the MED Coordinator, the program management decided to discontinue the practice of bank graduation. In order to ease the entry and exit of individual members, without the entire bank having to leave, less emphasis was to have been placed on solidarity groups. In addition, a new policy was introduced which allowed for the withdrawal of any savings beyond 20% of the current loan. The intention of this policy was to reduce the perceived need to leave the program in order to access savings. (These are discussed in more detail in the main body of the report). Another factor contributing to a decline in self-sufficiency is the continuing low loan fund utilization rate (34%), resulting in sub-optimal fund usage and lower revenues. Some of this can be attributed to seasonal fluctuations, particularly as the end of the MG fiscal year coincides with "la saison morte" (the dead season), but a large part of the loan funds are simply lying dormant. CREDO's largest asset is thus not being put to work to generate income for the program or to provide demanded services. World Relief and Freedom from Hunger (FFH) conducted an in-depth impact study of the credit only approach of CREDO and the credit with education approach of Reseau des Caisses Populaires (RCP), FFH's partner. The study showed a number of positive effects of CREDO's program on clients, including increased income (81%) and improved nutrition (74%). Many of CREDO's clients (46%-51%) reported that they had learned, tried, or advised others on new health and nutrition practices. These results were similar to or better than those involved in the RCP program.

GY5: This year represented another breakthrough year for CREDO, with significant improvements in performance. CREDO established 100 new banks while only losing 11 to graduation or other reasons, for a total number of active banks at 222. CREDO added two new branches, including one in Bobo Dioulasso, representing a return to urban areas. The on time repayment increased from 89% to 96%, with an increase in operational self-sufficiency from 65% to 83%. After years of seeking financing for its literacy program, CREDO introduced this component this year, and provided support to 773 clients, primarily members of management committees, to seek literacy training. Loan fund utilization, while improved from 34% during the previous year, remained low at 53%. The GY5 Annual Report attributes the low utilization to: CREDO success in raising more funds than it could use and widely fluctuating demand due to seasonal factors. The problem of subsidized competition remains, with other programs continuing to provide interest free loans. Program management noted that in many areas this problem has subsided, as some of these programs have run out of money to lend, since they were not collecting on the funds they previously lent. CREDO piloted several new loan products during the year, including individual loans, solidarity group lending, and supplemental loans for agriculture, livestock, and transportation. Results varied, with individual lending showing the poorest repayment performance at 61%. The issue of institutional structure and legal status will need to be addressed further as the government has adopted the BCEAO regulations mandating that organizations providing financial services convert to a formal financial institution. In Burkina Faso, as elsewhere in BCEAO member countries, NGOs are not rushing to convert, as it appears the legislation is not very well suited to many of the organizations providing such services.

C. Mozambique

GY1: The Mozambique program began during the first year of the Matching Grant. The initial months were filled with identifying potential sites for the initial banks, forming CBs, etc. In November 1993, the MEDTU Coordinator and MED Assistant Coordinator visited to assist in target area selection, program design revisions, setting policies and procedures, adapting monitoring and evaluation systems, and training the CB Coordinator and initial promoters. The financial information systems were developed with the cooperation of the promoters, to ensure that they were simple and appropriate. Health interventions were also adapted to the local context with the assistance of the health Education Coordinator. The topics to be addressed at the weekly CB meetings were to include: oral rehydration therapy and prevention of diarrhea, vaccination of women and children, breast feeding through the 18^{th} month, child spacing, and growth monitoring for health promoters. The first loans were distributed in April 1994. The number of active groups reached 15, higher than the 12 planned with active members reaching 508, exceeding the target of 360. The size of the loan fund was half the targeted amount at roughly $6,300 compared to $12,000. Similarly, savings were half the amount targeted at only about $2,400. This can be attributed to the lower initial maximum loans of $25 rather than $50 and smaller groups (25 members instead of 30); both are reflected in the revised projections of October 1993. In addition, loan disbursement did not occur until April led to lower program self-sufficiency at 1% whereas 15% had been targeted. Initial problems included low attendance at weekly meetings and excessive reliance of the CB management committees on the promoters.

GY2: WR/M established 33 new CBs to reach a total of 1,834 clients in GY2. The smaller initial loan size permitted greater outreach, but resulted in a smaller loan fund and lower interest income and consequently a lower operational self-sufficiency than anticipated. Savings were also lower than planned. Excellent repayment rates continued into the second year, demonstrating the high demand for program services. Anecdotal evidence supported the findings of high demand for services, improved nutrition of clients and their families, and possibilities of sending children to school and/or buying books for them. In response to attendance problems at CB meetings, promoters received training of trainers to help them build the skills of CB management committees.

GY3: WR/M surpassed a number of the original targets for the Matching Grant, with the following highlights for the year: 39% more groups were established than planned and 121% more members received loans than planned. In regard to training, staff received a two-day workshop on training of trainers. All members received training in group organization and 225 members in group financial management. Health education was provided for all members. While the repayment rate remained high at 98%, the operational self-sufficiency only reached 50%, due to small initial loan sizes and lack of imposition of penalties for late payments. A major flood hit the area in January 1996, which had a devastating effect for client repayment. No new CBs were formed during this period. In addition, thousands of clients left the program as they returned to their homes of origin as the peace was consolidated. The rapid expansion has led to an agreement to provide additional funds from the Matching Grant in order to allow for expansion into new geographic areas.

GY4: The program extended operations to a new area, Xai-Xai, after the original area of Chokwe was saturated. Although the expansion costs reduced the operational self-sufficiency (down to 40%) for the year, it created the conditions for future growth and longer term sound financial performance. A methodological innovation was the introduction of a staff incentive scheme. These two changes (expansion and incentive schemes) were launched in response to market saturation and loan stagnation. Another change introduced to respond to loan stagnation was a change in the formula to determine base loan size, from $35 (or $25 in the first loan cycle) plus an amount equal to savings, to twice the savings for cycles 2-5. This resulted immediately in a significant growth in savings (28% in the first quarter of the policy compared to 9% in the previous quarter). WR/M experienced some minor cases of petty fraud and security problems. The fraud occurred when a promoter used names of voluntarily discontinued members to provide larger loans to some clients. Although the promoter did not appear to be benefiting personally, this led to repayment problems for those clients who could not manage such large loans. The promoter was terminated for dishonesty and violating policy. In the security incident, would-be thieves established a false checkpoint; the WR/M team narrowly escaped. The following security measures were adopted: disbursement of loans by check where a bank is present and by cash from a car (instead of motorbikes) in areas with no banks. Training for all members in group organization, health education was provided to all members. The number of new CBs established was 30, well over the targeted 18 and clients numbered nearly 4,400, more than doubling the target of nearly 2,000—due again to the lower than anticipated loan size, which was expected to increase in the future with the above mentioned policy changes. WR/M also had a significant impact beyond its own clients by demonstrating that a best practices program can work in country like Mozambique. WR/M had many visitors to observe its successes and was invited to participate in a number of workshops and conferences.

GY5: Although WR/M continued to move forward in many respects during the year, some staff difficulties posed challenges and highlighted the human resource limitations which still challenge development in Mozambique. Highlights in GY5 include nearly three times the number of new CBs established over what was planned; more than twice the number of clients reached than planned (nearly 5,300 compared to 2,300), and nearly double the level of self-sufficiency from the previous year. Some of these advances were made possible by opening a third branch in the town of Chibuto near Xai-Xai. Promoters continued to provide training in group organization and financial services, and also provided health education training to 77% of the members.

D. Rwanda

GY1: No program activity.

GY2: No program activity.

GY3: Rwanda was identified by WRC early in GY3 to be one of the secondary countries to be developed. In addition, WRC submitted an application to USAID to include Rwanda as a primary country. During this year, the MED Assistant Coordinator spent three months in Rwanda to finalize program design, secure additional outside funding, hire and train personnel, and prepare to initiate the program.

GY4: During this year, USAID permission was granted to include Rwanda as a primary country. The WR/R Program Coordinator visited K-REP in Kenya and WR/M in Mozambique to learn from their experiences. Just as the program was to be launched, however, a million refugees returned to Rwanda, causing WRC to delay the start of the CB program to focus on returnee assistance. Significant progress was nevertheless made in staffing, forming CBs, and making initial loans. In March 1997, WRC held a two week in country workshop for 13 promoter candidates and a few others on principles and practices for MED and a training of trainers in adult non-formal education. Additional delays were experienced due to delays in obtaining government approvals. By the end of GY4, however, loans were made to 12 CBs and training was in progress at 20 others.

GY5: Highlights for GY5 include: 33 new CBs established and nearly 1,500 clients served with repayment at 99%. Many of the targets were not reached due to the delay in program start-up in GY4 and lag time in securing additional funding (which came through from Tear Fund/UK for $321,000) Program growth during GY5 was very high and the participation of women (96%) higher than expected. One of the problems encountered was the lack of government understanding of microfinance best practices (as well as the lack of understanding among some bi-lateral donors as well). The government worked on policy in this sector, with WR/R and other NGOs providing input into the policy. As a result, WR/R is seen as one of the leaders in best practices in Rwanda, with a number of institutions visiting and consulting with the program. During GY5, WR/R developed plans for a five-year expansion program that aims to reach more than 14,000 clients by 2003.

E. Liberia

GY1: No program activity.

GY2: Liberia was identified as a secondary country to be developed under the Matching Grant. Secondary countries were to receive only technical assistance, but no financial assistance, under the Matching Grant. In Liberia, WRC chose to work with the Association of Evangelicals of Liberia (AEL). Even during the initial phases, plans were underway to create a relief and development arm of AEL called Access Liberia (AL) and to transfer operations from WRC to AL. Initial work began in July 1994 and by the end of GY1 a Program Coordinator was identified and hired. As a secondary country, there were no planned targets. Within GY2, AEL had established 22 CBs for a total of 700 members. Savings reached nearly $3,300 and loans about $23,000. The Program Coordinator was able to use what he had learned at the SEEP Village Banking Conference in Guatemala to finalize program design and initial systems development. Loans were first disbursed in January 1995 and a health component added in July. Initial high demand and high repayment rates indicated a high impact on the target groups. In Liberia, the CB program was part of a larger reconciliation effort by WRC, which sought to contribute to decreasing the conflict amongst tribal groups. Efforts were made to integrate the CBs to promote reconciliation. Problems encountered in the first year of activity were primarily logistical in nature and included transportation problems for promoters and security concerns arising from the low value of the Liberian units of currency (with the largest bank note worth the equivalent of 9 U.S. cents). Actions taken or being considered included partial use of U.S. dollars for disbursements; planned future procurement of motorbikes; and more use where possible of commercial bank facilities for disbursement and repayments. Plans for expansion included moving beyond Monrovia when conditions would allow, based on the great needs in the country, the relatively small size permitting a national program, and the sound program leadership. WRC also explored the idea of launching a non-CB based microfinance program that would focus on young male ex-combatants. Even at its earliest stages, the program had a significant impact on other institutions in Liberia and in the region, which were watching to see how the first CB program and one of the only MED programs in the country would fare.

GY3: After creating 13 banks in GY3, the program halted operations due to lack of security as Liberia was again struck by civil disturbance beginning in April 1996. Operations were slated to resume in September, with 9 of the 29 CBs disbanding and membership in the remaining CBs considerably lower than prior to the disturbances. The loan fund losses due to the unrest were covered from non-grant emergency relief funds. The total savings increased to $4,100 and the size of the loan fund to $31,400. Repayment remained high amongst the CBs that did not become inactive due to the disturbances.

GY4: Liberia's CB program achieved significant recovery in GY4 after nearly being destroyed by the fighting and destruction in Monrovia in April 1996. The microfinance activities became known as LEAP (Local Enterprise Assistance Program). GY4 was focused on rebuilding the program and repositioning it for significant recovery, growth, and impact. Activities included what loans were recoverable and which banks could be restarted or reconstituted; writing off non-recoverable loans; and extending new credit to those who were able to repay the old loans. "Pre-chaos" loans were restructured; no loans were forgiven. Clients were required to repay all outstanding loans before new loans were disbursed. Nineteen CBs were started or reestablished after the May 1997 elections; a 97% repayment rate was maintained, even during the war; nearly $20,000 of pre-April 1996 loans were deemed non-recoverable and written off; staff was regrouped and poised to reinitiate the program; and UNDP committed $84,000 in funding. LEAP's profile was raised with the participation of the Director in the MicroCredit Summit and role in a local UNDP-sponsored local seminar. With the phase out of relief operations, many of the former beneficiaries are expressing a high level of demand for microfinance services.

GY5: Highlights for GY5 include: 60 CBs were established bringing the number to 81 and membership increased nearly four times to 1,917. Operational self-sufficiency reached 60%, despite heavy up-front costs and relatively low interest income that occurs during rapid expansion; and funding was secured from UN Department of Economic and Social Affairs (UNDESA) ($40,000) and the US Embassy's Ambassador's Self-Help Fund. LEAP achieved relatively high repayment rate (94%), considering that many clients did not finish repaying their loans before they returned from Monrovia to their homes of origin following the consolidation of peace. Clients have expressed the desire to place additional savings in the CB, and some members have reportedly joined the CBs solely for the purpose of saving. All CBs have formed an inter-bank association called "Unity" with the objective of taking on joint projects to improve their businesses and undertaking other social and community development programs. LEAP is the model microfinance program in Liberia, with its policies and practices being adopted by other start-ups; its Program Coordinator is part of the organizing committee of the Liberia MicroCredit Network.

F. Non-Matching Grant Countries

WRC supports an USAID-funded Implementation Grant Program in Cambodia, as well as other MED efforts in Peru, Vietnam, Bangladesh, and India. These programs have benefited directly and indirectly from the Matching Grant in the following ways.

- The Matching Grant provides some resources for technical assistance to non-matching grant countries.
- The overall quality and availability of technical assistance has improved through the capacity building component of the Matching Grant, including hiring of additional MEDTU staff and training and exposure for members of the MEDTU team;
- Advancements in the MED methodologies, MIS, and FMIS that were made under the Matching Grant are shared with all MED programs;
- The higher profile of WRC in the world of microfinance should have provided additional credibility for local programs with government and donors;
- All MED countries, whether or not they are participating in the Matching Grant, are members of the WRC Microenterprise Development Network, which facilitates learning and exchange amongst members.

IV. Program Management

A. Organizational Structure, Management, and Staffing

WRC is led by the President who reports to the WRC Board of Directors. The Board represents 40 denominations and is comprised of church leaders, business people, educators, and finance people. The board meets three times a year and is responsible for reviewing and approving the annual budget. One third of the board members are part of the International Program Sub-Committee, which analyzes program issues in more detail. Several board members have visited WRC microfinance programs during the course of the Matching Grant, making them more informed board members.

WRC has four divisions each headed by a Vice President: Resource Development (responsible for fundraising, communications, publications, public relations, and development education), Support Services (responsible for finance, personnel, and information systems), U.S. Ministries/Refugee Affairs (responsible for migration services and regional relocation and other support services, and International Ministries. International Ministries is composed of Regional and Technical. The regional department includes Asia, Africa, and Latin America. The technical department is comprised of Microenterprise Development, Child Survival, and Disaster Response.

Regional Directors for each of these regions supervise WRC Country Directors as well as coordinating relations with WRC partners in countries where there are no WRC offices. These directors have been based in Wheaton Headquarters, but are mostly being decentralized to the field to provide a greater degree of support and ease of access to the field. Technical specialist teams in MED, child survival, and disaster response are based at WRC headquarters. The MED Coordinator is responsible for coordinating the MED Technical Unit (MEDTU) and reports directly to the Vice President for International Programs. MEDTU provides technical backstopping through each partner's program director and country director. Thus, MEDTU plays more of an advisory rather than management role in regard to country programs implementing microfinance activities, an arrangement that seems to have been satisfactory both to the field as well as headquarters. Part of the success of this approach to date may be attributable to the overlap of responsibilities, which saw the MED Coordinator also acting as the Latin America Regional Director and similar overlaps in Africa, including the arrangement that the Africa Regional Director will allocate half of his time to MEDTU, mostly for capacity building.

Staff capacity has been enhanced during the Matching Grant by continuity and technical expertise amongst both the MEDTU team and the country programs. In regard to continuity, the MED Coordinator has been in his post for nine years and the MED Assistant Coordinator for five years. The Africa Regional Director, who also has MED responsibilities, has been in his post for three years, while the Asia Regional MED Technical Advisor was formerly managing the microfinance program in Cambodia since 1992. The Program Coordinators and Country Directors in Matching Grant countries have for the most part also been in place since the inception of their microfinance activities, for the most part, as illustrated in the table below.

Program Continuity in Matching Grant Countries

	Honduras	Burkina Faso	Mozam-bique	Rwanda	Liberia
Begin microfinance program	1991	1991	1993	1996	1995
Current Country Director in post	1986	1981	1997	1997	NA

Current Program Coordinator in post	1988	1991	1998	1996	1995

Continuity alone is not sufficient, however, and MEDTU recognized that it needed to build technical capacity within its team by hiring or reassignment. The Matching Grant enabled WRC to hire a MED Assistant Coordinator with international development experience as well as banking experience. With the new USAID PVC Matching Grant (1998-2003) and a SEEP/CITICORP grant, WRC brought on an Information Systems Specialist, who will be responsible for refining and tailoring the various MIS and working with partners to increase their capacity to fully utilize the MIS. This new Matching Grant will also support the hiring of an Adult Non-Formal Education Specialist and a Regional Technical Advisor for Asia. Based on the lessons learned during the current Matching Grant regarding constraints to growth and quality improvement, WRC has also assigned one senior level person to work part time with partners on institution building. MEDTU is now well positioned to support its country programs or partners in moving forward. At the country level, staff capacity has increased primarily through first hand experience of managing microfinance programs, as well as interaction with the MEDTU team during technical visits and participation in workshops and conferences.

In addition to continuity and increasing technical capacity, WRC has introduced a third component to its staffing strategy for microfinance: decentralization. As indicated above, the Africa Regional Director (and MED institution building specialist) will soon be relocated in southern Africa. The Assistant MED Coordinator will be based in Mozambique, and the Asia Regional Technical Advisor will be based in Asia, initially in Bangladesh. In addition, an Asia Regional Director will be recruited in the near future and will be based in the region. Regionalization is taking place in Latin America as well. Decentralization will facilitate more frequent and timely technical assistance and support to partners and country programs.

B. Program Strategy and Methodology Development

WRC has promoted several variations of poverty lending for many years. The Community Banking (CB) methodology, utilized since 1991, emphasizes local management of savings and credit for the poor. Some of the Community Banking programs are minimalist (Honduras, Burkina Faso, Liberia), providing only financial services. Others (Mozambique, Rwanda, and Cambodia) use the credit with education model Community Banking model, which integrates health education into the regular group repayment meetings. Even in the minimalist model, community bank members often use the structure of the groups or the meetings to launch other initiatives, such as reconciliation activities in Liberia and Rwanda and marketing outlets in Burkina Faso. In non-Matching Grant countries, other variations of poverty lending appear, including the solidarity group model of NEICORD in India and the Grameen-like model in which two societies meet simultaneously of CSS in Bangladesh.

The process of initiating a poverty lending program is as follows. First, WRC staff members work with a country office or partner to assess the situation and the potential for launching a sustainable microfinance program. Then they jointly design a program, tailored to the local situation. Next, WRC provides training to the staff and management on microfinance. This is followed by exposure visits to other programs to learn from practical experiences. Then the microfinance program is launched.

Community Banks have an average of 30 members who develop their own by laws for management of their CB. They save together and are eligible for a series of small (loan size usually grows from $40-$300 over a period of about 3 years), short term (loan terms tend to be 4-6 months) and mainly working capital loans, which supply participants with cash flow to carry out small scale economic activities. Incentives for on-time repayments are built into the model, as additional larger loans are available upon timely repayment of previous loan, peer pressure from group members who can only receive their loans when all group members have paid, and sense of responsibility and ownership through the social organization of the groups.

Financial assistance covers the start up operational costs of the program and the initial capitalization of the revolving loan fund. Interest income received from the revolving loan funds increasingly covered operational costs. The partner or country office retains all of the interest income. The only income earned by the CBs is from membership fees and any penalties imposed. Counterpart promoters are to help organize the CBs and provide training in bank management, social organization, health issues, and business management. As mentioned above, the social organization methods not only to facilitate credit delivery, but also become a means for local people to organize around other issues that they identified as priorities.

The original concept envisioned CBs graduating after the loan ceilings had been reached and sufficient member savings accumulated for the banks to continue on their own. This goal has proved elusive to most of the WRC supported programs—as it has to many other CB programs around the globe—and CB graduation is no longer supported at the WRC level as a program objective. Some partners and country programs, including CREDO in Burkina Faso, appear to have retained this objective, however. The experience elsewhere, citing the Cambodia example, is that people may have more confidence in the institution (in this case, CBB) than in the community bank, as evidenced by the lack of activity in the internal account simultaneously with a high demand for program loans. Clients seek continued access to products that meet their needs rather than membership in a graduated community bank with limited resources for onlending. This represents a major change in the thinking on objectives of community banking with significant implications for the methodology. The objective is no longer a number of graduated community banks whether working independently with internally generated capital or as part of an apex, but a sustainable institution which serves many clients through community banks and other means, offering products to meet the needs of different clients. The initial target client is the same poor woman, but this new view envisions this client breaking out of poverty, growing her business, and requiring other financial products which may still not be accessible through the formal financial sector or a graduated community bank. Alongside these clients whose business has grown are new clients who initially may only be able to manage a small loan.

Such an evolution has given rise to product development in a number of country programs, including Honduras, Burkina Faso, and Cambodia. These products have included individual loans, solidarity group loans, larger loan limits within the community bank structure, term loans of longer duration and for other activities (agricultural seeds and inputs, transportation, etc.). The experience with product development has been mixed. Individual loans, in particular, have resulted in significant arrears and defaults in all three country programs where they were introduced. MEDTU's policy is that each program needs to make the adaptations that will work in its particular context. MEDTU tries to encourage country offices and partners to share their ideas for methodology adaptations and product development with MEDTU before they are introduced, so that they can provide some guidance or advice. MEDTU also endeavors to share each program's experiences and innovations with other programs. Given the mixed experience to date, however, MEDTU may want to take a more active role in product development. It should consider developing a training module to share with programs as they begin to think about modifying their program. This training module should be accompanied by technical assistance is sorting through the issues in product development. Programs should be encouraged to test the product before launching it on a broader basis. Finally programs should introduce new products only gradually, or risk confusing the clients, making life difficult for promoters, and overwhelming the MIS (remember the fate of CorpoSol).

C. Capacity Building

1. Headquarters Level

Capacity building at headquarters level has included participation in conferences and workshops. These conferences have been primarily through the SEEP Network, and have included annual meetings and pre-meeting training events as well as participation in working groups. In addition, MEDTU representatives participated in the Microcredit Summit and follow up Summit Meeting of Councils. MEDTU also participated in events convened by USAID, UNDP, and Ohio University and Johns Hopkins University. Formal training for headquarters staff has been somewhat limited. The Accountant and the Assistant Coordinator each participated in different courses offered by the Economics Institute. The Assistant Coordinator also participated in a training held in Harare, Zimbabwe in 1994 entitled "Tools and Techniques for Enterprise Development." The main form of capacity building for MEDTU members has been through on-the-job experience. These include accompanying more experienced MEDTU members on technical assistance or design visits, designing training modules and conducting trainings, participating in SEEP Network studies or other activities

With the expansion of the MEDTU team, it would be useful to look more closely at the capacity building needs of individual members of the team and of the team as a whole. A medium term capacity building plan, complemented by more detailed annual plans, should be developed by each member in conjunction with the MED Coordinator and coordinated with other MEDTU members. Annual reviews should assess the extent to which the capacity building activities or events contributed to the success of the program and to outline the plan for the coming year.

In addition to continued participation in SEEP working groups and attendance at various conferences, capacity building could include structured exposure visits to non-WRC microfinance programs—ideally organized jointly for MEDTU and country offices and partners. MEDTU may want to consider developing an in-house learning program in which MEDTU members read certain articles, documents, or manuals, etc. and discuss them as a team, either around a table or by email once members are decentralized to the field. Another opportunity for capacity building in the future may be participation in a distance learning program under development by USAID.

2. Partner/Country Office Level

At the field level, capacity building takes a number of forms, and includes interaction with MEDTU via email, fax, and phone, benefiting from technical visits from MEDTU, participation in workshops and conferences—both local and international, and exchange visits. The most frequent means of contact with the field offices and partners are emails and faxes, in response to specific questions from the field or from something MEDTU notices in quarterly reports. These may be sent out to one country in particular or many if it is of general interest. All five countries now have email capabilities.

The means of capacity building which has had the greatest impact to date is the one-on-one tailored technical assistance that occurs during the field visits. These visits might focus on a few specific issues, serve more generally as a program review, or include a formal training. Although there were many technical assistance visits provided by MEDTU to country offices and partners during the course of the Matching Grant, due to the human resources constraint at MEDTU, they did not always occur at times that were most useful to the field. In addition, although MEDTU makes it a practice of sharing field trip reports with the countries visited, there was insufficient follow up on the visits, as MEDTU members might not be sure whether field staff members were able to use new skills or tools or implemented a particular recommendation until the next field visit. One field representative commented that MEDTU needs to have more depth to be able to provide the kind of technical assistance when it is needed.

Another observation from a member of the MEDTU team is that technical assistance could be provided more effectively through more frequent shorter visits, as people can not absorb too much crammed into a short period of time. As indicated elsewhere, MEDTU has already taken steps to address these observations by bringing on additional MEDTU team members and basing them in the field. Such an approach will also provide a better opportunity to follow up on the content of the previous visit. MEDTU acknowledges that it needs to develop better and more systematic ways of following up the visits. One suggestion would be to ask country programs and partners for feedback on each visit or event in order to improve its performance and results in the future.

Early in the Matching Grant when the programs were young, the content of the visit was often determined by MEDTU, based on its understanding of the program's needs. As the programs matured, however, MEDTU has been making an effort to ensure that the technical assistance visits address needs articulated by the country program. It is encouraging the country programs to think of MEDTU as a consultancy and to ensure that the programs get the maximum value from the visits. One way it has done this is by asking country offices and partners to write the Scope of Work for MEDTU technical assistance visits. This has worked in some but not all cases, as some country offices and partners tend to be more passive recipients of technical assistance. Not surprisingly, these also tend to be the programs that do not fully utilize the technical assistance.

Capacity building also takes other forms including participation in workshops, conferences, and training events. MEDTU has made an effort to piggyback different learning opportunities to provide maximum exposure to country programs. For example, following a one-week conference on village banking sponsored by The SEEP Network in Guatemala in 1994, MEDTU organized field visits to the WRC program in Honduras. In 1997, following the SEEP Annual Conference that included financial ratio analysis, MEDTU hosted a World Relief Network Conference at Wheaton headquarters. Participants interviewed expressed overall satisfaction with these events and would like to see them more frequently. MEDTU has indicated that it is considering holding such events at least every other year in the future—a proposal with which the evaluator concurs. The next such event may involve a visit to programs in South Africa, such as SEF.

Some of the issues and topics that have been addressed in capacity building during the Matching Grant include: the basics of microfinance, program design, methodology development and adaptations, policies and procedures development, setting up management systems, delinquency management, performance indicators, proposal writing, and institution building. More work is required particularly in understanding and utilizing performance indicators and financial statements for decisionmaking and management. Other areas that will need to be addressed include product development.

In the future, MEDTU should focus on a few key areas of capacity building. As WRC has recognized in appointing an Institution Building Specialist (who will hopefully have responsibilities outside the Africa region), institution building is one of the most critical areas to the success of microfinance programs. Early during the Matching Grant, WRC designed an institutional development tool, which was to be used in a participatory manner by WRC and partners, including management, staff, and board. [7] WRC discontinued use of the tool, however, as it found it too subjective and experienced difficulties using it with certain partners. Despite its weaknesses, the tool could be useful for internal self-assessment as part of an annual planning process. As part of its initiative to support institutional development of partners

[7] The tool has a list of characteristics falling under the following sections: board/organization, human resources, program management, planning, reporting, program indicators, financial management, sustainability, methodology, and linkages. Participants in the exercise were to rank the institution from one to five in its ability/ performance/ status for each characteristic. The second part of the tool was to develop an action plan to strengthen weaker areas.

and country programs, WRC plans to use such instruments as the Discussion-Oriented Organizational Self-Assessment (DOSA).

Another area that is discussed more fully in section IV.E. is financial management. Based on document review and interviews, a number of the country offices and partners do not have adequate capacity in financial management—a critical area to microfinance programs. MEDTU and WRC more generally should review its current approach of hiring accountants rather than finance managers, and consider hiring people with more developed skills or identifying means to train them to play the role of financial manager. A shortcoming of the latter approach is that when analyzing various situations and making recommendations or decisions, finance managers should be able to draw on comparative experiences and rely on seasoned judgement.

A third critical area for MEDTU capacity building efforts is portfolio management. The coordinators of the microfinance programs need to be more than program managers; they need to know at every moment the status of the portfolio, the productivity of the promoters, the arrears situation in each branch, etc. They also need to actively plan for growth and expansion while managing the quality of the portfolio. MEDTU should reflect on how to develop the skills and attitudes that make excellent portfolio managers and take steps to incorporate this into its capacity building program.

WRC has already recognized the importance of these three areas, as evidenced by its 1998-2003 Matching Grant proposal, *Capacity Building for Microenterprise Development,* already approved by USAID. In it, WRC stated that its program strategy is:

> "To develop the capacity of local partners to efficiently and effectively implement MED programs. Where possible, WRC works through local existing partners. However, WRC often works in post complex disaster situations and qualified NGOS are frequently not available. Thus, it is sometimes necessary to create a local NGO partner. WRC's successful strategy in these countries has been to begin operations through a field office and to create a local partner as the program develops. Intensive training of national staff is provided to develop their capacity to assume complete operation of the program."

WRC is clearly committed to working with independent local partners as well as being realistic about their initial existence and/or capacity in the complex disaster situations in which WRC specializes. Yet WRC needs to go further in reflecting on and developing strategies to facilitate the institutional development and human resource development that is required to achieve this goal. The Mozambique evaluation makes similar observations. The approach of using accountants rather than finance managers also reinforces dependency on WRC headquarters rather than developing independent local capacity. In order to make its institution building strategy a success, WRC should identify the components, the sequencing and timing, and the inputs required to transform a country office or program into an independent institution. Further, it should explicitly incorporate intermediate targets and required actions into annual plans to ensure that such transformation becomes a reality.

In regard to the specifics of capacity building for local partners, the proposal states that emphasis will be placed on "board management and administration, development of financial and non-financial management information systems, and on-going training programs for field staff." As indicated above, the evaluator concurs that these should be the key areas for capacity building in the future.

One of the important roles of MEDTU is to facilitate lateral learning between programs. During the Matching Grant, MEDTU has used mature programs, both within and outside the WRC network, to train other programs. For example, representatives from Rwanda went to Mozambique to observe the WRC program and to Kenya to attend a K-REP training. Visits to the Honduras program in 1994 provided another such opportunity. One of the comments from the field was that not enough lateral learning was actually happening, and that at the 1997 visit to headquarters such exchange was not sufficiently encouraged; instead a number of speakers made presentations to the group. More frequent exchanges, whether bi-lateral, regional or for all microfinance programs, and more of an emphasis on and structure for exchange could better promote lateral learning

An important initiative that does facilitate lateral learning is through the establishment of the WRC MicroCredit Network, which consists of matching grant and non-matching grant countries. Current members include CREDO (Burkina Faso), Cambodia Community Building (CCB, Cambodia), Local Enterprise Assistance Program (LEAP, Liberia), World Relief Honduras (Honduras), World Relief Mozambique (Mozambique), World Relief Rwanda (Rwanda), Northeast India Commission on Relief and Development (NEICORD, INndia), and Christian Services Society (CSS, Bangladesh).

Other means of capacity building as well as promoting lateral learning was the launch of a quarterly newsletter, CREDERE, in 1997. CREDERE is designed to "inform, encourage, and promote the MED efforts of World Relief and others." (CREDERE, Vol. 1, No. 1, June 1997) The newsletter is short and non-jargonish. It is distributed to all members of the MicroCredit Network (which grew to eight members, including the four primary and one secondary Matching Grant countries) as well as other interested WRC offices, friends, and supporters. Three issues of the newsletter were produced during the Matching Grant (June 1997, April 1998, and August 1998). The newsletter includes training, technical assistance dissemination, and provides information to donors. Although WRC did not reach its target of publishing the newsletter quarterly, due to time constraints, MEDTU was sufficiently pleased with the newsletter to plan to continue producing it in the future. Beginning in GY3, MEDTU produced a series of microenterprise development briefs for a varied intended audience: field program staff, non-MED headquarters staff, WRC donors, and other NGOs. The purpose of the briefs is to orient audiences to some of the current microfinance issues at WRC.

MEDTU makes an effort to stay abreast of development in microfinance, particularly through obtaining and reviewing various articles, documents, and manuals produced by practitioners, networks, and universities. It obtains copies of these materials not only for MEDTU, but also to share with the field upon request. A list of such materials is regularly updated and sent to the field (see Annex 9 for most recent version).

Although MEDTU is increasingly in a better position to respond to technical assistance needs from the field on a timely basis, at some times it still may be desirable to draw on external consultants, particularly practitioners from other organizations in the country or region. The Cambodia program has already drawn on such assistance, by retaining a representative of Grameen Bank for a one-month consultancy. Utilization of external assistance when this is the most suitable option could be built into each program's annual technical assistance plan. Funding could come from the country program or partner itself or from grants, if appropriate. [8]

MEDTU may want to reflect on other ways it can foster capacity building as well as lateral learning. Possibilities include establishing a "listserv" for WRC Microfinance Network members. Another idea is to establish a discussion group around key documents in microfinance, such as SEEP's *An Institutional Guide for Enterprise Development Organizations* or Robert Christian's *Banking Services for the Poor: Managing for Financial Success.* MEDTU could explore the possibility of country programs

[8] Country programs and partners should take into consideration their staff development and technical assistance needs in their budgeting and ensure that these costs are built into their pricing for self-sufficiency over the medium to long term. Capacity building can not cease when there are no longer grants, but must be an integral part of an institution's planning and growth.

participating in a distance learning program under development at USAID. Representatives from country programs could participate in training at the Boulder Microfinance Training Course, a less rigorous and less costly version being offered in New Hampshire, or a new training program to be offered by SANMFI in Bangladesh.

In order to ensure that it will be able to respond better and in a more timely way to the needs of country offices and partners, MEDTU should encourage each microfinance program as part of its annual planning process (see recommendations in section IV.G. below) to identify its technical assistance needs for the coming year, form the technical assistance should take, and desired timing for the technical assistance. Based on the requests from the various microfinance programs as well as its own assessment of program needs and its own objectives, MEDTU should develop a rough technical assistance program for the year. It should then be flexible enough to adapt it as needed to respond to opportunities or problems. Such a structure would force everyone to prepare for the various technical assistance events and to take maximum advantage of these events.

3. Client Level

Capacity building at the client level usually consists of two types of initial training. General community banking training for all members addresses basic credit, bookkeeping, group organizational skills, basic business skills, etc. Management of community banks for members of CB management committees involves more in-depth treatment of the general course and leadership development. Informal training and technical assistance is provided regularly by promoters at community bank meetings. With the relatively high turnover rates experienced in a number of programs, it has become more important to maintain regular compressed training for new members rather than to emphasize the initial training. In addition to the banking training, in Mozambique 5,296 participants also benefited from health education training, which is integrated into the CB program.

D. Management Information Systems

Within the WRC MicroCredit Network of ten country offices or partners, there are six different Management Information Systems (MIS). A summary of the systems by country is listed in the table below (Matching Grant countries indicated with *):

Country	Computerized MIS (Loan Tracking Only)
Bangladesh	Manual System.
Burkina Faso *	Using WRC proprietary CLAMS software as high level tracking tool.
Cambodia	Using a series of Lotus (r. 5) based spreadsheets and various custom macros. Developed by local expatriate staff member with some input from WR HQ.
Honduras *	Custom-built in-house FoxPro based system. In transition to FoxPro based system utilized in the region and programmed by group in Guatemala.
India	Manual System.
Liberia*	Using WRC proprietary CLAMS software as high level tracking tool.
Mozambique *	Using WRC proprietary CLAMS software as high level tracking tool.
Rwanda *	Using WRC proprietary CLAMS software as high level tracking tool.
Peru	Manual System.

Vietnam	Manual System.

The new MIS Specialist has identified the following problems with the existing MIS within the WRC network (problems 6 and 7 were identified by the evaluator and the others were confirmed through verification in the field (Burkina Faso and Mozambique):

- Non-standardized MIS between programs;
- Very complex;
- Not user friendly;
- Poorly documented;
- Legacy systems vulnerable to distributions;
- Under-utilization at field levels in some programs of information for portfolio management and decisionmaking;
- Limited capacity of management and staff in some programs to manage, analyze, and utilize the information generated;
- Inadequate perceived value in some programs to fully utilize the system.

The options identified to overcome these problems include the following:

- Improve and adapt CLAMS;
- Adopt different off-the-shelf software;
- Design a new MIS.

The main MIS developed by and supported by WRC is CLAMS, the Community Loan Accounting Management System. This computerized database system was developed at the end of the previous Matching Grant, and refined during the course of the 1993-98 Matching Grant. The strengths and weaknesses of CLAMS are outlined below, based on the observations from the field (in Burkina Faso), report from the second evaluator's report based on fieldwork (in Mozambique), the views of the MED Coordinator, and the findings of the MIS Specialist based on 3 field visits and MIS review.

The strengths of CLAMS include:

- It was designed specifically for the community banking model and to support the information needs at the country level as well as for reporting to WRC;
- Overall reliability and accuracy of data (with the exceptions noted below);
- Provides a means of checking the manual system;
- Has a built in report writer allowing for basic customization;
- Can be used to provide information about all WRC's microfinance programs for headquarters and for providing data to others such as donors and other practitioners.

CLAMS also has a number of drawbacks, which include:

- Some of the data is not reliable or accurate (e.g., treatment of loans paid off during the current fiscal year, savings figures, and current loan fund outstanding);
- Difficulties encountered in some country programs in reconciling the loan fund on the portfolio management software, CLAMS, and that on the accounting software, IDEAS;
- In depth analysis of data is difficult or in some cases impossible, due to the inability to directly access the database. Furthermore, it is difficult to export the data to more user-friendly packages (such as Lotus or Excel) for manipulation;

- No provision for decentralized entry of data with capacity to group multiple data sets into a master copy, due to need to enter data sequentially;
- Limited capacity to age arrears, as it can only divide the portfolio into less than 30 days and more than 30 days;
- Unable to report data "as of" a certain date, since it can only summarize what is currently in the system, without loading a backup created at the time desired;
- Timelags, due in part to the inability to enter data on a decentralized basis, results in reports being used primary for Wheaton HQ and as a check to verify loan is current at the end of the cycle, rather than as a management tool;
- Troubleshooting is problematic since the person who developed the system is not employed by WRC.

Although a number of problems were addressed in those countries utilizing CLAMS during the course of the Matching Grant, via email, phone, and visits from the MEDTU Coordinator and the WRC Accountant, a number of problems remain. WRC has hired a MIS Specialist to examine how to go forward (improve CLAMS, design a new system, buy an off-the-shelf system).

Part of the problem is the lack of perceived value of the system. The analysis conducted by the MIS Specialist in the three countries indicated that there is a high perceived value of the MIS in Honduras, relatively high in Cambodia, and less in Mozambique. The evaluator's experience indicates that there is even less perceived value of the MIS in Burkina Faso than the other countries examined. The MIS Specialist hypothesized that there is more perceived value when the MIS reaches deeper (i.e., more people within the organization use the information generated) and when the organizational size is greater. This hypothesis holds true with the four country programs listed (Honduras: 15,420 clients, Cambodia: 11,944 clients; Mozambique: 5,049 clients; and Burkina Faso: 5,973 clients of which 4,967 are active). Extending this line of thinking one should ask whether a higher perceived value and utilization of the MIS contributes to higher growth or is simply a by-product of it.

Some additional challenges and/or considerations in developing appropriate solutions include the following:

- Different life stages of partner MFIs may require different approaches and/or different systems;
- Different lending methodologies of partner MFIs may require different systems;
- Need to be realistic in terms of what is "doable," which depends in part on staff capabilities and technology issues;
- Computerized interface must be simple and error free in order to be credible with users;
- Programs need to be supported which has implications for degree of complexity or standardization.

The plan to better understand the problems and options are as follows:

- Comparative analysis of three different MIS in use (Honduras, Cambodia, Mozambique) (done);
- Firm up learning and lessons from trips (in process);
- Document CLAMS' learning and experiences (in process);
- Begin to assess the software alternatives;
- Assess technological tools for streamlining data input.

WRC has identified weaknesses in its overall MIS framework and particular MIS systems and is taking actions to address these problems. It is well aware that the solutions will not be found immediately and has consequently hired a MIS Specialist to help it and its partners develop MIS solutions for the evolving program needs.

E. Finance and Accounting

WRC maintains a computerized financial management system that is decentralized to each country and tracks expenses by funding source and expense category. Annual program budgets are prepared by field staff and management and reviewed by headquarters management before being sent to the WRC Board of Directors for approval. Release of funding tranches is dependent on adequate justification from the field of utilization of prior tranches. Usually monthly expense reports are submitted from country programs to Wheaton management.

Financial records are audited annually by Arthur Anderson, which also reviews WRC's compliance with USAID's management requirements. In addition, WRC finance staff regularly review WRC financial policies and procedures to ensure compliance with U.S. Government requirements. The Matching Grant was not selected by Arthur Anderson during its annual audits for particular scrutiny, as it was not among the five largest grants during any of the five years (grants reviewed include those for international as well as domestic work). These audits check the integrity of the accounting system based on U.S. accounting norms and do not include a portfolio review.

Once a country program or partner organization has reached 3,000-4,000 clients, they have an internal auditor. Annual external audits are required for each partner. Of the Matching Grant countries, Honduras and Burkina Faso have annual audits, whereas the others have not yet contracted an annual audit. The country evaluation of the Mozambique program recommended that an annual audit be carried out, which is consistent with WRC's policy, referred to above. Even in the case of programs such as CREDO's in Burkina Faso, an audit alone does not necessarily verify the soundness of the portfolio, as many audit firms are not necessarily familiar enough with loan portfolio management to be able to be able to provide the guidance necessary. [9].

The WRC Accountant has multiple roles, which include the following:

- Set accounting standards to be followed throughout the organization and with partners;
- Assess capacity of accountants to determine degree of assistance they will require and amount of supporting documentation to request to verify accounts;
- Provide training and coaching to accountants as needed;
- Assist country programs with year-end reconciliation (particularly reconciling portfolio tracking software and accounting software).

Partners are required to submit financial reports quarterly rather than the monthly requirement for country programs. Partners are also free to choose the accounting software they feel is most appropriate, whereas WRC country program offices are required to use IDEAS accounting package. The WRC Accountant maintains communications with the field through regular emails and occasional phone calls. The WRC Accountant travels to country offices every year or two years, depending on whether or not there are problems (e.g., Mozambique required two visits during the past year to assist with problems encountered). Compared to country offices, partners receive less frequent contact via phone and email (e.g., the WRC Accountant communicates with CREDO roughly once per quarter) and typically are not visited by the WRC Accountant (e.g., the WRC Accountant has not visited CREDO since it became an

[9] Or, in some cases, they may provide recommendations that are outside their purview and expertise, such as the recommendation to CREDO to charge lower interest rates to be more sensitive to clients' needs—with no reference to financial sustainability/profitability.

independent NGO—although she did come to Wheaton for training during this period). Training usually happens informally during the year end reconciliation trips, rather than on a regular or planned basis. Training at Wheaton headquarters is seen as a reward for good performance and is offered on an ad hoc, individual basis.

WRC country offices tend to hire accountants rather than finance managers. Some of the reasons provided at headquarters include that it may be difficult to find qualified personnel in some countries, especially in countries recovering from complex disasters, and particularly for the salaries that NGOs typically offer. Although this arrangement may be sufficient for a many types of programs, it is important for offices or organizations with microfinance operations to have someone with not only excellent accounting skills, but also skills in liquidity and assets management, as well as analysis and forecasting. This arrangement is even more problematic as country offices become independent organizations if they do not upgrade their financial management capacity at the same time. At CREDO, for example, whereas the Accountant is capable to perform accounting functions, she is not able to perform financial management tasks. In some countries, expatriates are hired on a part or full time basis to perform financial management functions. This should not been seen as a solution, however, as it does not contribute to capacity building or institutional development. In cases where there are no nationals with the requisite skills, WRC should consider hiring a national with high potential and commitment and invest in on-the-job and specialized training. More generally, WRC should develop a strategy to hire or develop more skilled financial management personnel in microfinance programs and partners.

Loan loss reserves were required of WRC country offices only as of 1997, partly in response to such a requirement by the USAID IPG in Cambodia. Previously bad debts were written off directly. Two percent of the outstanding loan portfolio was set by the MED Coordinator as the reserve for all Matching Grant countries, since there have been low bad debt levels overall, with exceptions. Cambodia temporarily experienced a high level of delinquency and bad debt after expanding too rapidly, compounded by floods, murder of two Promoters, and political instability. Loan losses in Mozambique have doubled in the last year, which may render the 2% reserve insufficient in the future. Each country office and partner should set its own loan loss reserve rather than having a standard reserve across all programs. This reserve should be based on its historical loan loss and projections and should be reviewed and adjusted periodically on an annual or semi-annual basis. WRC should facilitate this process.

Some of the challenges faced by the Wheaton accounting office in regard to the microfinance program include the risks associated with handling so much cash and the potential for fraud; the accounting burden of managing a loan fund especially which revolves fairly rapidly; and the range of skills and capacity of accountants at the country level. The approaches adopted to deal with some of these issues include the recent policy to establish loan loss reserves of 2% for all programs; the requirements that partners contract local auditors on an annual basis and larger country programs have internal auditors; the requirement that country offices back up its financial reports with documentation; and close review by Wheaton staff of all financial reports from the field. Another more minor problem is language (French in Rwanda and Burkina Faso, Spanish in Honduras, and Portuguese in Mozambique), but the Wheaton accountants manage with their own language skills or help of MEDTU staff or others. The strategy of the accounting office is to provide more supervision and support to the countries that are weaker in accounting. Part of the objectives for the Wheaton accounting staff is to help the country programs reach the level that they could manage a USAID grant.

F. Sustainability and Fundraising

1. Partner/Country Office Level

One of the major goals of the Matching Grant was that the country programs or partners would move towards operational self-sufficiency and would indeed achieve it within the course of the five-year grant. Although this timeframe may be a realistic target for well-established programs, it may be less feasible for start-ups. This is particularly true of the start-ups in the context of a number of countries where WRC works, i.e., complex disaster recovery situations, such as in Mozambique, Liberia, and Rwanda. Nevertheless, these countries performed remarkably in these situations, with promoters continuing to maintain contact with clients and collecting repayments in all but the most dangerous situations. This continued contact was one of the reasons that so many clients remained with these programs in the post-conflict period and that others tried to become loan clients or simply to avail themselves of savings services.

Program progress towards sustainability during the five years is shown in the table below. Solid progress has been made within each of the programs, although at varying rates, depending on the country context as well as other factors such as institutional commitment to attaining sustainability and management capacity. Clearly the star performer has been Honduras, where sustainability has dropped below 100% only in 1995 and even then it only dropped to 95%. As the other established program of this Matching Grant, Burkina Faso reached 83% in the fifth year of the Matching Grant. Relatively lower interest rates, poorer repayment performance (especially in intra-cycle payments), and slower growth in outreach contributed to the slower growth in sustainability. Mozambique has demonstrated impressive improvements from 1% sustainability in 1994 to 85% in 1998. Both Rwanda and Liberia have experienced difficulties from civil unrest and massive population movements. Liberia's pricing policy has put in on track for rapid increase in its self-sufficiency.

Progress Towards Sustainability						
	Starting	**1994**	**1995**	**1996**	**1997**	**1998**
Honduras	75%	100%	95%	114%	150%	140%
Burkina Faso	N/a	5%	50%	70%	65%	83%
Mozambique	N/a	1%	17%	50%	40%	85%
Rwanda	N/a	N/a	N/a	N/a	40%	14%
Liberia	N/a	N/a	10%	N/a	N/a	60%

Under the Matching Grant, WRC covered the portion of operational expenses related to the microfinance program that was not covered by interest income. The following outlines another potential approach to encouraging progress towards sustainability while ensuring that early inefficiencies are not borne excessively by clients and that the costs of expansion are taken into consideration. WRC may wish to consider this approach for the new Matching Grant. Using the mutually agreed sustainability targets, including plans for expansion, WRC would contribute the balance to the country program or partner. If the program had exceeded the agreed target, it could use the excess WRC contribution to build its capital base. If the program had not reached the agreed target, it would have to identify or generate the balance of funds. In this way, there is incentive to perform, poorly performing programs do not receive additional support to cover poor performance, and yet there is recognition of the different starting points of various programs. In the event of significant changes in the macro-environment (serious civil unrest, significant movement of populations, major disruptions of the economy, etc.), these targets could be adjusted by mutual agreement.

Another part of the Matching Grant objectives is to leverage Matching Grant funds to attract additional funding and more generally to diversify sources of funds. There has been significant progress in both for each country program or partner, as shown in the table below, which lists the sources of funds along with the rough percentage of external funds (where information available) during the five-year period by source. Thus, the Matching Grant has played an important role in not only encouraging progress towards self-sufficiency, but also of diversifying sources of funds for the balance of operational expenses and/or for capitalization.

Sources of Funds				
Honduras	**Burkina Faso**	**Mozambique**	**Rwanda**	**Liberia**
MG (42%) Other grants and own funds (58%)	WRC (45%) Woord et Daad (29%) WR Canada (5%) Stromme Foundation (21%)	MG (100%)	MG, Tear Fund UK, Mustard Seed Foundation	UNDP, WR annual funds, others)

2. Headquarters Level

At the WRC level, WRC's fundraising efforts are targeted to its constituency of church denominations, individual churches, individual donors, and foundations. About four general mailings per year go out to denominations, churches, and individuals. In addition, WRC produces a newsletter five times per year as well as a monthly publication. WRC has developed two versions of a microfinance video, one targeted to churches and one more general version.

Both the Resource Development Department and MEDTU maintain relations with other donors, including foundations as well as potential and current public and private donors. Proposals are generally developed by MEDTU, but in collaboration with other departments, including Resource Development and Support Ministries (finance) as well as other technical services as relevant. In addition, regional and country representatives also maintain local contacts with a variety of donors.

The microfinance program is particularly appealing to many donors that see their resources going further and being utilized long in the future. An effective marketing strategy developed in GY3 for the microfinance program has been the concept of "LifeLoans," whereby donors are asked to provide $50 for an individual client, $1,500 for an entire community bank, or an amount in between for a group of clients. People like idea of women owning their own business and using profits to help their families and support themselves. Microfinance is attractive to this new WRC constituency who wants to address the causes, not merely the symptoms, of poverty. In the future, WRC will endeavor to expand its constituency to business people, appealing to them with the quantitative and business aspects of the program.

WRC has been able to leverage its inclusion as a Matching Grant institution and its performance during the course of the grant to attract additional funds: from its individual supporters to foundations and other donors. Not only was WRC successful in its bid to receive an additional USAID Matching Grant, it was also able to help country programs or partners secure grants for operations in Cambodia (IGP Implementation Grant) and Honduras (IGP Implementation Grant). The Matching Grant has also been helpful in leveraging additional funds at the country office and partner level, as reflected by the diversity of donors mentioned in the table above for each country.

Before the end of the 1993-1998 Matching Grant, transition plans and funding were developed for each MG country. The next $2.5 million 1998-2003 Matching Grant from USAID's Office of Private and

Voluntary Cooperation will allow WRC to significantly expand its microfinance programs in Rwanda and Mozambique and improve institutions in Bangladesh and India (India has subsequently disallowed after the U.S. Government cut aid to India upon its detonation of nuclear devices in the summer of 1998). The new Matching Grant will fund three new positions, allowing WRC to increase and improve its technical assistance. Two of these are specialist positions (Information Systems Specialist and Adult Non-Formal Education Specialist), and the third will help WRC decentralize its field assistance (Asia Regional Technical Advisor). A one million dollar four year expansion program for World Relief/Honduras called *Paso a paso*, or "Step by step," was approved under USAID's Implementation Grant Program. This grant is awarded to microfinance institutions that have reached a high level of scale, performance, and sustainability, yet could benefit from a boost. UNDP funding was secured for Liberia. Additional funding for Rwanda will come from the Tear Fund-UK. WRC plans to provide $50,000 to Burkina Faso in addition to technical assistance as a non-matching grant country; additional funds are being sought. Finally, WRC was awarded a $50,000 SEEP/CITICORP grant permitting WRC to assess the MIS needs of all members of the Network and take steps to adapt the current system or begin to develop a new one.

G. Strategic and Business Planning

Until recently, WRC did not have a formal strategic or business planning process, although it implemented many of the elements of business planning for its microfinance programs, such as with the regular use of a WRC-developed projection model. Annual program budgets are developed by country programs in conjunction with regional directors; administrative budgets are developed by the various support divisions. These are compiled into an institutional annual budget that is submitted to the WRC Board of Directors for review and approval. The annual planning process is therefore primarily a budgeting process. The technical departments are not even included in the brief narrative that accompanies the budgets. There may be opportunities in the future, however, to take a more strategic approach for WRC as a whole, as the current management is more committed to planning.

Within MEDTU, once the Matching Grant Application was accepted, Detailed Implementation Plan developed, and Cooperative Agreement signed, there was more of focus on implementation than on strategy. This focus was due in part to the existence of an overall plan in the three documents mentioned, but may also have been due to the small size of the team. The implications of such as small team for planning are limited time and resources to carry out planning exercises as well as less of a felt need—since consensus on actions could be easily developed in informal discussions between the two main team members. In 1994, however, MEDTU used a planning grant from USAID via a SEEP funding mechanism to conduct a strategic planning process for more than 30 WRC staff, facilitated by a representative from Freedom from Hunger. One of the key objectives of this exercise was to expose other WRC staff to key developments in the microfinance sector, so that they could better understand and be supportive of WRC's work in this sector. MEDTU was pleased with the process and the results, and facilitated similar exercises in Honduras in 1995 and Burkina Faso in the spring of 1997. Honduras has retained this strategic planning process, but Burkina Faso does not appear to have incorporated it into its programming. MEDTU has not yet introduced it systematically in other MicroCredit Network countries.

This relative lack of emphasis on strategic and business planning reflects the somewhat donor-oriented tack that has been taken to date. Now that MEDTU has carved out a niche for WRC in the microfinance sector, helped build several solid programs, and put together a credible technical team, it is time to think in more global terms and articulate a vision for WRC in microfinance, and translate that into a strategic plan for achieving that vision. Part of the planning would be identifying potential resources for funding the plan. Under this more strategic approach, WRC would be asking itself: "Where do we want to be in five years?" The next question is then: "What will it take to get there?" It is only at this point that particular donors and proposal writing or private and/or commercial sources and business plan writing would come into play. One of the limitations of many NGO-initiated programs is their inability to go beyond pilot project and the tendency to think small. The challenge for WRC, now that it has tested its approach and methodology and demonstrated its potential, is to adopt "blue sky thinking." This means that MEDTU should brainstorm on what the WRC supported MED programs could look like in 5 or 10 years; explore what might be desirable/undesirable and feasible/unrealistic about the various options; and identify steps to take to flesh out the options further—for example, research, visits to other programs, pilot programs, discussions with potential investors, etc. With a longer term view, WRC could better position itself and the programs it supports to take the preliminary steps to be in position when the time comes to make the desired transitions.

The more concrete part of this strategic planning is to set clear goals and SMART (Specific, Measurable, Ambitious, Realistic, and Time-bound) objectives for the next 3-5 years at the country program level and based on these plans, at the headquarters level, with headquarters incorporating its own plans for new countries or initiatives. This strategic plan should serve as a guide to each country program and MEDTU as a whole; it can also serve as a resource mobilization tool. Each program should also have a business plan, that outlines specific annual targets and detailed operational plans. The above represents an institutional approach to planning, rather than a grantee/implementers approach to planning. Such an approach would help partners know when they should seek additional donor funding to support their projected growth or when they are ready to seek investors or take on liabilities to fund their growth, rather than growing according to what funds are available from known donors. It would also enable WRC to better facilitate the process of identifying the needed resources from donors, investors, or lenders, and of negotiating to access these resources.

V. Conclusions, Lessons Learned, and Recommendations

A. Conclusions

Over the years as WRC moved from relief to development, it became involved in a number of sectors, including providing loans for a variety of income generating activities, many of them for agriculture, often with no interest charged over long loan periods and little expectation that the loans would be recovered. WRC decided that it needed to narrow its program focus, and chose microfinance, child survival, and disaster response. Each Matching Grant has enabled WRC to move forward in its reflection on and implementation of microfinance. The first 1987-1992 Matching Grant contributed to a focus on poverty lending rather than ad hoc series of income generating projects. The current 1993-1998 Matching Grant helped WRC to focus on sustainability as well as hone its specialization in microfinance in complex disasters. The third 1998-2003 Matching Grant is expected to facilitate the WRC's consolidation and expansion of its microfinance activities.

Given WRC status as a small to medium size US NGO, its impact in the development of microfinance has been significant. WRC's Matching Grant programs have collectively reached 56,159 people directly during the past five years. WRC is a leader within the SEEP Network. One of its most important contributions is in demonstrating that microfinance can be a successful developmental tool in complex disaster situations. The role of the Matching Grant in achieving this impact has been crucial. It enabled WRC to continue programming in microfinance during a period of belt-tightening for the organization, effectively insulating the microfinance activities from the overall downturn in institutional income. The Matching Grant served an excellent fundraising tool, as individual donors like the opportunity to have their contribution matched, making their dollars go further. The Matching Grant also provided a level of credibility that WRC leveraged with other donors, and thus became a foundation upon which to raise additional funds. It demonstrated to the WRC constituency that WRC is a player in the world of microfinance. It enabled WRC to continue to work with partners as well as with country offices, and to provide technical assistance to non-Matching Grant countries. It has also influenced thinking in other program areas, as WRC is utilizing where appropriate a fee for service approach in its international as well as domestic programs.

B. Lessons Learned

The main lessons learned from managing and implementing MED activities during the Matching Grant are the following:

- Microcredit can work in complex disaster recovery situations. It is not easy, but it can work. Certain essential and preconditions should be in place, market considerations be made, and operations be slightly adapted to increase the chances of success.
- No program is immune from external forces (civil unrest in Liberia, major floods in Mozambique), but it can do its best to prepare for such eventualities, and then deal with them in a fair and expedient manner.
- Bad practices of other programs can undermine the best practices of one's own program (in Burkina Faso, low interest rates and lax collection policies of other programs contributed to client desertion from CREDO; these clients now want back into CREDO's program, as the other programs collapsed). This highlights the need to share information and experiences and try to establish minimum standards amongst practitioners.
- What works draws attention—from government, donors, other practitioners (in Mozambique, a previously indifferent government is now sending representatives to the field to look at

WRC/Mozambique's program). Programs should anticipate this attention and utilize it to ensure that any regulatory changes are good for the sector, to attract donor funds, and to help establish best practices.

- Institutional capacity building takes time, as often indigenous organizations are not active in situations of complex disasters and frequently there are poorly trained human resources from which to draw. These constraints should be taken into consideration in program design, staffing and training, and growth projections, but such conditions do not mean that institution building can not be achieved.
- Technical capacity at the headquarters level must be sufficiently deep to be able to support the variety of situations and partners on a timely basis. Direct interaction between MEDTU and partners is a critical component in successful capacity building.
- The methodology is continually evolving: a major recognition during the Matching Grant was that graduation of community banks should not be a policy, but instead programs should be prepared to meet the evolving needs of clients.
- Prudent new product development (solidarity group loans, other types of loans, insurance services, better savings products) is essential to better meet the needs of the clients and contribute to sustainability of the institution.
- New issues are emerging which need to be addressed, including legal status, security of staff and clients, controlling fraud, product development, loan stagnation amongst some clients, client growth and larger loan sizes, rapidly increasing outreach, client turnover, graduation, savings management.
- The need to strengthen partners' capacity to carry out strategic and business planning, including portfolio projections.
- The importance of good MIS grows as the institution and its portfolio grows. Systems that may have worked for a smaller program need to be adapted. Not everything can be standardized, but some standardization is essential.
- Better financial management is required as the programs become larger and more complex. This is also essential to prepare institutions to access different sources of funds in the future. More financial analysis and financial management should be taking place at the field level rather than in headquarters.
- Community banking can work with male clients. WRC's experience in Mozambique suggests that in terms of performance, male clients do not necessarily have repayment problems. In terms of impact, however, women usually bear more responsibility for family care and tend to suffer more from lack of access to financial and other services. WRC therefore continues to focus on women, but not necessarily exclusively.
- Recognition that there is more to impact than proxy indicators such as repayment rates can show. In Liberia, LEAP chose to promote ethnically integrated community banks, which may have put repayments more at risk than an ethnically homogenous banks, but which contributed to reconciliation objectives

C. Recommendations

WRC leadership is committed to microfinance continuing to be a core area long into the future at WRC, due to its positive impact on individuals, communities, and institutions. MEDTU is keen to build on its experience in microenterprise development to become an organization of excellence. Based on the lessons learned during the course of the Matching Grant, the findings during the evaluation, and WRC's commitment to continue in the field of microfinance in the future, a number of recommendations to WRC in improving its work in microfinance found throughout the report are summarized below. WRC has already incorporated many of these lessons learned into the transition plans for the various countries and into the 1998-2003 Matching Grant proposal. Some of these recommendations may be useful to consider in the DIP or to incorporate as appropriate in the planning and implementation process at the headquarters and field levels.

1. WRC should continue to **focus on its niche in providing microfinance services in situations of complex disaster recovery**, i.e., contexts in which it has a comparative advantage. It should continue to build its quantitative outreach, both in existing country programs and in additional strategic countries, in a sustainable manner while maintaining the high quality of services and performance. It should further distill its knowledge and experience into operational manuals primarily for its own programs but also to advance best practices is the field. These resources would also be useful to established programs that may suffer from unexpected external forces.

2. WRC should **develop a clearly articulated strategy for institutional development**, including transformation from country offices to partners and general institution building for existing NGOs. In addition to the participatory institutional assessment tools already identified, it should develop guidelines and processes for facilitating institutional development and ensure that they are incorporated into the planning process. In developing its strategy, WRC should take into consideration the following: (1) the challenges posed by working in situations of complex disasters in which independent institutions may not exist and skilled personnel may be limited; (2) the multi-sectoral nature of many of the organizations with which it works; and (3) trend towards regulation and formalization in microfinance.

3. WRC should **develop strategic planning capacity** at headquarters level, and ensure that strategic and business planning takes place on a regular basis in MEDTU and in each of the MED programs. Based on the strategic plans, MEDTU and individual country programs can seek the resources to enable them to reach the targets set in the plans. Business planning should be based on portfolio projections that take into consideration the market for its products and services and institutional capacity. Strategic and business planning should not be one-off exercises resulting in documents that sit on the shelf only be to reviewed at the end of the period, but a process which produces a an active plan which is a reference in the institution's and network's operations and management.

4. WRC should **continue to deepen the technical capacity of MEDTU and of its partners** and the country offices. The first step is to clearly identify the needs and priorities at the various levels and outline a plan to address them. WRC and its partners and country offices can then better elaborate the optimal mix of means to build capacity including but not limited to technical assistance visits, feedback on reports, participation in workshops and conferences, training events, structured exposure visits, lateral learning amongst network members and also with other microfinance practitioners, distance learning opportunities, etc. Coordination of capacity building plans of various partners could improve the cost effectiveness of MEDTU's interventions and provide insights into prioritization of needs. More emphasis should be placed on lateral learning and structured learning from experience. The capacity building strategy should include mutual accountability mechanisms to ensure that inputs are pertinent, of high quality, and useful (each partner should identify its technical assistance needs and evaluate the usefulness of the inputs, be they from MEDTU or external providers) and that the partner utilizes the inputs to strengthen and grow its program (MEDTU should only provide technical assistance to those programs who demonstrate that they are utilizing the assistance). Useful steps taken thus far by WRC in deepening its own technical capacity and making it more accessible to partners is by recruiting and/or reassigning MEDTU members and decentralizing these resource people to the field.

5. WRC should **continue its efforts to overcome the problems in its MIS** (improve and adapt CLAMS, adopt different off-the-shelf software, or design a new MIS). In the meantime, more attention should be paid to ensuring that the manual systems are collecting the necessary information and that it is being utilized throughout the program by promoters, supervisors, and coordinators, as well as MIS officers and country directors, for day-to-day decisionmaking and management. More training and capacity building

should be done in performance indicators (calculating and utilizing) in the field at various levels. Country programs should be required to generate the new portfolio report on an annual basis and a modified version on a monthly basis for their own use as well as reporting to MEDTU. WRC may wish to consider publishing a condensed version of the portfolio report for WRC MicroCredit Network members to encourage sharing and transparency within the network, generate some friendly competition, and make programs feel part of a larger initiative.

6. WRC should **build better financial management** in the partners and country programs. The accounts for microfinance activities should be separated from other activities in multi-sectoral organizations, and indirect expenses should be allocated. Financial managers (rather than mid-level accountants) should be recruited or trained in each country programs, with an emphasis on analysis and forecasting. Standard financial reports (balance sheet, income statement, and cash flow) should be generated on a monthly basis and analyzed by the accountant and coordinator. Accounting should take place at the country level rather than at WRC headquarters, with headquarters providing a checking mechanism and providing technical support. Programs with roughly 3,000 clients or more should have internal auditors and should have independent external audits on an annual basis.

7. WRC should **reinforce the portfolio management** of coordinators and supervisors and indirectly of promoters through training and technical assistance. The emphasis should be on planning and projections, anticipating and avoiding potential problems, and controlling delinquency.

8. WRC should **work closely with partners in the area of new product development**. These products may be designed to retain old clients or attract new clients in existing markets or to better meet the needs of potential clients in new markets. WRC may want to develop guidelines for product development (or stay abreast of and share the resources being developed by DAI's Microenterprise Best Practices project in this area). WRC should encourage prudent and gradual development and introduction of a limited number of new products at a time and only after being tested on the market. It could also assist with product assessment and refinement.

9. WRC should **conduct ongoing informal action research on emerging issues amongst partners and in the microfinance sector and share findings and experiences with partners** to help them anticipate potential challenges or take advantage of potential opportunities. Some of these emerging issues might include regulatory developments, institutional transformation, product development, staff and client security, controlling fraud, client loan stagnation, client business growth, effects of rapid increase in outreach, client turnover, graduation, savings management, use of technology, etc.

10. WRC should **work with partners and country offices in building networks and advocacy work**. Success in this area could contribute to the establishment of a minimum level of best practices amongst practitioners and a favorable regulatory framework for microfinance. WRC should nevertheless recognize that the best way to ensure that best practices are the norm and a favorable regulatory framework is established is through program effectiveness in terms of outreach, sustainability, and impact.

11. WRC should **begin to explore alternative sources of financing for its more advanced programs** to enable the programs to continue to expand their outreach and product offerings. These sources may include soft, and eventually commercial, loans, private investment, and securitization.

Annex 1

EVALUATION SCOPE OF WORK

I. PROGRAM IDENTIFICATION

World Relief Corporation (WRC)
Cooperative Agreement FAO-0158-A-00-3076-00
1993-1998
Country programs in Burkina Faso and Mozambique

II. PROGRAM BACKGROUND

World Relief Corporation (WRC), headquartered in Wheaton, Illinois, is the international assistance arm of the National Association of Evangelicals. In 1987 WRC received the first of two Matching Grants for income generation project in poor communities. The second matching grant began in 1993, with the objective of consolidating and extending the gains of the first grant. A midterm evaluation was conducted September 1996. Recommendations from that evaluation are attached. A follow-on to the current grant has been approved.

III. PURPOSE OF THE EVALUATION

There are several evaluation audiences for this activity. Both USAID/PVC and WRC have unique information needs and decisions that will be based on the findings from this evaluation. This evaluation fulfills the requirements of the USAID/BHR/PVC Matching Grant Program. In addition, WRC seeks to assess how effective the Grant has been in fulfilling the objectives outlined in the grant application. WRC will use these finding to refine the Detailed Implementation Plan (DIP) for the follow-on activity. PVC will use this information in its annual Results Report and in the review of the DIP.

IV. EVALUATOR STATEMENT OF WORK

The evaluator will assess the following program and institutional elements, providing evidence, criteria for judgement and citing data sources. The evaluator will assess both headquarter and the country level program in Burkina Faso. An estimate of the emphasis or level of effort for each segment of the SOW is in italicized brackets.

A. Program Implementation: *[EMPHASIS FOR THIS EVALUATION --- 60%]*

1. Assess progress towards each major objectives *[subtotal -- 70%]*

   Based on the logframe/program planning matrix, or statement of program purpose from the proposal, have objectives been met?

   Determine if loan size is growing, by how much and what is the turnover of groups (replacement of members).

   Is the program reaching the intended clients? Based on a survey and interview of clients, briefly describe the client profile, their business activity, profitability and use of disposal income.

   Identify constraints and unanticipated effects of the program.

   Identify major successes and why these elements were successful

   Assess effectiveness of models, approaches or assumption that underlie the program.

- Provide a brief background of the policy and program environment relating to the microenterprise development in each program country and estimate the contributions of the WRC grant to advancing the policies or programs in these countries.

2. Assess progress towards <u>sustainability</u> *[subtotal --- 20%]*
What is WRC's sustainability or "self-sufficiency strategy?
    what program elements are intended to be sustained?
    Are there sustainability objectives and indicators used to measure progress?
    What are the achievements to date and prospects for post-grant sustainability?
    When is each program projected to reach full financial self-sufficiency?
How has the institution development to date laid the groundwork for the next steps of becoming a local organization? What tasks have been accomplished and what tasks remain?

3. Assess the status of strategic <u>partnership</u>(s) with NGOs, community based organizations or local level government. *[subtotal --- 10%]*
    Characterize "partnerships" with local level partners, especially in regards to development of sustainable MicroFinance Institutions.
    - Role, responsibilities (decision-making power);
    - mechanisms employed (MOU, subgrant, contract etc)
    - fiscal autonomy & amount of grant funds directly managed in past year.

    How did the program plan to assess the quality and scope of partner relations?
    - impact of the partnership on the program

    What change in capacity of local level partner was planned? achieved?
    - effects of training or resource transfer on local partners capacity

    Assess the local level partners satisfaction with the partnership
    - has the interface and communications between WRC's headquarter and partners been effective?
    - do partners have access to email/internet.

    What are the recommendations for improvements?

4. Cite the major implementation lessons learned and recommendations.
    What recommendations from the midterm evaluation have been adopted and how has this effected the project?
    How does WRC plan to use the information from the current evaluation?

B. <u>Program Management</u> *[TOTAL EMPHASIS FOR THIS EVALUATION ---- 40%]*

1. Assess change in WRC's management capacity (structure & quality of management) as a result of grant.
    <u>Strategic Approach and Program Planning</u> *[subtotal -- 40%]*
    What changes have occurred in WRC's capacity for critical and analytic thinking regarding program design and impact? Is there evidence that program has:
    - fostered analysis and self evaluation in country programs, or conducted quantitative or qualitative analysis to refine interventions,
    - conducted periodic review of performance data by project personnel and taken actions as a result of review,
    - institutionalized performance monitoring and impact evaluation systems into other non-PVC grant funded programs, and

- acted on recommendations from midterm evaluation?

Are there changes in Headquarter capacity to (i) manage the planning process --- program renewal, strategy integration, project design, (ii) address over-arching program issues of replication, scale-up, sustainability, and (iii) forecasting and strategic planning; (iv) organizational development, financial planning and development?

Monitoring and Evaluation *[subtotal 35%]*

Assess the capacity of WRC to monitor program implementation and measure impact. Evidence of:

- appropriate microfinance; capacity building and sustainability objectives & indicators
- baseline assessment and plans for final assessment
- knowledge of and use of impact and performance measurement techniques
- system (MIS) to consolidate, analyze and interpret project data
- transfer of skills and capacity to local partners

Financial Management *[subtotal --- 5%]*

- Are adequate financial monitoring systems in place to verify program revenue, operating and financial expense, other inputs and outputs.
- Has the program leverage additional resources (beyond the match)? What are the prospects for additional non-PVC funding?
- What is the cost effectiveness of the program?
- Are the timing and amount of spending of Matching Grant funds and WRC's matching funds in accordance with the budget attached to the Matching Grant Cooperative Agreement? What reasons are given by WRC for any material variance?
- Are funded activities in accordance with WRC's proposal and amendments? Describe variances and rational.
- What is the source of WRC's "match?" How difficult has it been for WRC to provide matching funds?

Information *[subtotal ---5%]*

- Comment on the utility and timeliness of WRC's required reports.

Logistics --- *[subtotal --- 5%]*

- Comment on the adequacy and timeliness of WRC's material inputs.

Supervision *[subtotal --- 5%]*

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

HRD --- *[subtotal --- 5%]*

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

2. Cite the major lessons learned and management recommendations

V. EVALUATION METHODS

A. Approach

The WRC program was developed and funded prior to the Agency's emphasis on results-oriented program designs and the development of PVCs Strategic Plan. The data from all PVC funded programs is critical to PVC's ability to report on achievements against the Office's Strategic Plan. Until all current PVC-funded programs have made the transition to a more results-oriented project plans it will be necessary for the evaluator to conduct a Team Planning Meeting with the WRC and local partners to:

refine and consolidate the purpose level objectives and outputs into a set of results-oriented objectives;

agree upon a set of appropriate indicators against which the evaluation will assess achievement of project results outlined in the SOW will be judged; and where necessary, identify criteria for judgement..

B. Methodology

The Evaluator will:

assess the appropriateness of using the CGAP institutional appraisal format.

use the Agency's microenterprise (ME) indicators to assess the status of the ME intervention, document data sources, and

provide, an copy (electronic or paper) of all primary data collected and analysis performed as well as an electronic copy of the report..

VII. SCHEDULE

To be determined:

- *Time at headquarters*
- *in the field*
- *report writing*

VIII. REPORTING AND DISSEMINATION REQUIREMENTS

- The SOW will serve as the outline of the report
- delivery schedule
- review/revision policy

SCOPE OF WORK
FINAL EVALUATION OF PVC MATCHING GRANT No. FAO-A-93-00076-00
Evaluator for Mozambique

Background
The United States Agency for International Development's Office of Private and Voluntary Cooperation (USAID/PVC) is conducting an evaluation the effectiveness of World Relief Corporation (WRC) in fulfilling the objectives of its Matching Grant from PVC. The purpose of this activity is to evaluate WRC effectiveness in Mozambique. This assessment will be incorporated by the primary evaluator in the final evaluation report which will include Bukina Faso, and Rwanda as well as Mozambique.

Tasks
The evaluation of WRC activities in Mozambique will address the general categories, issues and questions stated in the Final Evaluation Scope of Work for the Primary Evaluator (attached). A primary tool to be used will be the CGAP institutional appraisal format. The evaluation will also incorporate the PVC office guidelines for evaluations (attached).

Additional Questions to address in the evaluation:

1. How effective had WRC been in providing technical and capacity-building support to its Mozambique affiliate? What are the results of that support?
2. How has the institutional development to date laid the groundwork for the next step of becoming a local organization? What tasks have been accomplished and what tasks remain?
3. Examination of the effectiveness of project human resources all levels : front line staff, management and governance, on information management and on quality of service provided to clients, to ascertain client response to services.
4. Impact on clients: some sense of the profile of project clients; indication of common client business activities; interviews with selected clients exploring profitability of businesses and how they use disposal income.
5. Is loan size growing, by how much, what is the turnover of groups (replacement of members)?
6. Can WRC adopt an impact monitoring system.?

Evaluation Report
The evaluator will submit a draft report of the evaluation of WRC activities in Mozambique to AMA technologies Inc. for review by PVC and WRC. PVC and WRC will compete their reviews within three weeks of receiving the draft. The evaluator will complete the final report within two weeks of receiving the reviews. Format: WordPerfect 5.1.

Level of Effort: 12 days

Annex 2

World Relief Corporation Persons Interviewed*

MEDTU Team

Ken Graber	MED Coordinator
Dave Larson	MED Assistant Coordinator
David Van Vuuren	Africa Regional Director, MED Institution Building Specialist
Paul Luchtenburg	Asia Regional MED Technical Advisor
Tome Goering	MIS Specialist
Kathy Beggs	MED Administrative Assistant

World Relief Corporation Management

Cathy Saracco	Assistant to the Vice President of International Programs
Gordon Spahr	Chief of Staff
Roland Davis	Human Resources Director
Laine Malmquist	Vice President Support Services
Lisa Saul	Director of Finance
Pamela Barden	Vice President of Resouce Developtment

Phone Interviews

Arne Bergstrom	Vice President for International Programs
Jim DeMol	Accountant

* Interviews took place at the Wheaton Headquarters of WRC on 5-6 November 1998. Phone interviews took place on 20 November 1998. Field interviews took place in Burkina Faso from 9-14 November 1998. The second evaluator, Beth Rhyne, conducted field interviews in Mozambique from 28 September – 9 October 1998. Detailed results from the field interviews can be found in separate reports.

World Relief HQ

Summary of Responses to Matching Grant Midterm Evaluation Recommendations
5 November 1998

From page 24 of AMA Technologies Report (Dr. Phillip Boyle), covering WRC HQ, Honduras and Burkina Faso.

1. *WRC should deepen its (HQ) technical capacity, particularly to...develop...materials...(as well as to do) sociological analysis and monitoring and evaluation ...of...impact.*

We have taken the following steps to deepen technical capacity:

- Continued training/learning opportunities for existing staff;
- Under 1998-2003 MG funding, three positions were added: MIS Manager; Adult Non-Formal Education Specialist; Regional Technical Advisor for Asia. Two of these are advanced specialist positions.

Material development has included assistance with manuals (such as country-specific operations and internal auditing guidebooks), a brochure, a videotape (*A Step Away from the Edge),* training modules (such as *Picture This: A Guide for Using Videos in MF Training*), a periodic newsletter (*CREDERE*), and several handbooks, training manuals, etc. developed jointly with other SEEP working group members. The latter has included a *The Financial Ratio Analysis Training Guide, an Internal Account Kit and Training Guide*, *The Facilitator's Manual for the Institutional Guide for Enterprise Development Organizations*, and several others. In addition, material development will be a major focus of the new Adult Non-Formal Education Specialist.

In addition, we have taken steps to decentralize the MEDTU by planning to relocate the Assistant Coordinator to Africa.

As to the recommendations to improve our sociological analysis and to give greater attention to client impact: we recognize the conventional wisdom of this, especially in other, non-MED fields. However, an organization must not simply implement each and every single recommendation of an evaluator. Instead, it must carefully consider the recommendations in light of other opinions in the field. Thus, in this and a few related areas, we have chosen to heed the advice of many MED practitioners, donors, and others in the field to wait for the development of impact tools. These are under development by the AIMS Project (Assessing the Impact of MicroCredit Services). We have explicitly stated this policy in USAID PVC MG Annual Reports, in the proposal for the 1998-2003 MG, and in several other documents and venues, and have received full support for this approach[1].

---

[1] *The following is the 1998 Annual Report's statement on impact:* It has been the practice of MFIs in the World Relief MicroCredit Network for the past several years not to conduct formal impact studies. This comes from the understanding, promulgated by USAID and others in various settings, that such studies are of little if any value without substantial amounts of funding and time. Secondly, it has been felt that the AIMS (Assessing the Impact of MicroCredit Services) Project and similar efforts would develop cost-effective tools in the near future, which WRH will use.

Thus, WRH relied in GY5 as in previous years on proxy indicators such as on-time repayment rate (99.5 %) and anecdotal evidence of increases in income and assets and sociological advances such as increases in women's empowerment.

2. *French should be mastered by one or more HQ staff, particularly if new...programs are launched in Rwanda and Haiti.*

Yes. We should also master Financial Management for MFIs, MIS, Business Planning, Adult Non-Formal Education, Institutional Development, Monitoring and Evaluation, Proposal Development...the list goes on...not to mention Spanish, Portuguese, Khmer, and several other languages and cultures.

In short, with a MEDTU staff until recently of only two practitioners and a support person, we have had to be content with the Assistant Coordinator's "fair" level of French. This has allowed him to read French documents/messages from CREDO and to conduct field visits, including a few seminars, entirely in French. Also note that for others in contact with CREDO staff, the primary contact persons (the Country Director and the Program Coordinator) have excellent and fair English, respectively. Finally, note that a program was not started in Haiti and that with the influx of hundreds of thousands of English-speaking returnees since 1994, Rwanda has become a largely Anglophone nation (at the governmental level). All Rwandan senior staff are native English-speakers.

3. *WRC should support...greater development and analysis of case materials on beneficiary impact.*

See the response in #1 above.

4.,5.,6. *...(4) WRC should increase its...support...particularly technical assistance to CREDO...(5) (focusing) on strategic planning, and on program development. A review of CREDO's program activities and policies will reveal some paths better avoided, such as...individual (lending) and acting as a savings repository for inactive village banks. (6) (Increase) amount of face-to-face interaction between regional and technical advisors from WRC and CREDO...*

Through field visits and a strategic planning workshop, MEDTU staff facilitated positive movement by CREDO in these and other areas. Many important changes were slow to come but were implemented during the last year of the MG. This was described as a "breakthrough year" for CREDO in the 1998 Annual Report. In addition to field visits, assistance was increased via other means, including frequent electronic communications, participation by CREDO staff in the 1998 SEEP/WR MC Network meetings, etc.

World Relief Honduras
Summary of Responses to Matching Grant Midterm Evaluation Recommendations
5 November 1998

From PP. 24-26 of AMA Technologies Report (Dr. Phillip Boyle), covering WR HQ, Honduras and Burkina Faso.

Note: Some of these have been significantly paraphrased -- indicated by ().

1. *(Increase promoter productivity by moving from weekly to bi-weekly and then monthly payments.)*

In 1993 (2 years before the mid-term evaluation), WRH had experimented unsuccessfully with bi-weekly payments (portfolio quality deteriorated). Thus, it was reluctant to make this change. However, WRH has successfully addressed the issue of promoter productivity in other ways. Most noteworthy has been an entire restructuring of the repayment system. VB payments are made by solidarity groups (sub-groups within the larger VB) to a VB commercial bank account, rather than to the promoter. This is then transferred electronically into a WRH account. Promoters thus no longer handle cash. This has reduced their workload and has allowed for bi-weekly and even monthly repayments (repayment schedule varies, depending on group maturity and repayment history).

2./3. *(2) (Use solidarity groups (as defined above -- sub-groups within the VB) (3) partly in order to decrease a high turnover rate.*

WRH has done this. Before, village banks met largely as a whole, without much action at the solidarity group level. Now, solidarity groups play a much larger role in the way the VB functions. However, although this has improved promoter productivity and perhaps contributed to continued high portfolio quality, this has not appeared to significantly improve the turnover rate, which remains relatively high.

4. *(Increase the number and percentage of female promoters. Reduce the fear of insecurity for female promoters by restructuring the repayment systems to one in which clients deposit payments into commercial bank accounts.)*

The repayment system was restructured, as recommended. This and other developments have led WRH to drastically increase its percentage and absolute number of female promoters, from one of 28 (3%) to 36 of 68 (53%).

5. *Add sociological depth (in order to) go beyond minimalist credit (to achieve greater women's empowerment and to decrease loan stagnation and client turnover.).*

WRH has increased its depth by adding specialist staff in several areas. WRH has plans for further deepening staff skills under its new IGP-funded *Paso a Paso* four-year expansion program. Specialists that have been or will be added include a sociologist, an HR manager, an adult non-formal education specialist, an MIS manager, an internal auditor, and several finance/accounting experts. The rationale behind some of the additions, such as the HR manager, is not only to decrease client turnover, as identified by Boyle, but also to decrease staff turnover, which has been quite high (45% in FY1997).

6., 7, *(Study enterprise profitability and consider offering some business development services. Among other things, it is hoped that this would address loan stagnation).*

Loan stagnation has been addressed partly by offering new, more advanced products, primarily through solidarity group lending (not to be confused with SG's as VB sub-units, as discussed above). 18% of WRH's current 13,000 active clients are in the solidarity group lending program. This has allowed their businesses to expand and loan sizes to increase.

WRH determined that, at least to-date, a formal study of enterprise profitability would not be a worthwhile endeavor. BDS's have not been developed -- it is WRH's philosophy to stick to financial services only and to refer clients needing BDS to BDS specialist providers.

8. *(Study client impact...).*

Note: The following and footnote 1 are reproduced from the WR HQ response to the impact issue:

As to the recommendations to improve our sociological analysis and to give greater attention to client impact: we recognize the conventional wisdom of this, especially in other, non-MED fields. However, an organization must not simply implement every single recommendation of an evaluator. Instead, it must carefully consider the recommendations in light of other opinions in the field. Thus, in this and a few related areas, we have chosen to heed the advice of many MED practitioners, donors, and others in the field to wait for the development of impact tools under development by the AIMS Project (Assessing the Impact of MicroCredit Services). We have explicitly stated this policy in USAID PVC MG Annual Reports, in the proposal for the 1998-2003 MG, and in several other documents and venues and have received full support for this approach[1].

9., 10 *(Go beyond VB working-capital loans to fixed-asset loans and other financial and BDS services, including individual lending.)*

WRH's addition of solidarity group lending has been a major movement, but it has not yet

---

[1]*The following is the 1998 Annual Report's statement on impact:* It has been the practice of MFIs in the World Relief MicroCredit Network for the past several years not to conduct formal impact studies. This comes from the understanding, promulgated by USAID and others in various settings, that such studies are of little if any value without substantial amounts of funding and time. Secondly, it has been felt that the AIMS (Assessing the Impact of MicroCredit Services) Project and similar efforts would develop cost-effective tools in the near future, which WRH will use.

Thus, WRH relied in GY5 as in previous years on proxy indicators such as on-time repayment rate (99.5 %) and anecdotal evidence of increases in income and assets and sociological advances such as increases in women's empowerment.

determined that it would be appropriate to allow for the less-frequent payments and longer-terms that fixed-asset lending would require. WRH's experiment with individual lending was not successful. This may have been due to improper design. If WRH ventures into individual lending again, it will first study the recently-released studies of successful individual lenders, such as some in the *Accion* Network.

55

CREDO Responses to Matching Grant Mid Term Evaluation

1. *CREDO needs to address the issue of its beneficiary focus. Currently about one-third of all banks have male members. The policy is to avoid male membership in new banks, but to allow such inclusion if women so request. It would be advisable to establish a uniform policy restricting membership to women in all new banks, since other than financial goals for bank members, such as empowerment, may suffer from the presence of men, however creditworthy they may be.*

Since 1996 the Community Banks of new branches have been comprised of female clients. Older branches have maintained their mixed composition for those men who have been faithful to the program.

2. *CREDO needs to establish clear policies with regard to the future of "graduating" banks. Since these banks are no longer able to function without assistance from CREDO when members redeem their savings, they do not, in fact, graduate, but dissolve. There are some exceptions to this, however, which should be examined as graduation models for groups desiring to graduate in future.*

CREDO no longer utilizes the concept of "graduation." All Community Banks can continue their credit and savings activities as long as they desire.

3. *The practice of acting as a savings repository for inactive members should not be continued by CREDO. Although this money may earn interest and no interest is paid to savers, transaction costs of this service for an increasing number of former bank members are overly high. This is moving too far from village banking.*

[DOES CREDO STILL MAINTAIN SAVINGS ACCOUNTS FOR THOSE BANKS WHICH HAVE LEFT THE PROGRAM OR FORMER MEMBERS?////]

4. *The option of extending individual loans to former bank members is also problematic. Not only does it contribute to bank dissolution, because of the great popularity of individual loans, but at 12% the interest charge is much too low compared to the 30% annual interest for village bank members (3 cycles at 10%). In addition, amounts equal to 25% of the loans are kept on deposit by CREDO. As the number of these loans grows, promoter workloads will become overly intensive. Before engaging in this program beyond a few experimental loans, CREDO must be sure it has the personnel and resources to assure its support to what should continue to remain for the foreseeable future a sideline to village banking.*

CREDO has maintained the interest rate of 12% on individual loans with the intention of retaining the best clients in the program. CREDO is considering a revision in the near future of an increase in this rate.

5. *CREDO should focus on convincing bank members to remain in their banks, while redeeming only a part of their savings. If all savings are taken, then enough monies should be left to constitute a loan loss reserve and group fund. CREDO should, thus, offer individual loans only to good credit risks who stay in their bank programs and should not take savings deposits from graduated members. CREDO should focus on building its bank portfolio and growing loan size. Graduation, as a concept should be abandoned.*

Members are permitted to access their savings while continuing to participate in the program. Credit and savings policies have been established which cover savings withdrawal and credit extension. For example, after the third cycle of credit, the client can have access to her savings while maintaining a balance of 20% of her credit needs.

6. *Related to growing loan size and number of banks is the drive toward operational and financial sustainability concepts which should become the basis of new strategic planning and annual action plans. Progress has been made in recent years, but graduating banks in the next two years will stall progress and required renewed efforts to expand the loan portfolio.*

[WHAT IS CREDO'S RESPONSE?///]

7. *The CREDO case study materials, currently gathered on a few members per bank, should be synthesized on a yearly basis. These case studies, although somewhat skeletal, may show some impact trends on beneficiaries. Their results should lead the way to a more comprehensive study in future.*

[CREDO RESPONSE?//////]

8. *Beyond participation in the joint impact evaluation with RCPB in late 1996, CREDO should plan similar efforts in future, especially if significant impacts are found. If it is discovered that impact on children is significantly increased by targeting health and nutrition messages to women, CREDO should consider introducing such a component to its minimalist credit activities.*

CREDO clients have at least a minimum of knowledge of health and nutrition messages through the government health serves. What is lacking is the financial means to observe the rules of hygiene and appropriate nutrition. The comparative study between programs with health education and those without on the impact of the programs on clients confirmed that health and hygiene education was not very useful. As a result, CREDO decided not to introduce such a component to its activities.

9. *Two issues requiring decisions by CREDO are what to do about the illiteracy of bank members and about continued requests for separate transportation loans, particularly bicycles and donkey carts. Launching into a literacy program, even if funded by separate grant, should be undertaken only if it can be streamlined enough to avoid constraining women's scarce time. Nevertheless, on or more members of each village bank should receive some level of literacy and numeracy training.*

The literacy component was launched in 1997 for members of the Management Committees of Community Banks. This component will facilitate the reinforcement of the capacity of members to manage their own activities.

10. *Developing a transportation loan facility for bicycle purchase may be possible as individual loans to bank members or as part of a regular village bank loan. This will have to be reserved for good credit risks and for those able to generate significant levels of additional sales through increased mobility.*

The program introduced supplementary loans in 1997 to better respond to clients' needs. These loans are individual loans approved by the membership of the Community Bank for transport (bicycles and carts), livestock raising, grain, and inputs.

World Relief Mozambique
Summary of Responses to Matching Grant Midterm Evaluation Recommendations
19 September 1998

1. *Increase promoter bank carrying capacity (number of banks per promoter, number of members per bank, and average loan size).*

We have taken the following steps to increase promoter productivity:

- Decreased number of bank meetings per cycle from 16 to 8.
- Raised the initial loan amount to $50 per member.
- Increased the savings multiple used to calculate new loan size from 2 to 3 for cycles 5 and following.

These steps have led to the following increases in promoter productivity:

	FY96	**FY98**	**% Change**
Number of Banks per Promoter	9.5	13.7	44%
Number of Members per Promoter	353	407	15%
Average Loan Size	$45	$87	93%

2. *Reduce paper work for promoters.*

Reducing the number of bank meetings by 50% has significantly reduced paperwork for promoters. It has not been deemed prudent to otherwise reduce the number of forms used for monitoring and control.

3. *Devolve greater responsibilities to the banks.*

In some banks the administrative committee has now been trained to perform all regular bookkeeping functions. At this stage it is still considered important for a promoter to be present at all bank meetings.

4. *Reduce promoter travel.*

Reducing the number of bank meetings by 50% has also reduced promoter travel by 50%. Promoters continue to Bank members have been reluctant to assume the security risk of transporting cash to WR or to a commercial bank office. We believe there are important advantages to having repayments conducted in group meetings rather than individually by the treasurer.

5. *Reduce weekly meetings to monthly.*

We have determined that holding bi-weekly repayment meetings represents a workable compromise between the expense of weekly meetings and the increased repayment difficulties and reduced group solidarity associated with monthly meetings.

6. *Establish a Training Unit.*

We have taken initial steps in this direction by identifying a Training Unit Advisor and by sending three staff members to a three-week training in the ILO Start Your Business curriculum. We are also adding a Non-Formal Education Specialist to our MEDTU unit in headquarters and will be relocating our MEDTU Assistant Director to Africa. We expect to fully develop the Training Unit in FY99.

7. *Maintain health promotion and introduce other topics.*

We have maintained health education while reducing the number of health educator visits per bank in order to avoid boredom. In conjunction with the development of our training unit we will also be introducing new training topics during FY99.

8. *Develop linkages with other credit programmes to promote entrepreneurial initiatives.*

We developed a pilot individual loan program which offers loans of up to $1,000. In FY99 this will be transitioned into a solidarity group structure. We are open to further collaboration with banks or other credit programs for high-end borrowers but have not yet actively pursued these.

9. *Reduce cash exposure.*

Most community bank meetings take place in public places such as markets or churches. Bank members feel secure in these settings and the risk of assault is deemed minimal. Most promoter travel is by motorcycle or pickup. In cases where promoters are on foot they are often escorted by bank members. Other reasonable precautions are taken to minimize risks. It has not been feasible to institute loan disbursements by check.

10. *Strengthen arrears policy.*

The program's on-time repayment rate (<30 days past due) has been consistently strong but there is still some short-term arrears within cycles. Additional attention is needed to this area.

11. *Stimulate savings and larger loans.*

The savings multiple for leveraging larger loans was initially increased from 1 to 2. In FY98 it was further increased to 3 for loans in cycles 5 and following. As a result average savings per member has increased from $8.50 in FY96 to $17.00 in FY98. Average loan size has increased from $45 to $87. In addition, larger loans of up to $1,000 have been made to individuals whose needs have exceeded the $300 limit for group-based loans.

World Relief Corporation
USAID Microenterprise Development Matching Grant
Budget, Actuals, and Variance 1993-1998

I. Program Costs	1994						1995						1996					
	USAID			WRC			USAID			WRC			USAID			WRC		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
Salaries	159,000	109,735	-31%	169,000	105,754	-37%	132,512	114,359	-14%	244,679	141,577	-42%	132,512	105,038	-21%	244,679	134,594	-45%
Benefits	36,204	12,645	-65%	38,375	13,973	-64%	30,079	14,254	-53%	55,541	15,696	-72%	30,079	21,346	-29%	55,541	19,574	-65%
Travel & Transportation	18,882	8,535	-55%	49,751	31,103	-37%	10,000	12,302	23%	72,766	22,266	-69%	10,000	16,237	62%	72,766	25,422	-65%
Subcontracts	0	12,269	+	6,000	16,864	181%	17,500	0	-100%	6,615	780	-88%	17,500	1,681	-90%	6,615	4,200	-37%
Other Direct Costs	0	4,830	+	62,890	100,366	60%	24,000	278	-99%	165,403	66,888	-60%	0	0	0%	28,803	74,061	157%
Loan Funds	34,502	53,649	55%	260,490	187,746	-28%	0	0	0%	86,290	138,327	60%	24,000	48,646	103%	222,890	94,140	-58%
Indirect Cost Factor	163,221	124,120	-24%	0	0	0%	140,586	92,522	-34%	0	0	0%	140,586	123,729	-12%	0	0	0%
Totals	**411,809**	**325,783**	**-21%**	**586,506**	**455,806**	**-22%**	**354,677**	**233,715**	**-34%**	**631,294**	**385,534**	**-39%**	**354,677**	**316,677**	**-11%**	**631,294**	**351,991**	**-44%**
II. Sources of Funds	1994						1995						1996					
	USAID			WRC			USAID			WRC			USAID			WRC		
	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance	Budget	Actual	Variance
USAID	325,783						233,715						316,677					
WRC Total	455,806						385,534						351,991					
Private Cash	300,848						233,392						307,985					
Interest Income	154,958						152,142						44,006					
Total Funds	**781,589**						**619,249**						**668,668**					
Balance (I - E)	**0**						**0**						**0**					

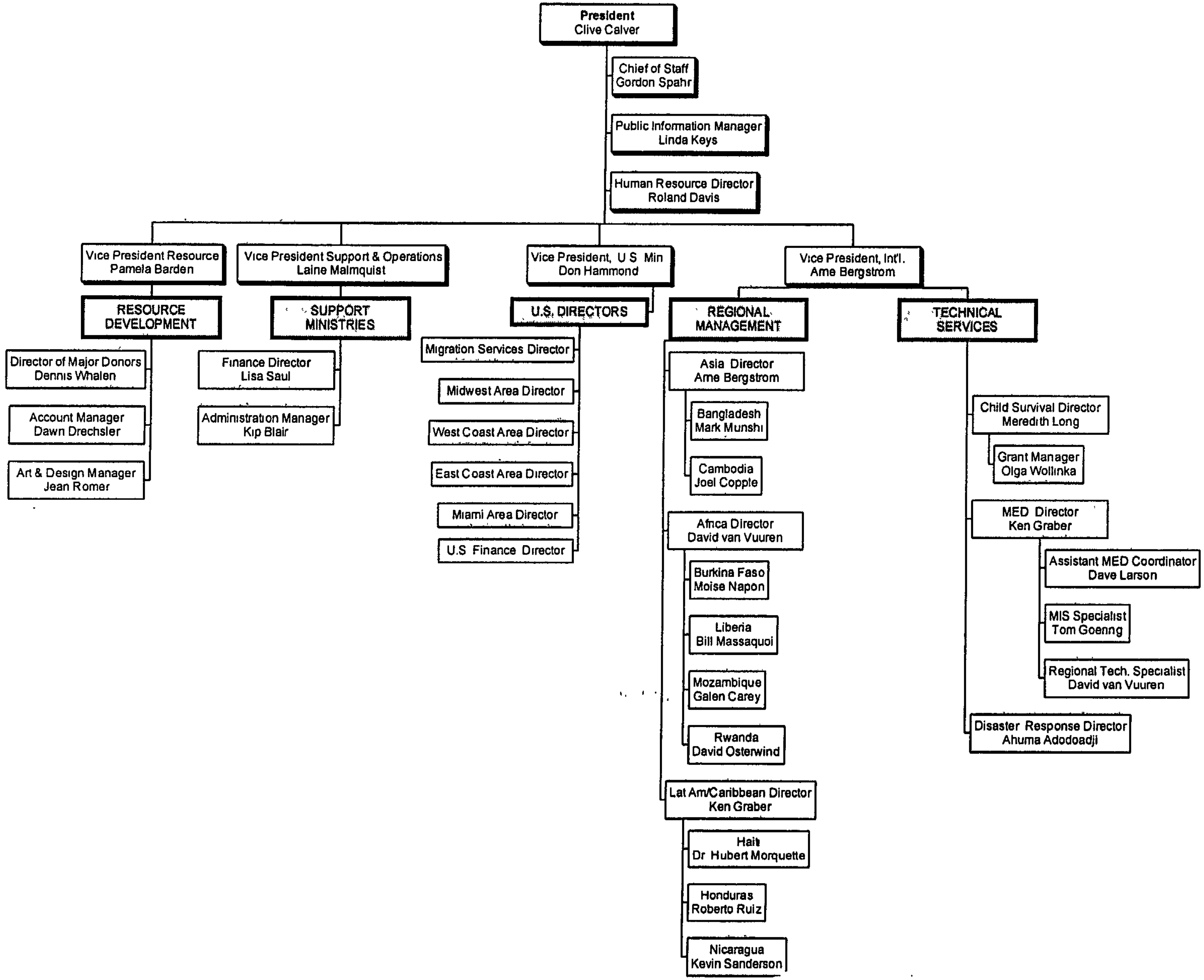
World Relief Corporation
USAID Microenterprise Development Matching Grant
Budget, Actuals, and Variance 1993-1998

I. Program Costs	1997						1998					
	USAID			WRC			USAID			WRC		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
Salaries	126,707	120,169	-5%	241,402	243,789	1%	111,393	135,314	21%	164,217	261,813	59%
Benefits	28,762	19,376	-33%	41,380	32,229	-22%	25,285	25,777	2%	37,276	43,743	17%
Travel & Transportation	10,000	25,227	152%	77,829	29,347	-62%	20,000	41,060	105%	77,919	49,241	-37%
Subcontracts	0	0	0%	6,946	4,219	-39%	34,500	0	-100%	7,293	5,695	-22%
Other Direct Costs	60,191	1,031	-98%	49,999	104,513	109%	45,727	0	-100%	52,498	158,621	202%
Loan Funds	36,000	57,154	59%	52,218	51,770	-1%	36,500	65,634	80%	159,902	50,707	-68%
Indirect Cost Factor	168,675	154,847	-8%	0	0	0%	172,616	178,236	3%	0	0	0%
Totals	**430,335**	**377,804**	**-12%**	**469,774**	**465,867**	**-1%**	**446,021**	**446,021**	**0%**	**499,105**	**569,820**	**14%**

II. Sources of Funds	1997						1998					
	USAID			WRC			USAID			WRC		
	Budget	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**	**Budget**	**Actual**	**Variance**
USAID	377,804						446,022					
WRC Total	465,867						569,819					
Private Cash	403,956						453,819					
Interest Income	61,911						116,000					
Total Funds	**843,671**						**1,015,841**					
Balance (I - E)	**0**						**0**					

Annex 5

WORLD RELIEF CORPORATION
ORGANIZATION CHART
October, 1998



FIELD VISITS

DATE & DURATION	PURPOSE OF VISIT	MEDTU REPRESENATIVE
Honduras		
4/98 1 week	Technical support for USAID IGP assessment team visit; program review	Coordinator
2/97 1 week	Discussion of move from individual loan program to solidarity group methodology; discussion of methodology modifications (such as repayment practices, savings mobilization and onlending); MIS; funding stragies, incl. Discussion of application for USAID IPG; program review	Coordinator
4/96 1 week	WRH autonomy; further development of impact; mid-term evaluation; program review	Coordinator
10/95 1 week	WRH autonomy; development of impact study guidelines w/FFH; program review	Coordinator
4/96 1 week	Accounting training	HQ Accountant
5/95 1 week	Internal audit, accounting training	HQ Accountant
11/94 1 week	Program review	Coordinator
1/94	Program review	Assistant Coordinator
11/93	Program review	Coordinator and Assistant Coordinator
Burkina Faso		
11/98 1 week	Technical support for final evaluation	Coordinator
5/98 1 week	Strategic planning, incl. Possible legal status change; program review	Coordinator
4/97 1 week	Strategic planning as follow up to issues identified by mid-term evaluation; financial management information systems review and training; review of *Credit with Education* study; program review	Coordinator
7/96 1 week	Financial management information systems; mid-term evaluation; development of impact study guidelines w/Freedom from Hunger, program review	Coordinator
2/96 1week	Financial viability analysis; financial management information systems; program review Familiarization & troubleshooting	Assistant Coordinator Director of Information Services
11/95 4 days	Institutional development; program review	Africa Technical Specialist
10/95 1 week	Internal audit, accounting training	Accountant
7/95 1 week	Financial management information systems; roles and responsibilities of NGO Director Boards; program review	Coordinator
2-3/95 1 ½ weeks	Financial viability analysis; program review	Assistant Coordinator
7/94 1 week	Program review, including provincial visits (Cayero and Kedougou)	Assistant Coordinator
11/93 1 week	Program review	Assistant Coordinator

Mozambique		
9/98 2 weeks	Accounting training; assistance in year-end closing	HQ Accountant
9/98 1 ½ weeks	Assistance with expansion planning; program design; and proposal development	Assistant Coordinator
8/98 1 week	Technical support for Final Evaluation; program review	Assistant Coordinator
7/98 2 weeks	Accounting troubleshooting; assistance in fraud investigation	HQ Accountant
6/98 1 week	Institutional development issues; assistance in investigating fraud	Africa Technical Specialist
4/98 2 weeks	Participated in and represented WR interest in World Bank-sponsored MF Workshop; advised on design of UNHCR-financed MC program for refugees in Mozambique; addressed staffing issues, inclg development of training unit	Assistant Coordinator
3/98 1 week	Electrical and telecommunications troubleshooting; computing issues and training from networking to software applications	Larry Wendt of Syscon Inc. (information services company which provides in-house services to WR-HQ on outsourcing basis)
3/98 1 week	MIS & accounting troubleshooting & training (incl. CLAMS) w/workshop for other MFIs; internal auditing; program review	Coordinator
1/98 1 week	MIS training and troubleshooting; program review	Assistant Coordinator
10/97 2 weeks	Accounting and finance training and systems review	HQ Accountant
7/97 1 ½ weeks	Institutional development; staffing (esp. to replace Director & Program Coordinator); program review	Africa Technical Specialist
11/96 1 week	Follow-up to mid-term evaluation; review of Xai-Xai expansion plan; need for and "how to's" of ongoing CB member training; cash management and security; promoter time use analysis; program review	Coordinator
2/97 3 days	Institutional development; program review	Africa Technical Specialist
6/96 2 weeks	Mid-term evaluation; TOT for staff	Assistant Coordinator
5/96 1 week	Institutional development; program review	Africa Technical Specialist
11/95 1 week	Institutional development; program review	Africa Technical Specialist
7/95 1 week	Financial management information systems; program review	Coordinator
3/95 1 week	Internal audit, accounting training	HQ Accountant

Rwanda		
5-6/98 1 week	Institutional Development Issues; Assisted with development of relationships with grass-roots organizations and networks which will participate in the WR-Rwanda program	Africa Technical Specialist
5/98 1 week	Accounting and finance training and systems review	HQ Accountant
3/98 1 ½ weeks	Electrical and telecommunications troubleshooting; computing issues and training from networking to software applications	Larry Wendt of Syscon Inc. (info services co. providing in-house services to WR-HQ)
3/98 1 week	Participated in and helped represent WR interests in UNDP sponsored MG workshop; program review	Assistant Coordinator
2/98 1 week	Program review	Assistant Coordinator
2/98 1 week	Assisted development of Tear Fund funding proposal; administrative overview; institutional development issues	Africa Technical Specialist
7/97 1 week	Institutional development; program start-up review	Africa Technical Specialist
3-4/97 2 weeks	Extensive training: TOT & Community banking principles and practices; staffing issues; pre-start-up fine-tuning of program design; local donor and government issues	Assistant Coordinator
2/97 1 week	Local donor/government issues; staffing/management issues	Africa Technical Specialist
1/97 1 week	Accounting and finance training; systems review	HQ Accountant
11-12/96 5 weeks	Needs assessment and program strategizing in light of returnee influx; local donor and government issues	Assistant Coordinator
12/96 (in conjunction w/above)	Program strategizing in light of returnee influx; institutional development, incl. Office management & staffing	Africa Technical Specialist
5-9/96 4 months	Introduction to community banking; program design, basic systems development, and program start-up	Assistant Coordinator
6/96 1 week	Institutional development; program review	Africa Technical Specialist
11/95 1 week	Explored possibility of starting up MC program	Assistant Coordinator
Liberia		
5-6/98 1 week	MIS; MFI accounting, program review	Coordinator
5/98 1 week	Institutional development; build relationships w/grass roots organizations & networks to participate in MED program	Africa Technical Specialist
5/97 1 week	Partner relationship issues; accounting issues; program review	Africa Technical Specialist
4/96 1 week	Financial management information systems; staff TOT; prog review; Familiarization & troubleshooting (Dir Info)	Assistant Coordinator Director of Information Services
11/96 1 week	Program review, MIS training	Assistant Coordinator
9/96 1 week	Program restart	Africa Technical Specialist
2-3/95 1 week	Financial viability analysis; intro to WRC financial management information systems; performance management; program review	Assistant Coordinator
9/94 1 week	Intro to community banking; program design and basic systems development	Assistant Coordinator
6/94 3 days	Explored starting MC program	Assistant Coordinator

Cambodia		
2/98 1 ½ weeks	Program review; development of Cooperative Agreement between WR and CCB (Cambodia Community Building); staffing issues	Coordinator
4/97 1 ½ weeks	Accounting training, including issues related to WR-CCB relationship	Accountant
1/97 1 ½ weeks	Provided technical support for USAID IGP assessment; strategic planning in light of past year "crises" – murder of 2 promoters, severe flooding, and political coup	Coordinator
9/96 1 week	Conducted seminar for local NGOs on Financial Ratios Analysis. Reviewed organizational issues, including budget and reporting for IGP	Coordinator
1/96 1 week	Internal audit and training	Accountant
11/95 ?? days	Supervisory visit.	Asia Regional Director
4/95 ?? days	Mid-Term Evaluation	Coordinator Asia Regional Director External Evaluator
1/95 ?? days	Supervisory visit.	Asia Regional Director
4/94 1 week	Staff training; discussed monitoring and evaluation plans	Coordinator Asia Regional Director
Other Countries		
Bangladesh		
10/97 4 days	Explored including Bangladesh in 1998-2003 USAID PVC MG proposal	Assistant Coordinator
Haiti		
2/95 1 week	Intro to community banking; program design and proposal	Coordinator
India		
10/97 1 week	Explored including India in 1998-2003 USAID PVC MG proposal	Assistant Coordinator
Mali		
5/96	Explored start-up and/or support of a MC program. Decided not to.	Assistant Coordinator
Peru		
5/96	Training and technical assistance for AYNI, an indigenous Peruvian MFI	Coordinator
Sierra Leone		
1/96	Explored start-up and/or support of a MC program. Decided timing was not appropriate, but may revisit in future.	Assistant Coordinator

CONFERENCES, WORKSHOPS, AND TRAINING

CONFERENCES & WORKSHOPS FOR PARTNERS/FIELD OFFICES				
DATE/ DURATION	TITLE/ CONTENT	LOCATION	PARTICIPANTS	MEDTU/HQ
10/98 4 days	MC Summit Southern Africa Regional Conference	Lusaka, Zambia	Senior Supervisor, WR-Mozambique	Assistant Coordinator
8/98 1 week	SEEP Network Internal Account Kit (training and testing) Workshop	Kampala, Uganda	SEEP Poverty Lending Group members, incldg WR-Rwanda Director & Program Coordinator	SEEP Network Assistant Coordinator
4/98 3 days	Mozambique MF Conference (World Bank and Other Sponsors)	Maputo, Mozambique	5 senior staff of WR Mozambique	Assistant Coordinator
3/98 3 days	Rwanda MF Conference (UNDP)	Kigali, Rwanda	WR-Rwanda Director Program Coordinator	Assistant Coordinator
10/97	Setting Interest Rates for Sustainability	Maputo, Mozambique	Accountant, Sr. Superviser	CGAP
10/97 1 ½ weeks	WR MC Network Conference (incl. MFI Fin Mgmnt, Resource Dvlpmnt, Scaling Up, MIS, Program Design Options, Using Interns, Adult Non-Formal Education, & Donor View of MED)	Wheaton, IL, USA	1-2 staff from each MFI in WR MC Network	Coordinator Assistant Coordinator + others
10/97 1 week	SEEP Annual Conference Incl. Financial ratio analysis	Maryland, USA	1-2 staff from each MFI in WR MC Network	SEEP Network Coordinator Assistant Coordinator
6/97	MC Workshop	Monrovia, Liberia	Program Coordinator	UNDP
6/97 1 week	Southern Africa Regional MC Workshop	Pretoria, South Africa	Mozambique Country Director/Program Coordinator	World Bank and Economic Development Institute
1/97 3 days	MC Summit	Washington D.C., USA	Liberia Program Coordinator, Honduras Country Director	Coordinator Assistant Coordinator
11/94 1 week	WR MC Network Conference	Catacamas, Honduras	1-2 staff from each MFI in WR MC Network	Coordinator Assistant Coordinator
11/94 1 week	International Conference of Village Banking Practitioners	Antigua, Guatemala	1-2 staff from each MFI in WR MC Network	SEEP Network Coordinator Assistant Coordinator

CONFERENCES & WORKSHOPS FOR MEDTU/ HQ				
DATE/ DURATION	TITLE/ CONTENT	LOCATION	MEDTU/HQ PARTICIPANTS	CONVENOR
Every October, 1993-1998	SEEP Annual Meetings (and "Pre-Meeting" Training Events)	Various Locations	Coordinator, Assistant Coordinator, Technical Specialist	SEEP
Various Dates, 1993-1998	SEEP Working Group Meetings. Numerous meetings.	Various Locations	Coordinator, Assistant Coordinator, Technical Specialist	SEEP
6/98 2 days	MC Summit Meeting of Councils	New York, NY	Assistant Coordinator	MC Summit
6/98 3 days	MicroStart Workshop	New York, NY	Coordinator, Assistant Coordinator	UNDP/MicroStart
6/98 1 day	M IS Workshop	New York, NY	Coordinator, Assistant Coordinator, MIS Manager	SEEP
5/98 1 day	MC in the Wake of Conflicts and Disasters Conference	Washington, D.C.	Assistant Coordinator	Microenterprise Best Practices Project/DAI
5/97 1 week	Conference on Education through Entertainment	Athens, OH	Assistant Coordinator	Ohio University, Johns Hopkins University
5/97 1 day	Re-engineering Workshop	Washington, D.C.	Coordinator	USAID
9/95 1 day	APPLE Poverty Lending Workshop	Washington, D.C.	Assistant Coordinator	GEMINI Project
1/95 1 day	Female Empowerment as an Impact Indicator	Washington, D.C.	Assistant Coordinator	SEEP Evaluation Working Group
11/94 1 week	International Conference of Village Banking Practitioners	Antigua, Guatemala	Coordinator Assistant Coordinator	SEEP Poverty Lending Working Group

TRAINING FOR PARTNERS/FIELD OFFICES				
DATE/ DURATION	TITLE/ CONTENT	LOCATION	PARTICIPANTS	MEDTU/HQ
3/98 1 week	Sustainability for NGOs	Abidjan, Ivory Coast	WR-Rwanda Director, WR-Mozambique Director, Liberia Program Coordinator	Sustainable Development Services Project
3/98 1 week	Hands-on accounting training	Wheaton, IL	WR-Mozambique Accountant	HQ Accountant
2/98 1 week	Hands-on accounting training (esp. year-end procedures, reconciling portfolio tracking software w/financial software)	Wheaton, IL	WR-Burkina Faso Accountant	HQ Accountant
2/97 1 week	Strategic Planning and Design for Program Relaunch	Wheaton, IL	Liberia Program Coordinator	Accountant and MEDTU.
10/96 2 weeks	• Exchange Visit to WR-Moz (1 week) • Intro to MC Course – K-REP (1 week)	• Maputo & Gaza provinc, Mozambique • Nairobi + field trips, Kenya	Rwanda Program Coordinator	• WR-Mozambique • KREP
1-3/95 3 months	Entrepreneurial Training Program	Mississippi, USA	Honduras Program Director	USAID
7/94 1 week	Tools and Techniques of MicroEnterprise Development	Harare, Zimbabwe	Mozambique Program Director	GEMINI Project, SEEP, Opportunity Intrntional, & Zambuko Trust. Assistant Coordinator

TRAINING FOR MEDTU/HQ				
DATE/ DURATION	TITLE/ CONTENT	LOCATION	MEDTU/HQ PARTICIPANTS	CONVENOR
3/96 2 weeks	Economics Institute Microfinance Training	Alexandria, Virgina	HQ Accountant	USAID
3/95 2 weeks	Economics Institute: Microfinance Training	Boulder, CO	Assistant Coordinator	Economics Institute
7/94 1 week	Tools and Techniques for Enterprise Development	Harare, Zimbabwe	Assistant Coordinator	The GEMINI Project, SEEP, Opportunity International, & Zambuko Trust

Annex 8

Materials & Documents Produced

Date	Produced By	Description
11/96	World Relief	Microenterprise Brief No. 1: Microenterprise: A New Way to Respond to Disasters
11/96	World Relief	Microenterprise Brief No. 2: World Relief Community Banking: Background and Concepts
11/96	World Relief	Microenterprise Brief No. 3: No Sharks or Scorpions Allowed: A Biblical View of Interest
11/96	World Relief	Microenterprise Brief No. 4: Why Charge Interest? Some Pragmatic Reasons
11/96	World Relief	Microenterprise Brief No. 5: Maximizing Outreach: Evaluating an MED Program's Depth and Breadth
Undated	World Relief	Anotated bibliography of microfinance publications available at World Relief/Wheaton (which can be requested by field programs)
6/97	World Relief	Picture This: A Trainer's Guide to Using MED Videos
6/97	World Relief	CREDERE Newsletter. Vol. 1. No. 1.
4/98	World Relief	CREDERE Newsletter. Vol. 2. No. 1.
8/98	World Relief	CREDERE Newsletter. Vol. 2. No. 2.
10/97	World Relief	A Step Away from the Edge (20 minute video)
10/97	World Relief	Credit Long Overdue: Small Loans for the World's Poor

Contributions to Materials & Documents in MF Sector

1998	SEEP Training Working Group (Contribution from Assistant Coordinator)	Facilitator's Guide for Financial Ratio Training
1998	SEEP Poverty Lending Working Group (Contribution from Assistant Coordinator)	Internal Account Management Kit
1996	SEEP Training Working Group (contribution from Assistant Coordinator)	Facilitator's Manual: An Institutional Guide for Enterprise Development Organizations
1996	SEEP Poverty Lending Working Group (contribution from Coordinator)	Village Banking: The State of the Practice

Membership in Working Groups or Other MF Sector Activities

Working Group or Relevant Body	MEDTU Representative
SEEP Poverty Lending Working Group	Coordinator
SEEP Training and Evaluation Groups	Assistant Coordinator
SEEP Board Membership and Service as Treasurer	Coordinator

Resources Available

In Stock	Title	Author	Publisher	Contact #	Date	ISBN#
1	An Institutional Guide for Enterprise Development Organizations - Facilitator's Manual	Nelson (Editor)	SEEP/Pact	1996	1996	188875303X
6	Banking Services For the Poor	Christen	PACT Publications		1997	
1	Baord Passages: Three Key Stages in a Nonprofit Board's Life Cycle		"			
1	Basic Accounting for Credit and Savings Schemes	Elliot	Pact Publications		1996	
1	Board Assessment of the Organization		"			
1	Board Assessment of the Chief Executive		"			
1	Bridging the Gap Between Nonprofit and For-Profit Board Members		"			
1	Case for Village Banking, The	Pamphlet	FINCA Int'l.	(202)682-1510	None	None
1	Creating Jobs: A Project Planning Guide for Organizations of Disabled Person in Africa	Roche	Goodwill Industries of America.		1986	
1	Creating and REnewing Advisory Boards		"			
2	Edificando "Juntas Directivas" Members Manual	Paz, Laarman, de Jong	CRWRC	(616)246-0834	1994	None
2	Edificando "Juntas Directivas" Facilitador Manual	Paz, Laarman, de Jong	CRWRC	(616)246-0834	1994	None
3	Exit Strategies	Holloway	PACT Publications		1997	1888753080
3	Financial Ration Analysis of Micro-Finance Institutions	The Seep Network Working Group	PACT Publications		1995	0963704486
1	Financial Management Training: Module 2	Calmeadow	Pact Publications		1996	
1	Financial Management Training: Module 1	Calmeadow	Pact Publications		1996	
1	Fund-Raising and the Nonprofit Board Member		"			
1	Fundacion Balsamo: La Comercializacion - Book 2	Fundacion Balsamo			1993	
2	Fundacion Balsamo: Elementos Basicos de Administracion Serie Educacion Empresarial, Coleccion Popular - Book 1	Fundacion Balsamo			1993	

In Stock	Title	Author	Publisher	Contact #	Date	ISBN#
2	Fundacion Balsamo: Administracion de la Produccion - Book 4	Fundacion Balsamo			1993	
2	Fundacion Balsamo: Contabilidad Basica - Book 3	Fundacion Balsamo			1993	
2	Fundacion Balsamo: Administracion de Personal - Book 6	Fundacion Balsamo			1993	
5	Handbook for Management Informatin Systems for Microfinance Institutions	Waterfield, Ransing	CGAP/PACT Publications	(212)697-6222	1998	18887531100
3	Linking Microenterprise Assistance with Other Development Sectors	SEEP Network Working Session	None	None	1993	None
5	Management Info. Systems for MIF	Waterfield/Ramsing	Pact Publications		1998	
2	MicroStart	UNDP	UNDP/PACT		1997	9211260604
1	Monitoring & Evaluating Small Business Projects: A Step by Step Guide - Facilitator's Manual	Edgecomb, Elaine	PACT/SEEP	(212)808-0084	1988	None
1	Monitoring & Evaluating Small Business Projects A Step by Step Guide	Buzzard, Edgcomb	PACT/SEEP	(212)808-0084	1987	
1	Monitoring & Evaluating Small Business Projects:A Step by Step Guide (In Spanish)	Buzzard, Edgcomb	PACT/SEEP	(212)808-0084	1987	
0	New World of Microenterprise Finance	Otero/Rhyne	Kumarian Press	PACT (202)	1994	1565490304
2	Partnering to Build and Measure Organizational Capacity	Johnson, Ludema	Christian Reformed World Relief Comm.	(616)224-0740	1997	None
2	Partnership Tools		Pact Publications			
1	Planning Successful Board Retreats		"			
1	Questioning Empowerment	Rowland	Pact Publications		1997	
2	Savings & Credit Sourcebook		Pact Publications			
1	Smarter Board Meetings for Effective Nonprofit Governance		"			
2	Supervision	CEDPA	Pact Publications		1996	
1	Ten Basic Responsibilities of Nonprofit Boards		NCNB			

In Stock	Title	Author	Publisher	Contact #	Date	ISBN#
1	The Chief Exec. Role in Developing the Nonprofit Board		"			
1	The Nonprofit Board's Role in Risk Management		"			
1.	The Price of a Dream	Bornstein	Pact Publications		1996	
1	The Role of the Board Chairperson		"			
1	The Nonprofit Board's Role in Risk Management		NCNB			
1	Training Resources for Small Enterprise Development	Sandler, Edgcomb	SEEP/Pact	(212)607-6222	1990	
1	Training Resources for Small Enterprise Davelopment					
10	Trust Bank Manual	Stickney, Christy	Opportunity Fund, Women's	(630)279-9300	1997	None
1	Una Guia Paso a Paso	Buzzard, Edgcomb	PACT Publications		1987	None
1	Understanding the Nonprofit Financial Statements: A Primer for Baord Memembers		"			
2	Village Banking: The State of the Practice	Nelson, MkNelly, Stack, Yanovitch	UNIFEM	(212)808-0084	1996	0912917393
1	What Makes Them Tick? Exploring the Anatomy of Major MED	Rhyne, Rotblatt	ACCION	(617)492-4930	1994	9589373011

Honduras Program Summary

Matching Grant Program - October 93 to September 98

Breadth of Outreach Indicators

	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
New Groups Established	30	80	267%	46	26	57%	30	66	220%	30	90	300%	30	150	500%
Total Active Groups [2]	106	156	147%	115	182	158%	126	241	191%	128	330	258%	128	495 [3]	387%
Non-Active Groups [1]	0	0	NA	37	0	0%	19	7	37%	28	1	4%	30	0	0%
Cumulative Groups Served [2]	106	156	147%	152	182	120%	182	248	136%	212	338	159%	242	503	208%
Members Receiving Loans	2820	5043	179%	3090	5427	176%	3420	8297	243%	3480	10661	306%	3480	22132	636%

Depth of Outreach Indicators

	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Percentage of Women	100	100	100%	100	100	100%	100	100	100%	100	100	100%	100	100	100%
Avg Disbursed Loan Size	NP	NA	NA	NP	94	NA	NP	134	NA	NP	136	NA	NP	160 [4]	NA
GNP Per Capita	NP	900	NA	NP	590	NA	NP	600	NA	NP	600	NA	NP	600	NA
Avg. Loan Per GNP/Capita	NP	NA	NA	NP	15.9%	NA	NP	22.3%	NA	NP	22.7%	NA	NP	26.7%	NA

Program Financial Performance Indicators

	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Operational Self-Sufficiency	100	100	100%	100	95	95%	100	114	114%	100	150	150%	100	140	140%
Repayment Rate	100	100	100%	100	97	97%	100	97	97%	100	98	98%	100	98 [5]	98%
Member's Savings (Bal 000's)	386	431	112%	247	491	199%	395	519	131%	565	563	100%	896	1105	123%

Institutional Development Indicators

	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Number of Promoters	7	14	200%	8	19	238%	10	28	280%	12	34	283%	12	60	500%
Addition to Loan Fund [6]	151	213	141%	3	47	1551%	126	145	115%	147	161	110%	235	32	13%
Size of Loan Fund (000's) [7]	301	314	104%	304	289	95%	430	898	209%	577	798	138%	812	1240	153%

[1] Actually number of Community banks planned to be Graduated

[2] Includes starting base of 76 Community Banks.

[3] Note that Honduras now has three types of programs, which makes the "total active groups" category inappropriate as an aggregated number. The number reported here breaks down as: 1) 495 community banks; 2) 250 solidarity groups; and 3) 41 individual borrowers.

[4] For community bank members. Average loan size for solidarity groups is $482 and for individual loans is $1,879.

[5] For community bank members. On time repayment for solidarity groups is 99% and for individual loans is 84%.

[6] In Yr2-Yr5 includes Matching Grant additions to loan fund only. Does not include additions to loan fund from other sources.

[7] The number reported for "size of loan fund" is actually "outstanding loans". The latter will approximate but will be somewhat less than former.

Burkina Faso Program Summary

Matching Grant Program - October 93 to September 98

	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Breadth of Outreach Indicators															
New Groups Established	24	30	125%	36	57	158%	36	53	147%	30	41	137%	30	88	293%
Total Active Groups [2]	62	68	110%	60	107	178%	84	139	165%	92	133	145%	94	197	210%
Non-Active Groups [1]	0	0	NA	38	18	47%	12	21	175%	22	47	214%	28	24	86%
Cumulative Groups Served [2]	62	68	110%	98	125	128%	134	178	133%	164	219	134%	194	307	158%
Members Receiving Loans	2400	1956	82%	2340	2804	120%	3060	3401	111%	3300	3325	101%	3360	5973	178%
Depth of Outreach Indicators															
	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Percentage of Women	80	83	104%	80	86	108%	80	88	110%	80	90	113%	80	91	114%
Avg Disbursed Loan Size	NP	97	NA	NP	101	NA	NP	130	NA	NP	117	NA	NP	125	NA
GNP Per Capita	NP	320	NA	NP	330	NA	NP	300	NA	NP	300	NA	NP	230	NA
Avg. Loan Per GNP/Capita	NP	30.3%	NA	NP	30.6%	NA	NP	43.3%	NA	NP	39.0%	NA	NP	54.3%	NA
Program Financial Performance															
	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Operational Self-Sufficiency	80	5	6%	79	50	63%	81	70	86%	88	65	74%	91	83	91%
Repayment Rate	90	97	108%	92	88	96%	94	95	101%	95	89	94%	96	93	97%
Member's Savings (Bal 000's)	289	35	12%	128	62	48%	219	109	50%	263	83	32%	274	121	44%
Institutional Development															
	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Number of Promoters	8	8	100%	10	9	90%	10	11	110%	11	12	109%	11	13	118%
Addition to Loan Fun [3]	143	64	45%	0	36	NA	42	63	150%	64	61	95%	16	?	######
Size of Loan Fund (000's)[4]	318	104	33%	318	183	58%	360	177	49%	424	220	52%	440	365	83%

[1] Actually number of Community banks planned to be Graduated

[2] Includes starting base of 38 Community Banks.

[3] In Yr2-Yr5 includes Matching Grant additions to loan fund only. Does not include additions to loan fund from other sources.

[4] The number reported for "size of loan fund" is actually "outstanding loans". The latter will approximate but will be somewhat less than former.

75

Mozambique Program Summary
Matching Grant Program - October 93 to September 98

Breadth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
New Groups Established	12	16	133%	18	45	250%	18	24	133%	18	55	306%	18	54	300%
Total Active Groups	12	16	133%	30	60	200%	48	84	175%	62	136	219%	66	179 [2]	271%
Non-Active Groups [1]	0	0	NA	0	1	NA	0	0	NA	4	3	75%	14	11	79%
Cumulative Groups Served	12	16	133%	30	61	203%	48	85	177%	66	140	212%	84	194	231%
Members Receiving Loans	360	696	193%	900	1951	217%	1440	2147	149%	1980	2965	150%	2280	6566	288%

Depth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Percentage of Women	80	90	113%	80	80	100%	80	80	100%	80	82	103%	80	76	96%
Avg Disbursed Loan Size	NP	30	NA	NP	24	NA	NP	46	NA	NP	62	NA	NP	90 [3]	NA
GNP Per Capita	NP	80	NA	NP	80	NA	NP	90	NA	NP	90	NA	NP	80	NA
Avg. Loan Per GNP/Capita	NP	37.5%	NA	NP	30.0%	NA	NP	51.1%	NA	NP	68.9%	NA	NP	112.5%	NA

Program Financial Performance	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Operational Self-Sufficiency	15	1	7%	41	17	41%	68	50	74%	92	40	43%	100	85	85%
Repayment Rate	96	100	104%	97	100	103%	98	88	90%	98	98	100%	98	87 [4]	89%
Member's Savings (Bal 000's)	5	4	72%	25	14	55%	67	28	41%	116	52	45%	122	97	80%

Institutional Development	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Number of Promoters	2	4	200%	4	7	175%	6	9	150%	8	12	150%	8	13	163%
Addition to Loan Fund	12	6	53%	24	0	-1%	36	-14	-40%	39	-16	-41%	14	124	886%
Size of Loan Fund (000's)[5]	12	6	53%	36	36	99%	72	58	80%	111	95	86%	125	285	228%

[1] Actually number of Community banks planned to be Graduated

[2] Note that Mozambique experimented with individual loans. The individual loan program is being phased out, but had 38 loans outstanding at the end of the year which are not included in this number.

[3] For community bank members. Average loan size for individual loans is $682.

[4] For community bank members. On time repayment for individual loans is 73%. Individual loan progam is being discontinued.

[5] The number reported for "size of loan fund" is actually "outstanding loans". The latter will approximate but will be somewhat less than former.

Rwanda Program Summary

Matching Grant Program - October 93 to September 98

Breadth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
New Groups Established										36	10	28%	45	35	78%
Total Active Groups										36	10	28%	81	44	54%
Non-Active Groups [1]										0	0	NA	0	1	NA
Cumulative Groups Served										36	10	28%	81	45	56%
Members Receiving Loans										1155	306	26%	2673	1479	55%

Depth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Percentage of Women										80	89	111%	80	96	120%
Avg Disbursed Loan Size										NP	50	NA	NP	57	NA
GNP Per Capita										NP	180	NA	NP	180	NA
Avg. Loan Per GNP/Capita										NP	27.8%	NA	NP	31.7%	NA

Program Financial Performance	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Operational Self-Sufficiency										38	40	105%	63	14	22%
Repayment Rate										98	99	101%	98	99	101%
Member's Savings (Bal 000's)										1	2	200%	18	35	193%

Institutional Development	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Number of Promoters										4	5	125%	9	12	133%
Addition to Loan Fund										38	-29	-76%	44	-31	-70%
Size of Loan Fund (000's)[2]										38	9	24%	82	51	62%

[1] Actually number of Community banks planned to be Graduated

[2] The number reported for "size of loan fund" is actually "outstanding loans". The latter will approximate but will be somewhat less than former.

Liberia Program Summary [1]

Matching Grant Program - October 94 (Yr2) to September 98

	Breadth of Outreach Indicators			
	Actual			
	Yr 2	Yr 3	Yr 4	Yr 5
New Groups Established	16	13	15	63
Total Active Groups	16	29	21	84
Non-Active Groups [2]	0	23 [2]	0	0
Cumulative Groups Served	16	29	21	84
Members Receiving Loans	701	742	571	1917

	Depth of Outreach Indicators			
	Actual			
	Yr 2	Yr 3	Yr 4	Yr 5
Percentage of Women	100	100	100	99
Avg Disbursed Loan Size	53	50	60	100
GNP Per Capita	NA	NA	NA	600
Avg. Loan Per GNP/Capita	NA	NA	NA	16.7%

	Program Financial Performance			
	Actual			
	Yr 2	Yr 3	Yr 4	Yr 5
Operational Self-Sufficiency	10	NA [2]	NA [2]	60
Repayment Rate	100	NA [2]	97	94
Member's Savings (Bal 000's)	3	4	6	44

	Institutional Development			
	Actual			
	Yr 2	Yr 3	Yr 4	Yr 5
Number of Promoters	3	3	4	10
Addition to Loan Fund [3]	0	0	0	0
Size of Loan Fund (000's) [4]	23	31	27	100

[1] There are no projections for this program, since it was added after the start of the MG.

[2] The program was halted for about 12 months due to sever civil unrest in the program area.

[3] Since L:iberia was a secondary MG country, this program did not receive funds for adminstration nor loan fund activities.

[4] The number reported for "size of loan fund" is actually "outstanding loans". The latter will approximate but will be somewhat less than former.

78

Organization: World Relief Honduras
Paso a Paso Project
Portfolio Report

	Sept '98	Sept '97	Difference	% Change
Total value of loans disbursed during period	0	0	0	ERR
Total number of loans disbursed during period	0	0	0	ERR
Number of loans oustanding (end of period)	0	0	0	ERR
Number of borrowers served during period	0	0	0	ERR
Value of loans oustanding (start of period)	0	0	0	ERR
Value of loans oustanding (end of period)	0	0	0	ERR
Average outstanding balance of loans	0	0	0	ERR
Average loan size outstanding	ERR	ERR	ERR	ERR
Value of payments in arrears >30 days	0	0	0	ERR
Value of outstanding balance of loans in arrears >30 days	0	0	0	ERR
Value of loans written off during period	0	0	0	ERR
Long run loss rate	ERR	ERR	ERR	ERR
Nominal interest rate charged	0	0	0%	ERR
Effective annual interest rate	0	0	0%	ERR
Local interbank interest rate	0	0	0%	ERR
Inflation rate	0	0	0%	ERR
Adjusted financial expenses	0	0	0	ERR
Total expenses	0	0	0	ERR
Return on operations	ERR	ERR	ERR	ERR
Number of savers	0	0	0	ERR
Total savings outstanding	0	0	0	ERR
Percentage female clients	0	0	0%	ERR
Average number of loan officers during period	0	0	0	ERR
Number of clients per loan officer (end of year)	ERR	ERR	ERR	ERR
Average portfolio per loan officer	ERR	ERR	ERR	ERR
No. of loans outstanding with initial balance <$300	0	0	0	ERR

Aging Report (Current Fiscal Year)
Value of Payments in Arrears

	Amount	Percent
0 - 30 days past due		
31 - 60 days past due		
61 - 90 days past due		
> 90 days past due		
TOTAL		

Outstanding Balance of Loans in Arrears	Amount	Percent
> 30 days past due		

Organization: World Relief Honduras
Paso a Paso Project
Balance Sheet

As of September 30, 1998 and September 30, 1997

	September 30, 1998		September 30, 1997	
ASSETS				
Cash and Bank Current Accounts		0.00	0.00	0.00
Interest Bearing Deposits		0.00	0.00	0.00
Loans Outstanding:				
Current	0.00		0.00	
Past-due	0.00		0.00	
Loans Outstanding	0.00		0.00	
(LOAN LOSS RESERVE)	0.00		0.00	
Net Loans Outstanding		0.00		0.00
TOTAL CURRENT ASSETS		0.00		0.00
Long Term Investments		0.00		0.00
Property and Equipment				
Cost	0.00		0.00	
(Accumulated Depreciation)	0.00		0.00	
Net Property and Equipment		0.00		0.00
TOTAL LONG-TERM ASSETS		0.00		0.00
TOTAL ASSETS		0.00		0.00
LIABILITIES AND NET WORTH				
LIABILITIES				
Loans from Community Banks	0.00		0.00	
Loans from COVELO				
Other Loans	0.00		0.00	
TOTAL CURRENT LIABILITIES		0.00		0.00
Long-term Debt		0.00		0.00
TOTAL LIABILITIES		0.00		0.00
NET WORTH				
Loan Fund Capital	0.00		0.00	
Retained Net Surplus prior years	0.00		0.00	
Current-year Net Surplus	0.00		0.00	
TOTAL NET WORTH		0.00		0.00
TOTAL LIABILITIES & NET WORTH		0.00		0.00

Organization: World Relief Honduras
Paso a Paso Project
Income statement in US Dollars

For 12 months ended September 30, 1998
Compared with 12 months ending September 30, 1997

	FY98	FY 97
REVENUE		
Interest on Loans	0.00	0.00
Interest on Investments	0.00	0.00
Other Income	0.00	0.00
Total Income	0.00	0.00
ADMINISTRATIVE EXPENSES		
Salaries & Benefits	0.00	0.00
Office Expenses	0.00	0.00
Depreciation	0.00	0.00
Subtotal Administrative Exp.	0.00	0.00
FINANCIAL COSTS		
Interest Paid on Deposits	0.00	0.00
Interest on Debt	0.00	0.00
Loan Loss Provision	0.00	0.00
Subtotal Financial Costs	0.00	0.00
Total Operating Expense	0.00	0.00
NET OPERATING PROFIT	0.00	0.00
Income From Grants for Operations	0.00	0.00
Income From Grants for Loan Fund	0.00	0.00
EXCESS OF INCOME OVER EXPENSE	0.00	0.00

Annex 12

Documents Consulted

World Relief General

Boyle, Philip. *Midterm Evaluation of World Relief Corporation Income Generation Cooperative Agreement.* September 1996. AMA Technologies Inc.

Cawley, James and Mark Flaming. *Final Evaluation of World Relief Corporation's Matching Grant Program for Income Generation.* Washingtong, D.C. July 1992.

De Vletter, F. *World Relief Community Banking Project Mid-Term Evaluation Report: Mozambique.* July 1996.

Freedom from Hunger and World Relief Corporation. *Preliminary Results from CREDO/RCPB Impact Evaluation in Burkina Faso.* Memo to Ken Graber from Barbara MkNelly. 17 December 1996.

Lassen, Cheryl A. *World Relief Corporation: The Challenge of Modernizing its Approach to Poverty Alleviation.* Mid Term Evaluation of 1987-1993 Matching Grant. March 1991.

World Relief Corporation. *Addendum Proposal: Addition of Rwanda as a Direct Program Country.* 12 August 1996.

World Relief Corporation. *Capacity Building for Microenterprise Development. Application for 1998-2003 Matching Grant.* December 1997.

World Relief Corporation. *Credere: News from the World Relief MicroCredit Network.*
June 1997. Vol. 1. No. 1.
April 1998. Vol. 2. No. 1
August 1998. Vol. 2. No. 2.

World Relief Corporation. *Detailed Implementation Plan andQuarterly Report October-December 1993.* 11 February 1994.

World Relief Corporation. *FY 1993 Matching Grant Application.* 1993.

World Relief Corporation. M*atching Grant Annual Report.*
1 October 1997-30 September 1998. Submitted 28 August 1998.
1 October 1996-30 September 1997. Submitted 28 August 1997.
1 October 1995-30 September 1996. Submitted 12 September 1996.
1 October 1994-30 September 1995. Submitted 30 August 1995.
1 October 1993-30 September 1994. Submitted 30 August 1994.

World Relief Corporation. *1997 Annual Report.*

World Relief Corporation. *Trip Reports. Various from Burkina Faso, Cambodia, Honduras, Liberia, Mozambique, and Rwanda.* World Relief Corporation

Other Country Program Related

Numerous documents from CREDO. See separate CREDO evaluation report for documents consulted.
Funding proposals for other country programs.

Microfinance and General

CGAP. *Format for Appraisal of Microfinance Institutions.* CGAP Secretariat, Washington, D.C. 20 August 1998.

Doyle, Karen. *Microfinance in the Wake of Conflict: Challenges and Opportunities.* The SEEP Network. March 1998.

Nelson, Candace, Barbara MkNelly, Kathleen Stack, and Lawrence Yanovitch. *Village Banking: The State of the Practice.* New York: The SEEP Network. 1996.

CREDO

Community Banking Program

Matching Grant Program Final Evaluation

Prepared for the Office of Private and Voluntary Cooperation

Bureau of Humanitarian Response

United States Agency for International Development

Beth A. Porter

December 1998

84

Acronyms

BCEAO	Banque de Communaute des Etats de l'Afrique de l'Ouest (West African Community Bank)
CB	Community Bank Program
CREDO	Christian Relief and Development Organization
DIP	Detailed Implementation Plan
FFH	Freedom from Hunger
GY	Grant Year
IPAD	Institut Pan Africain de Developpement
MC	Management Committee (of Community Banks)
MED	Microenterprise Development
MEDTU	Microenterprise Development Technical Unit
MFI	Microfinance Institution
MG	Matching Grant
RCP	Reseau des Caisses Populaires
SPONGS	Secretariat Permanent des Organisations Non-Gouvernmental (Permanent Secretariat of NGOs)
WB	World Bank
WRC	World Relief Corporation

Table of Contents

86

Annexes

EXECUTIVE SUMMARY

A. Background to CREDO

Christian Relief and Development Organization (CREDO) is a Christian non-profit relief and development organization, created by Burkina nationals out of a program office of World Relief and officially recognized by the Government of Burkina Faso in November 1993. CREDO works to relieve human suffering in the world by bringing financial and technical support to marginalized people. CREDO's mission is to respond to the basic needs of the poor and through savings and credit in particular to provide the poor with the opportunity to achieve self-sufficiency. CREDO is a multi-sectoral organization, which carries out activities in a number of areas in addition to savings and credit, including training, agricultural development, gender and development, assistance to children, health and hygiene, village water supply, and environment.

CREDO's Community Banking Program predated its establishment as an independent NGO, first as a project that provided credit to women's groups and church groups for grain mills and other group projects. In 1991, CREDO decided to make some changes in its credit activities: (1) provide credit to individuals through a group mechanism; (2) focus on women, who had demonstrated better repayment and seemed to benefit more from credit; and (3) no longer work through churches as partners, based on poor collection records and seeming incompatibility with welfare versus developmental approach. World Relief/Burkina Faso received support under the USAID 1987-1992 MG to World Relief. Burkina Faso was included in the subsequent Matching Grant 1993-1998, first as World Relief/Burkina Faso, and later as CREDO. CREDO has been successful in establishing an independent identity from World Relief and positioning itself as a player in the field of microfinance in Burkina Faso.

B. Evaluation Purpose and Methodology

The purpose of the evaluation was to assist CREDO and World Relief Corporation (WRC) in assessing the status of CREDO's microfinance activities and make recommendations on how to go forward. It was also intended to provide WRC with information to use in future work with CREDO and other partners in microfinance under the new Matching Grant (1998-2003). Finally, it was intended to provide USAID with insights into the impact of the Matching Grant on WRC and partners/country offices selected to participate in the grant. The evaluation of CREDO was part of a larger evaluation that included a country program evaluation of World Relief/Mozambique conducted by Beth Rhyne, and an overall evaluation of the Matching Grant at WRC headquarters in Wheaton conducted by Beth Porter. Results from these two evaluations can be found in separate reports. The methodology used was the CGAP Appraisal Format, which focuses on the institutional capacity and performance of microfinance institutions, supplemented by an assessment of the extent to which the Matching Grant contributed to CREDO's achievements.

C. Main Results

CREDO has made significant strides during the course of the Matching Grant in building a solid microfinance program. Members of the staff are committed and have a shared vision of the role microfinance can play in improving the lives of poor women in the communities where they work. Clients are enthusiastic about the services they receive from CREDO and appreciate the continued access to credit facilities. The Community Banking (CB) program has achieved a relatively broad reach of nearly 6,000 members who received loans during 1998. This number could be much higher, however, with more aggressive projections and institutional capacity building—through hiring and training and sound resource management. CREDO has achieved significant depth in its reach: women make up 91%

of its clients and the relatively poor figure prominently amongst the clients (the average loan size is only 39% of the per capita GNP). In terms of program financial performance, at 93%, its repayment rate is good, although not excellent. It is moving closer to operational self-sufficiency at 83%, but some lax practices in terms of liquidity management, delinquency management, and pricing policies are hampering its progress. Recently CREDO has introduced a number of new loan products; unfortunately, some of them are already putting the portfolio quality at risk. CREDO needs to heed the experiences of institutions elsewhere and introduce new products more gradually, and only after ensuring that the staff have the loan appraisal and management skills to take on new products. CREDO has also not focused adequately on pricing policies and implications for institutional income and portfolio mix, which will have an effective on overall portfolio yield and sustainability. Through the Matching Grant, CREDO has had access to important training and exposure opportunities that have increased the capacity and knowledge base of key staff and led to some improvements in program management and policies. It is important for CREDO to have continued access to such opportunities, but it is also essential that the lessons learned be better incorporated into CREDO's own program. The recommendations which come out of the institutional assessment and which are summarized in the section below are not too difficult to implement, but they do require institutional commitment from top to bottom to implement them on a consistent basis. CREDO is providing much demanded financial services to a number of underserved communities in Burkina Faso—and with commitment and focus it has the potential to provide even higher quality services on a sustainable basis to many more people in the future.

D. Major Recommendations

The major recommendations are summarized below. Recommendations are italicized throughout the report. Detailed recommendations are found in the last section of the report.

Institutional Factors

1. CREDO should further decentralize decisionmaking and authority to the CB Coordinator who should be responsible for managing the Community Bank Program (which might be called the Microfinance Program in the future, given the introduction of new products). She should be supported by Area Supervisors who would directly supervise the Promoters in their respective areas.

2. CREDO should build capacity by recruiting an experienced MIS Specialist and obtain additional support for financial management, perhaps by hiring a part time highly skilled person.

Products and Services/Clientele and Markets

1. CREDO should urgently review its policies and practices regarding graduation of CBs. Instead of the current practices, CREDO should liberalize access to savings and encourage voluntary savings. In addition, it may want to provide a limited number of additional products for clients with a significant track record.

2. CREDO should urgently focus on reviewing and revising its savings policies and seek technical assistance in how to better manage client and non-client savings. Furthermore, it should reconsider becoming a licensed provider of microfinance services, which would provide it with the legal basis for offering such services.

3. CREDO should urgently review and revise its loan product offerings. It should first focus on how to improve its core and most lucrative product: **community banking**. It could continue to offer **supplemental loans**, but it should charge equal or close to the rate for community banking loans so that it does not undermine this product. **Solidarity group loans** should not be an option until a member has

89

participated in three years of the community bank program. If CREDO is finding that the loan ceiling for community bank loans is too low, then it would be better to raise the ceiling for later cycles then drive members out of the bank in order to access larger loans. **Individual loans** should not be offered at all, at least at the present time, due to the increased risk, increased cost, and lack of capacity to manage and track the loans.

Financial Analysis and Financial Management

1. CREDO should age its arrears and its portfolio at risk monthly. Furthermore, it should include a category of 1-30 days late for internal management. This data should be shared with all CB program staff and used to manage delinquency and as a basis for performance-based incentives for Promoters.

2. Reports should be generated monthly and include data during the period as well as outstanding at the end of the period. Performance indicators should be generated monthly to facilitate effective program management, and should be utilized by all CB program staff for management and decisionmaking.

3. CREDO should review the factors affecting its yield in order to accelerate its progress towards operational and financial self-sufficiency. Key areas requiring review and improvement are pricing policies, delinquency management, and loan fund utilization.

4. CREDO should clearly define and implement write off policies. CREDO should track its write offs and loan loss ratios and adjust its reserves accordingly.

Strategic Planning and Perspectives on the Future

1. CREDO should carry out a more detailed strategic planning exercise for the next 3-5 years with a focus on the community banking program. This plan should include portfolio projections which indicate requirements for loan capital as well as operational expenses and staffing requirements so that these can be in place on a timely basis.

2. CREDO should develop a medium term resource mobilization strategy. Most operational expenses should be covered by interest income from a well-managed portfolio of appropriately priced products and high utilization of loan funds. The majority of loan capital should initially come from CREDO's own underutilized loan capital, later complemented with grant equity funding. As part of this initiative, CREDO should develop a strategy for educating its donors about more effective ways of institution building and about microfinance in general. In the medium term, CREDO should also begin thinking about alternative sources of funds.

3. CREDO should carefully study the ramifications of compliance with the BCEAO microfinance regulations and take appropriate actions.

90

I. INTRODUCTION AND OVERVIEW

A. Statistical Overview and Matching Grant Targets and Achievements

The table on the following page provides a quantitative program summary of the achievements of the CREDO Community Banking Program during the period covered by the Matching Grant, October 1993 – September 1998. The amounts are in US Dollars.

In terms of meeting its targets, overall CREDO performed well during the course of the Matching Grant. It significantly exceeded most of its **breadth of outreach** targets. For example, in GY5, CREDO was serving 210% of the targeted active groups and 178% of the target number of members were receiving loans. Part of the reason that it was so successful in achieving these targets, however, is that they were not ambitious targets. Most microfinance programs would not consider an increase from 2,400 members receiving loans to 5,973 over four years as adequate growth, especially for an organization which has already been operating for several years. In terms of **depth of outreach**, CREDO performed quite well. Ninety one percent (91%) of its clients being women compared with the target of 80%. During the course of the Matching Grant, CREDO found that men's rates of repayment were significantly lower than women's, and therefore stopped outreach to men (although existing male clients were allowed to continue). The low average loan size compared to the GNP per capita (ranging from 30%-39% during the course of the MG) indicates that CREDO reached the relatively poor through its community banking program. In terms of **financial performance**, however, CREDO fell short of expectations. Its progress towards operational self-sufficiency was rocky, and started from a much lower base in GY1 (5%) than expected (80%). The reasons for the slower progress are outlined in the report, and can be readily addressed through better fund utilization and more strategic pricing policies. CREDO experienced slightly lower repayment rates than anticipated, with a repayment rate of 93% in GY5—respectable, but not up to par with high performing microfinance institutions. The members savings is the area in which CREDO had the poorest performance compared to targets, with less than 50% of the target in each grant year. **Institutional development** as represented by number of promoters and additions to loan fund was roughly on target. In regard to outstanding loans, CREDO was significantly below its targets each year. This results in outreach to fewer clients and less income and thereby lower self-sufficiency for CREDO. The fund utilization rate, as will be seen later in the report, has been consistently low.

Burkina Faso Program Summary

Matching Grant Program – October 93 to September 98

Breadth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
New Groups Established	24	30	125%	36	57	158%	36	53	147%	30	41	137%	30	88	293%
Total Active Groups [2]	62	68	110%	60	107	178%	84	139	165%	92	133	145%	94	197	210%
Non-Active Groups [1]	0	0	NA	38	18	47%	12	21	175%	22	47	214%	28	24	86%
Cumulative Groups Served [2]	62	68	110%	98	125	128%	134	178	133%	164	219	134%	194	307	158%
Members Receiving Loans	2400	1956	82%	2340	2804	120%	3060	3401	111%	3300	3325	101%	3360	5973	178%

Depth of Outreach Indicators	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Percentage of Women	80	83	104%	80	86	108%	80	88	110%	80	90	113%	80	91	114%
Avg Disbursed Loan Size	NP	97	NA	NP	101	NA	NP	130	NA	NP	117	NA	NP	125	NA
GNP Per Capita	NP	320	NA	NP	330	NA	NP	300	NA	NP	300	NA	NP	320	NA
Avg. Loan Per GNP/Capita	NP	30%	NA	NP	31%	NA	NP	43%	NA	NP	39%	NA	NP	39%	NA

Program Financial Performance	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Operational Self-Sufficiency	80	5	6%	79	50	63%	81	70	86%	88	65	74%	91	83	91%
Repayment Rate	90	97	108%	92	88	96%	94	95	101%	95	89	94%	96	93	97%
Member's Savings (Bal 000's)	289	35	12%	128	62	48%	219	109	50%	263	83	32%	274	121	44%

Institutional Development	Plan Yr 1	Actual Yr 1	% of Plan	Plan Yr 2	Actual Yr 2	% of Plan	Plan Yr 3	Actual Yr 3	% of Plan	Plan Yr 4	Actual Yr 4	% of Plan	Plan Yr 5	Actual Yr 5	% of Plan
Number of Promoters	8	8	100%	10	9	90%	10	11	110%	11	12	109%	11	13	118%
Addition to Loan Fund [3]	143	64	45%	0	36	NA	42	63	150%	64	61	95%	16	?	####
Size of Loan Fund (000's)[4]	318	104	33%	318	183	58%	360	177	49%	424	220	52%	440	365	83%

[1] Actually number of Community banks planned to be Graduated; [2] Includes starting base of 38 Community Banks;
[3] In Yr2-Yr5 includes Matching Grant additions to loan fund only. Does not include additions to loan fund from other sources. 4 The number reported for "size of loan fund" is actually "outstanding loans." The latter will approximate, but be somewhat larger than the former.

92

B. Synopsis of Progress and Challenges under the Matching Grant

The following provides a synopsis of the year by year evolution of the community banking program in Burkina Faso under the Matching Grant (MG) submitted in October 1992 and updated by the Detailed Implementation Plan (DIP) written in February 1994. This summary is based largely on the Annual Reports for the MG produced by WRC, and is supplemented by CREDO's own Community Banking Program Annual Reports, and by discussions held during the course of the evaluation.

Grant Year 1: At the start of the MG, the program had 58 community banks on paper, but 20 were inactive due to problems from the beginning of the program in 1991 and had to be written off during GY1. During GY1, 30 new banks were added for a total of 68 active. All but one of the new banks was in rural areas, based on its early experience of defaulting banks from urban areas. [1] The starting value of the loan fund was $75,290 [2] and injections during the year totaled about $147,000. Nevertheless, due to the devaluation of the CFA in January 1994, the dollar value at year-end was only $104,000. Similar factors affected the accumulated savings figures, with a total of $27,000 of savings at year-end as opposed to the projected $38,000. In addition to the devaluation and longer loan cycles, members saved less initially than the recommended minimum. The percentage of women increased to 83% overall, with the percentage of women in more recent banks considerably higher than in the older banks. This change in emphasis was based on the experience that many of the initial problems were with male clients. The devaluation also necessitated an increase in the maximum initial loan size from 25,000 CFA to 50,000 CFA (with the result that the dollar value of the maximum initial loans remained below $100). Interest income was significantly lower than expected at $5,500 compared to $85,214, due to smaller than expected initial loan fund, large amount of payments in arrears, and lower than anticipated initial interest rate. In response, a number of changes were made, including increasing the interest rate from 12% per year to 30% per year, an increase in maximum initial loan size, and a strategy to increase loan demand growth. A major milestone for the year was the recognition of CREDO as an independent NGO.

Grant Year 2: This year was considered a "break through year" for CREDO. During GY2, CREDO began working in three more rural provinces, bringing the total number of provinces to seven. The number of active banks was increased to 107, which is significantly over the target of 60 active banks. One of the most impressive achievements during the year was the increase in the operational self-sufficiency from 6% in the GY1 to 50% in GY2. This can be attributed to the increase in interest rates charged by CREDO, cost cutting and expansion to new areas. During this year, CREDO maintained the policy of graduating banks which have completed three years of lending operations, with the graduation of 13 banks. [3] Some of these graduated banks requested that CREDO continue to hold their savings—even without earning interest. This demonstrates the value that clients place on having a secure place to keep their savings and the trust and confidence they have in CREDO. One of the main challenges during the year was the problem of "subsidized competition." A number of banks, particularly in certain branches ceased making repayments when another national NGO began giving out "loans" without any apparent attempt to collect repayments. This highlights the lack of understanding of local NGOs,

---

[1] Towards the end of the Matching Grant, CREDO reverted to establishing urban banks, based on its experience that there is a higher demand in such areas. It will be important for CREDO to keep in mind its early problems with urban banks, so as to avoid repeating them.

[2] The initial value of the loan fund was projected to be $175,000 at the time of the writing of the MG proposal. Due to slower growth in demand than expected and longer cycles than anticipated (6 months instead of 4 months), the initial value of the loan fund was only $75,290.

[3] A number of banks chose not to graduate, but instead preferred to continue to access savings and credit services through CREDO.

93

government, and even World Bank representatives [4] about best practices in microfinance. Another problem affecting program performance was loan stagnation, with average loan sizes experiencing little to no growth between cycles.

Grant Year 3: CREDO extended its outreach to include two additional rural provinces during this grant year, bringing the total to nine provinces. The main highlights of the year included that the total active groups were far greater than planned with a commensurately larger number of loans being disbursed, operational self-sufficiency increased from 50% to 70%, and the repayment rate improved from 88% to 95%. In addition, the mid-term evaluation was carried out, providing some recommendations for CREDO on how to move forward. Finally, a number of training events was carried out. Only ten banks graduated during the year, as many members preferred to continue with the program. As a result, CREDO decided to reconsider its graduation policy. Group discussions indicated that there are four areas of impact of the program: (1) enhanced health of the family; (2) improved nutrition; (3) increased school attendance; and (4) improved hygiene. The quality of an external investigation of loan stagnation was disappointing and no conclusive results were drawn.

Grant Year 4: During this year according to the MG Annual Report, CREDO moved several steps forward, and a few steps back. The community banking program experienced significant new growth through the addition of 41 new banks. The total number of active banks at 133 actually represented a decrease from the prior year at 139, however, due to the de-activation of 47 banks, mostly to graduation. Many banks left due to CREDO's continued policy of permitting savings withdrawals only at the time of graduation. As a result, the repayment rate declined from 95% to 89%. Both of these contributed to a decline in operational self-sufficiency from 70% to 65%. In addition to the negative repercussions this graduation has on the sustainability of CREDO, it is not clear what these banks are graduating to. As part of a strategic planning exercise facilitated by the MED Coordinator, the program management decided to discontinue the practice of bank graduation. In order to ease the entry and exit of individual members, without the entire bank having to leave, less emphasis was to have been placed on solidarity groups within the community banks. Although a new policy was introduced which allowed for the withdrawal of any savings beyond 20% of the current loan for individual loans, it was not extended to members of the community banks. . Another factor that contributed to a decline in self-sufficiency was the low loan fund utilization rate (34%), which resulted in sub-optimal fund usage and lower revenues. This is attributable in part to seasonal fluctuations, particularly as the end of the MG fiscal year coincides with "la saison morte" (the dead season), but a large part of the loan funds were simply lying dormant. CREDO's largest asset was thus not being put to work to generate income for the program or to provide demanded services. World Relief and Freedom from Hunger (FFH) conducted an in-depth impact study of the credit only approach of CREDO and the credit with education approach of Reseau des Caisses Populaires (RCP), FFH's partner. The study showed a number of positive effects of CREDO's program on clients, including increased income (81%) and improved nutrition (74%). Many of CREDO's clients (46%-51%) reported that they had learned, tried, or advised others on new health and nutrition practices. These results were similar to or better than those involved in the RCP program. CREDO took an important step by adding the role of Promoter Supervisors to be responsible for playing the role of internal auditors in addition to management responsibilities.

Grant Year 5: This year represented another breakthrough year for CREDO, with significant improvements in performance. CREDO established 100 new banks while only losing 11 to graduation or other reasons, for a total number of active banks at 222. CREDO added two new branches, including one

[4] The local World Bank office initially stipulated that in order to access an operational grant and concessional loan, CREDO would not be permitted to charge interest to clients. After some discussions, CREDO management succeeded in convincing the World Bank representatives and even secured their support for influencing others in the country to move toward similar policies. This is a laudable achievement in policy advocacy on CREDO's part.

in Bobo Dioulasso, representing a return to urban areas. The on time repayment increased from 89% to 96%, with an increase in operational self-sufficiency from 65% to 83%. After years of seeking financing for its literacy program, CREDO introduced this component this year, and provided support to 773 clients, primarily members of management committees, to seek literacy training. Loan fund utilization, while improved from 34% during the previous year, remained low at 53%. The GY5 Annual Report attributes the low utilization to: CREDO success in fundraising more than it can use and widely fluctuating demand due to seasonal factors. The problem of subsidized competition remains, with other programs continuing to provide interest free loans. Program management noted that in many areas this problem has subsided, as some of these programs have run out of money to lend, since they were not collecting on the funds they previously lent. CREDO piloted several new loan products during the year, including individual loans, solidarity group lending, and supplemental loans for agriculture, livestock, and transportation. Results varied, with individual lending showing the poorest repayment performance at 61%. The issue of institutional structure and legal status will need to be addressed further as the government has adopted the BCEAO regulations mandating that organizations providing financial services convert to a formal financial institution. In Burkina Faso, as elsewhere in BCEAO member countries, NGOs are not rushing to convert, as it appears the legislation is not very well suited to many of the organizations providing such services.

C. Evaluation Team and Methodology

The evaluation team was comprised of an external microfinance consultant, Beth Porter, who worked with the support and assistance of the World Relief MEDTU Coordinator, Ken Graber. The methodology used was the CGAP Appraisal Format, which focuses on the institutional capacity and performance of microfinance institutions. This was supplemented throughout the evaluation by an assessment of the extent to which the Matching Grant contributed to the capacity building and levels of performance achieved by the institution. The focus of the evaluation was forward looking, in order to provide CREDO with concrete recommendations on how to go forward with their Community Banking Programs, and to provide World Relief with some ideas of how it might support these efforts.

At the beginning of the evaluation, the Evaluator asked key members of CREDO what issues they would like addressed during the course of the evaluation. Their responses are noted below. To the extent possible, the evaluation tried to address these concerns.

- Overall assistance in transitory period: CREDO has accumulated some significant experience in microfinance and is now trying to solidify this experience and build on it;
- How to respond to new regulatory policy on microfinance which has not yet been applied in Burkina Faso, but which is already being applied in Mali and other West African States;
- How to manage CREDO's finances through a mix of financial sustainability for operations and supplementing private funding in an environment in which donor funding is dropping, but demand is growing;
- How to better manage the loan portfolio to avoid loan losses, increase client outreach, maximize CREDO income, and protect the institution against the possibility of another devaluation;
- How to integrate the various loan products which have been tested over the past 9-12 months;
- How to ensure that CREDO continues to reach the target population;
- How to better manage the credit program, perhaps by integrating it into the zonal approach of CREDO.

95

II. INSTITUTIONAL FACTORS

A. History

Christian Relief and Development Organization (CREDO) is a Christian non-profit relief and development organization. Its name comes from the Latin *credo*, meaning "I believe." It was created by Burkina nationals out of a program office of World Relief [5], and was officially recognized by the Government of Burkina Faso in November 1993. The idea of independence began as early as 1990, however, with World Relief and staff exploring various options, including giving the programs to a denomination, starting an NGO, and closing down operations. Given the interest of the 40 trained staff members who wished to continue their work, the interest of other donors in supporting a new NGO, and the needs and demands from the groups served, a decision was made to create an independent NGO. An advisory board assisted with the transition process, which took place between 1993-1995. The role of World Relief during the transition was to provide training in board development, accounting, and community banking; to provide funding for operations as well as programs; and to provide equipment and vehicles through projects. During the last three years of the Matching Grant, World Relief support was to the Community Banking Program, rather than other programs.

Although CREDO still shares the mission of World Relief and its focus on the full development of the poor, there have been some shifts in emphasis, as noted below:

- Sub-regional (West Africa) to national (Burkina Faso) vocation;
- Funding and implementing organization to implementing organization;
- Limited number of programs to many different program activities.

The types of activities have changed, in part with the times and in part with the transition away from drought response to longer-term development activities. For example, CREDO now works in the area of child survival and nutrition as opposed to food security. CREDO has also introduced sponsorship as a major approach to fundraising through some of its European donors.

CREDO's Community Banking Program predated its establishment as an independent NGO, first as a project that provided credit to women's groups and church groups for grain mills and other group projects. After a day of reflection in 1991 with various internal and external stakeholders, CREDO decided to make some changes in its credit activities: (1) provide credit to individuals through a group mechanism; (2) focus on women, who had demonstrated better repayment and seemed to benefit more from credit; and (3) no longer work through churches as partners, based on poor collection records and seeming incompatibility with welfare versus developmental approach. World Relief/Burkina Faso received support under the USAID 1987-1992 MG to World Relief. Burkina Faso was included in the subsequent Matching Grant 1993-1998, first as World Relief/Burkina Faso, and later as CREDO.

CREDO has been successful in establishing an independent identity from World Relief and positioning itself as a player in the field of microfinance in Burkina Faso.

[5] As a response to limited funds at this time, World Relief decided to focus its efforts more on countries dealing with crises or disasters, such as Rwanda and Mozambique. This reallocation of resources expedited the process of creating an independent Burkinabe organization.

B. Legal Structure

In 1994, the BCEAO legislation was introduced in West Africa for mutualist savings and credit institutions; no provisions were made for non-mutualist institutions, leaving them in a gray area. This legislation was not introduced in Burkina Faso until announcements in newspapers in December 1997. In order to comply with the legislation, institutions must separate their financial activities from other activities. One of the regulations is that licensed microfinance institutions must comply with the usury law, which states that the interest rate charged can not be more than twice the discount rate--a regulation which would make sustainability an unreachable goal for any microfinance institution. Those complying are liable for banking taxes, subject to the rather onerous reporting requirements, and must comply with stringent prudential banking ratios. [6] To date, the government has not applied these regulations to institutions beneath a certain threshold of clients—approximately 10,000—and with significant outstanding portfolios. The only institution in Burkina Faso that has brought itself in compliance with these regulations is the Reseau des Caisses Populaires (RCP). For these reasons, CREDO has decided to continue to operate as an unregulated NGO providing microfinance services, until it deems that it is prudent to change its status. There are a number of benefits to compliance, however. Licensed institutions are legally permitted to mobilize savings and can access bank loans at interbank rates. They also benefit from added legitimacy.

Although its decision not to become a licensed financial institution seems appropriate at this time, CREDO should periodically review this decision, and should stay abreast of any changes in the legislation or differences in its application in Burkina Faso, as well as what other microfinance institutions are doing.

C. Mission and Activities

CREDO works to relieve human suffering in the world by bringing financial and technical support to marginalized people. CREDO's mission is to respond to the basic needs of the poor and through savings and credit in particular to provide the poor with the opportunity to achieve self-sufficiency. This mission is in accordance with the religious basis of the organization to attend to those in need, whether in a physical or spiritual sense. The CREDO logo reflects its mission and vision: at the center is a cross, which represents not only the spiritual side of its work, but also the future. The two clasped hands represent partnership. Finally, the egg, which encompasses these images, represents life.

CREDO's goal is to help the needy to become self-sufficient and rediscover their human dignity, made in the image of God, so they can participate in the development of their country. CREDO works in partnership with village groups, women's groups, urban associations, and development association that share CREDO's objectives and ideals. In working with these structures, CREDO provides the following:

- Technical support: CREDO trains development agents with a view to enabling them to effectively manage their activities.
- Institutional support: CREDO encourages the creation of and provides mentoring to development structures.
- Financial support: CREDO assists with provision of funding and identification of other sources of funding.

[6] The following ratios were designed to ensure prudential operation and to reduce risk: (1) loan portfolio must not exceed twice the deposits of members; (2) 15% of annual operating surpluses must be allocated to a general reserve; (3) loans to one member cannot exceed 10% of the value of the members' deposits; (4) short-term assets must equal at least 80% of short-term liabilities. (From: Leila Webster and Peter Fidler, eds., *The Informal Sector and Microfinance Institutions in West Africa.* Washington, D.C.: The World Bank, 1996.)

CREDO is a multi-sectoral organization, which carries out activities in the following areas:

- Training and agricultural development
- Gender and development
- Assistance to children
- Health and hygiene
- Village water supply
- Environment
- Savings and credit

CREDO's work in microfinance is consistent with its mission. The CREDO Promoters are infused with this mission, which provides them with a high level of motivation and commitment. Members of the community banks are also bound together and to CREDO by this shared vision. This dimension of shared vision has a positive effect of bringing people together without the potential negative effect of a welfare/charity based mentality in the banks observed.

D. Governance and Leadership

The structure of the organization is as follows:

General Assembly: sets overall direction for the organization and is comprised of individuals, honorary members, and institutions. The first meeting was held on 21 January 1995, with more than 50 people from different backgrounds including various denominations and other NGOs. At the first meeting, participants drew up the organization's bylaws and statutes and elected the Board of Directors. It meets every two years. At the last meeting in 1997, more than 100 people attended the General Assembly meeting. Membership, a one-time fee, is 10,000 CFA for institutions and 2,500 CFA for individuals. Annual fees are 2,000 CFA for institutions and 1,000 CFA for individuals.

Board of Directors: is composed of twelve members and headed by a president. The Board includes a retiree who heads the social action program at the Burkina Evangelical Center, a civil servant, a social worker, an educator, and an economist. CREDO's two major donors, World Relief and Woord et Daad, also sit on this Board. Currently about one third of the members are women, but CREDO is striving to have an equal number of men and women on the Board of Directors. This body meets two times per year and can be convened on an emergency basis if needed. It is responsible for representing the organization in larger fora, providing advice and counsel as needed, reviewing annual reports, and approving annual budgets. The Board of Directors is composes of the following members:

Name	Role on CREDO Board	Professional Title
Jean Charles Kabre	President	Advisor to Minister of Finance
Edouard Nanema	Member	Administrator, Burkina Faso Government
Florence Palm	Asst Secretary General	Social Worker
Madeleine Napon	Member	School Principal
Youssouf Drabo	Member	Doctor, Professor
Gerard Tiahoun	Member	Retired Civil Servant
Elie Koumbem	Member	Minister
Marc Zalve	Member	Minister
Aissata Sala	Member	Development Worker
Theopile Dakio	Vice President	Agriculturalist

98

Moise Napon	Secretary General	Secretary General, CREDO
David Van Vuren	Member	WRC Africa Regional Director
Reverend Teekken	Member	Woord and Daad

Executive Board: is composed of five members, including the General Secretary and the Secretary of the Board of Directors. This body meets as needed rather than according to a fixed schedule. It is responsible for ensuring the smooth functioning of CREDO on a day-to-day basis.

Permanent Secretariat: is the implementing structure of CREDO, which brings together the development programs and administration. It is headed by a Secretary General and comprised of 82 staff. The General Secretary is responsible for establishing and maintaining relations with external entities, identifying sources of funds, representing CREDO before the Government, and overseeing the operations of CREDO. CREDO has established a management team composed of the following: Secretary General, National Program Coordinator, Assistant Program Coordinator/Coordinator of Community Banking Program, Technical Coordinator, Accountant, and Controller.

E. Alliances

CREDO has established relationships with a wide array of institutions and individuals on the international, national, and local levels. These relationships take a variety of forms: partnerships, funding arrangements, consultancies, trading services, information exchange, networking, joint workshops, collaborative research and studies, collective policy advocacy, etc. CREDO's international and multilateral alliances include:

International

- World Relief—USA
- World Relief—Canada
- Tear Fund—UK
- Tear Fund—Belgium
- SERL—Service Entreaide et de Liaison
- Woord et Daad—The Netherlands
- Bread for the Brothers—Germany
- Strommer Foundation—Norway
- ICCO—The Netherlands
- BandAid
- AEA: Association des Evangeliques de l'Afrique

Multilateral

- UNHCR
- World Bank Food Security and Nutrition Program (PSAN)

On the **national** level, CREDO's alliances include:

- SPONGS: Secretariat Permanent des Organisations Non-Gouvernmental (Permanent Secretariat of NGOs)
- BSONGS: Bureau de Suivi des Organisations Non-Gouvernmental (Monitoring Office of NGOs)
- RECIFF: Reseau de Communication, Information, et Formation des Femmes (Network of Communication, Information, and Training of Women)

- Reseau Agro-ecologique (Agro-Ecology Network)
- Reseau d'Education (Education Network)
- Informal consultations with national offices of CRS, FFH, and SC.

On the **local** level, CREDO ensures that it consults with the village leadership and local officials before beginning to work in a new area. It often collaborates with the Ministry of Social Action at the local level primarily in identifying existing groups in a new area. CREDO also maintains cordial relationships with the Church in the areas where it works.

CREDO has consulted with other providers of microfinance on particular issues such as competition in areas with multiple providers and subsidies. The issues surrounding regulations may warrant establishment of a network of microfinance providers to address these issues as well as others that arise in the sector on a more regular basis.

CREDO has developed partnerships with international organizations on its own, and has also played an important role in national networks. A number of the organizations draw on the expertise at CREDO, particularly in the person of the Secretary General, to provide assistance in evaluations, reviews, and other consultancies. *CREDO may wish to take the lead in establishing a network of microfinance service providers to address issues of common concern, particularly how to deal with the new regulatory framework.*

F. Human Resource Management

1. Organizational Structure

CREDO as a whole has 82 staff members, including 9 members of management and/or administration and 4 interns. The Community Bank Program is staffed by 19 people, including the BC Coordinator, BC Accountant, BC Training Officer, BC MIS Officer, BC Secretary, BC Driver, and 13 Promoters.

CREDO has established Zone Management Committees made up of 7-11 members. These four zones (Ouagadougou and surrounding 100 km band, South--Pondou, West—Dedegou, and North—arid zones) were established in the first quarter of 1995. The idea behind zone management was to ensure that CREDO maintained close ties with the grassroots. Each zone has program and administrative staff, including someone who is responsible for the zone and an accountant. Each zone hosted a number of the different activities, which overlapped in certain communities and with certain beneficiaries/clients. In some areas where these beneficiaries/clients had come to expect grants or free services, CREDO experienced repayment difficulties in its Community Banking Program. It has withdrawn from or stopped expansion in these areas. Subsequently CREDO has adopted a separate approach for its Community Bank Program, basing branch opening decisions on a market and demand study. CREDO continues to make an effort to ensure that its programs are complementary, but these programs are no longer necessarily based in the same zones or target the same clientele. CREDO is reconsidering this strategy, however, and may return to integrated zones with zone management responsible for all programs in the zone, rather than technical management, in an effort to better integrate activities and ensure that people can benefit from multiple programs. Factors that mitigate against a zonal approach include requests for support from outside its zones from potential beneficiaries and government and donor interest in working in some of their targeted areas which may lie outside CREDO's zones. The most important factor for the Community Banking Program in favor of technical program management rather than zonal management is that the program needs to be managed and staffed by people with microfinance experience and expertise and that microfinance services should be distinct from other services, which may have a different orientation in terms of eligibility, fees for service, client/beneficiaries responsibilities, etc.

CREDO has recognized the importance of separating its microfinance from its other activities—an important and laudable recognition for a multi-sectoral institution. It should continue to ensure that decisions regarding location of new branches, selection criteria for community bank membership, and programmatic decisions are made separately from other programs—while ensuring that the programs complement each other overall. CREDO should continue to maintain technical rather than zonal management for the Community Banking Program.

Leadership for CREDO has been provided primarily by the dynamic and charismatic General Secretary. As his responsibilities have increased over the years, within CREDO as well as elsewhere, he has had less time to be involved in day-to-day program management and decisionmaking, but adequate devolution of authority has not accompanied the shift in the responsibilities of the General Secretary. As a result, the Program Coordinator has not always been able to make decisions or take actions in a timely manner.

Given the evolution of CREDO as an organization, the time constraints of the Secretary General, and the high caliber of the CB Coordinator, it is appropriate and desirable that more responsibilities and authority be devolved to the CB Coordinator. Clear reporting practices should be established which would ensure that the Secretary General was well informed of what is happening in the Community Banks Program, but that would not hamper decisions from being made on a timely basis and at the appropriate level so as to facilitate prompt action and implementation.

In 1996, CREDO introduced a layer of middle management to oversee the community banking program. This was achieved by naming some of the Ouagadougou-based staff to additional supervisory roles. The structure adopted was as follows:

Program Coordinator	(Assistant National Coordinator for CREDO)
Project Accountant	Supervisor for 4 branches
MIS Officer	Supervisor for 3 branches
Training Officer	Supervisor for 3 branches

These divisions were based on the different language groups served by the community banking program. The role of the Supervisors is to act as internal auditors by verifying membership roles and repayment records on an unannounced basis, to assist in providing training for Promoters, and to support the Coordinator in evaluation of Promoters. The experience to date of this system has been mixed. Promoters have not seemed to take their Supervisor seriously, preferring to go directly to the Coordinator. Supervisors may not have had enough training to carry out their responsibilities adequately. Supervisors have responsibilities in addition to being Supervisor as reflected in their titles, and which seem to take precedence over their role as Supervisors. Finally, all the Supervisors are based in Ouagadougou rather than in the regions they are supervising, which does not address problems of transportation and proximity of technical assistance and supervision. *One solution may be to name Area Supervisors from amongst the Promoters and to train them to carry out their responsibilities effectively. As part of the middle management for the Community Banking Program, the Area Supervisors would report directly to the CB Program Coordinator, and the Promoters would then report to the Area Supervisors.*

Now that CREDO has extended its Community Bank Program to 12 of 45 provinces in Burkina Faso with an ever growing clientele and consequently greater number of Promoters, it is essential for CREDO to develop an effective middle management level in this program. In addition to the Area Supervisors referred to above, this level would be comprised of the CB Accountant, CB Training Officer, and MIS Specialist. The first two positions are already filled. Currently the MIS system is being managed by a Promoter on a part time basis. A person with MIS skills was recruited last spring, but only worked for three months, as her salary demands were too high. *A MIS Specialist should be recruited in the near future. This person could also provide database or MIS support to other programs if needed.*

Alternatively, depending on the skill set of the person hired, s/he could provide assistance in financial management.

Other staff and management who are related to the Community Banking Program include Technical Coordinator, Internal Auditor, Accountant, and Secretary General, of which the Accountant and Secretary General are partially paid from the Community Banking Program budget. The Accountant ensures the day to day recording of all financial transactions as well as the preparation of financial statements and finance sections of reports to donors and government. She now has some assistance from an accountant working on the UNHCR program. Additional support is required in forecasting and financial planning and strategic financial management (including liquidity management and capital planning). *CREDO should identify a means to obtain additional support for financial management, perhaps by hiring a part time highly skilled person.*

The Technical Coordinator who reports directly to the General Secretary and is responsible for monitoring and evaluation, management of assets and equipment, administrative support, and eventually some coordination role. It is unclear whether he will have any direct involvement in the Community Banking Program; such an involvement in the Community Banking Program does not seem necessary at present. The Internal Auditor is responsible for conducting unannounced periodic audits of various branches and community banks; he reports directly to the Secretary General. The Internal Auditor also performs similar functions for the other program areas and has some accounting related tasks as well. Given his lack of experience in microfinance as well as other issues, the present staff person may not be the most appropriate person for this position. *CREDO may wish to review some of the current staffing to ensure that the appropriate people are in place.*

2. Statistical Summary of Community Banks Staffing

CREDO Community Bank Program Staffing					
	1994	1995	1996	1997	1998
Total CB Program Staff, year end	10	13	17	20	20
CB Staff Hired, during year	1	2	13	6	14
CP Staff Left, during year	2	0	5	1	5
Turnover Rate of CB Staff (CB staff left divided by total CB staff)	3.6%	0.0%	7.7%	1.4%	6.3%
Number Promoters, year end	5	7	11	14	13
Promoters Hired, during year	0	3	4	4	0
Promoters Left, during year	0	0	2	1	1
Turnover Rate of Promoters	0.0%	0.0%	18.2%	7.1%	7.7%
Percent Promoters of Total CB Staff	50%	54%	65%	70%	65%
Avg. Annual Promoter Salary (CFA)	1,047,039	986,951	890,183	890,183	1,370,598
Per Capita GDP (CFA) (USD)	115,000 $230	115,000 $230	115,000 $230	132,000 $240	132,000 $240
Average Annual Promoter Salary as Multiple of Per Capita GDP	9.1	8.6	7.7	6.7	10.3
Average Annual Promoter Salary as a Multiple of Average Outstanding Balance per Loan	5.5%	1.7%	1.0%	0.7%	0.8%
Exchange Rate (CFA/$)	500	500	550	550	550

102

3. Profile, Recruitment, and Turnover

The criteria for hiring of Community Bank Promoters include the following:

- Completion of secondary school
- Experience
- Good health
- Able to ride a motorbike
- Live in appropriate area (or willing to locate there)
- Spiritual knowledge

When additional Promoters are required, the BC Coordinator develops a job announcement and receives applications. After a review of the applications, the BC Coordinator invites some of the applicants for a written test (which tests comfort with calculations and writing skills) and an oral interview (which seeks to ascertain whether the applicant meets the other criteria).

One of the top Promoters shared her secrets of success as a Promoter:

- Provide potential members with all the relevant information from the outset
- Be willing to work hard
- Enjoy your work and the people you are working with
- Spend time with the clients rather than in the office—by being with them, you can pick up a lot of useful information
- Listen to clients and be willing to support them as they deal with their problems
- Be humble rather than superior to clients; participate in their activities

These skills and attitudes should be taken into consideration when recruiting and promoting Promoters.

During the course of the Matching Grant, four left the program, for different reasons. One of the senior promoters left to work for another organization providing credit services. Another was fired for corruption (she added fictitious members to her banks and received loans on their behalf). Another left due to pregnancy. Overall, the turnover rate has been low. This can be attributed largely to the dedication that promoters feel to CREDO and to the importance of the community banking program in meeting the needs of poor women.

Job descriptions should be revised and updated to reflect redistribution of tasks with the naming of BC Area Supervisors, and to ensure that tasks are clear for other team members, including BC Accountant, BC Training Officer, BC Data Entry Assistant, BC MIS Officer, etc. All these people, in addition to the BC Secretary and BC Driver should report directly to the BC Coordinator. If the Area Supervisor approach were adopted, Promoters would report to the BC Area Supervisors. CREDO may want to revise the distribution of zones to ensure that they make sense now, and that they will still make sense in the future given expansion plans. CREDO should look at geography/distances, language groups, and number of actual/potential banks and branches.

4. Salary, Benefits, and Staff Incentives

Currently Promoters receive a total salary of 80,000 CFA per month on average, depending on the years of service and the qualifications. Each Promoter takes home about 50,000 CFA, after the following deductions as mandated by the government are made:

10% health and unemployment insurance
23% social security and pension (CNSS)
7-8% income tax (IUTS)

CREDO makes inflation linked increases in salaries based on Government guidelines. CREDO's internal policy regarding salary increases is an increase of 10% every two years for staff that has been with CREDO for at least two years. Performance related salary increases are not given except in exceptional circumstaces.

In addition, the Promoters can get access to a moped, to which CREDO contributes half and the Promoter pays half. The Promoter eventually owns the moped fully. The salaries are apparently consistent with what their peers would be earning at other organizations. The BC Accountant earns about twice the salary of the Promoters, and BC Coordinator less than triple their salary. They are having a difficult time recruiting a MIS Officer with the technical skills required for the amount they would like to pay. CREDO may want to consider other options, such as (1) a lower level staff member doing data entry on a regular basis mostly for the CB Program, but possibly also spending some time on other programs, or (2) hiring someone on a part time basis to generate appropriate reports and help with the analysis.

Promoters are eligible for performance incentives on an annual basis of 50,000 CFA it they have 450 or more clients and a 95% or better repayment rate. In 1997, only one Promoter received the performance incentive whereas in 1998, three Promoters received the performance incentive. *The BC Program Coordinator should review the incentives to determine whether the targets are appropriate and whether they could increase with better repayment (e.g., an additional 5,000 CFA per each percentage point improvement in repayment rate above 95%) or other such measures. She should then assist the Promoters in reaching those targets. In order to be effective, the incentive must be substantial enough to be attractive while not so much that they will have a negative impact on cost coverage, and the target must be attainable with hard work but not so easily attained that Promoters do not need to strive to reach it. The idea behind incentives is to stimulate better individual performance which results in better institutitional performance and increased overall revenues.* Currently if Promoters do not reach a minimum of 225 clients after two years, she is let go. There is no policy regarding dismissal of Promoters for consistently poor repayment rates, but the Coordinator is considering introducing a policy whereby a below 90% repayment rate for three quarters would result in dismissal. The target number of clients that should be managed by each Promoter is 15 banks for a total of 450 clients. *The CB Coordinator needs to reflect on ways to encourage Promoters to operate at or near these targets* (the current average number of clients per Promoter is 382). The average number of CBs managed by each Promoter meets the target of 15. This indicates that the average size of the current CBs is lower than envisioned by the methodology and which is contributing to increased costs without commensurately more income.

5. Training and Staff Development

Training for new Promoters is primarily contracted out to IPAD (Institut Pan Africain de Developpment). New Promoters participate in a 21 day training that costs CREDO 850,000 CFA per Promoter. The course emphasizes management and outreach activities of Promoters, and includes field visits. The materials used focus on caisses populaires rather than specifically on community banks. *The curriculum should be reviewed by the CB Coordinator and CB Training Officer and altered or supplemented with material more directly relevant to the Community Banking Program.* Also the materials emphasize that credit is primarily used for consumption rather than production. It is essential that this message be altered to reflect the nature of credit in the CREDO Community Banking Program. CREDO supplements this training with on-the-job training in which new Promoters work side by side with experienced Promoters. CREDO has recently contracted a special workshop to help CREDO identify potential Promoters and for these women to determine whether they are interested in being a Promoter. The idea behind this approach is to determine whether there is a good fit before too much time and money is invested in someone who doesn't work out.

Ongoing training occurs during the monthly Community Bank Program meetings in Ouagadougou, during which the following activities take place:

- Information exchange
- Submission of monthly reports by Promoters
- Sharing of difficulties and joint resolution of problems (recognition that problems in one branch can affect results in other branches and in entire program)
- Planning (for disbursements, collections, training, etc.)

G. Management Information Systems

CREDO's MIS is composed of three interrelated systems: a manual system of tracking portfolio information; a computerized loan tracking system developed by World Relief called CLAMS (Community Loan Accounting Management System); and an accounting system used by World Relief which is an off-the-shelf package called Ideas that has been customized for World Relief. These systems are linked and the MIS Officer and CREDO Accountant are charged with verifying that the information in one is accurate and consistent in all the systems—which is not always an easy task.

1. Portfolio Tracking and Management

Promoters use a manual portfolio tracking system, the contents of which are indicated along with who maintains each document in the table below. The data in the forms, particularly in the contracts, the loan repayment forms, and the savings withdrawal form, are used to provide the data, which is then entered into CLAMS and used, for the accounting system. Each Promoter maintains the forms at the branch. Only some of the Management Committees also track the transactions of their Community Bank, usually in their notebooks. Since these records are irregularly maintained, they are not very useful to the Community Banks.

PORTFOLIO AND FINANCIAL MANAGEMENT TOOLS

Tool or Document	Who Maintains
General	
Job descriptions	Program Coordinator
Personnel contracts	Program Coordinator
Training manuals for promoters	Program Coordinator, Training Officer
Training manual for CBs	Promoters
Credit policies	All CB staff
Community banking vision	All CB staff, CB Management Committees
Calculation sheet for loans (1,000-150,000 CFA)	Promoters
Recordkeeping and Monitoring	
Community bank bylaws	Promoters, CB Management Committee
Savings passbook	*No longer being utilized*
General information sheet on CB	Promoters
Credit contract between CREDO and CB	Promoters, MIS
Guarantee document	CB MC, Promoters
Distribution of credit for CB	Promoters,

105

Distribution of credit for solidarity groups	Promoters
Promoters' register	Promoters
Loan register	Promoters
Register for loan requests	Promoters
Monitoring form for repayments (revised 10/98)	Promoters
Monthly repayment form by BC	Promoters, MIS, Acctng
Register for savings withdrawal	CB MC, Promoters, MIS, Acctng
Case studies	Promoters and BC Coordinator
Finance	
Receipt book for receipts and payments	Promoters, with copy to acctng
Request for funds	From promoter to acctng via BC Coordinator
Justification of advance of funds	Acctng
Reporting	
Promoters monthly report	Promoters to CB Coordinator
Quarterly CB program report	CB Coordinator to Sec Gen, copy to MEDTU
Annual CB program report	CB Coordinator to Sec Gen, copy to MEDTU
Individual donor reports on CB program	CB Coordinator to Sec Gen, then to donor

The manual system seems adequate, but there is room for improvement. Its strengths are that it is relatively simple and easy for Promoters to use; the information is readily available to Promoters for management purposes; and it provides the basis for the computerized system and a means to verify the accuracy of the computerized MIS. The weaknesses are as follows and are discussed in more detail below: the quality of the recordkeeping by Promoters is mixed, as indicated by audits and internal control visits; Promoters do not sufficiently utilize the system for management but rely on it more for reporting purposes; aging of arrears is not adequately tracked; clients do not have passbooks recording their savings and credit situation; and Management Committees are not responsible for tracking the status of their banks.

In addition to visits by an Internal Auditor which have been introduced to improve the quality of recordkeeping, *Promoters may benefit from more regular oversight on maintaining records, i.e., by an Area Supervisor. Promoters should also be supported by Area Supervisors and the CB Program Coordinator on more effectively utilizing the recordkeeping system for delinquency management in addition to for reporting purposes.*

Each month the Promoters submit monthly reports of the status of their banks, which are compiled and submitted to the Secretary General by the Community Banks Program Coordinator (I did not see any copies of monthly reports from the CB Program Coordinator during my visit). At the end of each quarter, each Promoter is responsible for submitting a quarterly report, which is again compiled by the CB Program Coordinator into a quarterly report for the Secretary General. It is not clear to what extent these reports are reconciled with the reports generate by CLAMS, or who reconciles any discrepancies if this is done. Feedback on the reports is on an as needed basis. It does not appear that the reports are well utilized at program management or institutional management level for analysis and decisionmaking, but more to satisfy reporting requirements.

CREDO does not closely track the aging of arrears, which is a very important tool in delinquency management. In terms of recordkeeping, there is no place to record payments that are collected late but before the next collection period. *Since the MCs and Promoters should be working on collecting delinquent payments immediately, a column for payments collected late should be incorporated into the system.* CREDO begins looking at arrears at the end of the cycle rather than within the cycle. *Late payments should be considered late immediately, even within the cycle and immediate action should be*

106

taken for any missed payments. For internal management purposes, CREDO should generate aging of arrears reports of all late payments, including those payments that are 1-30 days late. CREDO should track within cycle delinquency, to avoid nasty surprises at the end of the cycle, to deal with potential problems immediately, and to ensure that it is earning its projected interest income. This could be facilitated by introducing an aging of arrears form as part of the regular reporting from the Promoters to the Area Supervisors and on to the BC Program Coordinator. The report could look something like the model below (some amounts are included to show how it would look when submitted):

AGING OF ARREARS REPORT

Branch: ______________ **As of: 31 October 1998**

Promoter: ______________ **Branch Outstanding Balance: 785,450**

*	1-30 days		31-60 days		61-90 days		91-180 days		>180 days	
CB & Client Name	**Arrears**	**Bal. of Loan in Arrears**	**Arrears**	**Bal. of Loan in Arrears**	**Arrears**	**Bal. of Loan in Arrears**	**Arrears**	**Bal. of Loan in Arrears**	**Arrears**	**Bal. of Loan in Arrears**
CB ABC										
Client 1	26,500	86,500								
Client 2	5,000		5,000	10,000						
CB Total	31,500	86,500	5,000	10,000						
CB XYZ										
Client 1	3,000		3,000		1,500	15,000				
CB Total	3,000		3,000		1,500	15,000				
Branch Total	**34,500**	**86,500**	**8,000**	**10,000**	**1,500**	**15,000**				
% of Outstanding Portfolio for Branch	**4.4%**	**11.0%**	**1.0%**	**1.3%**	**0.2%**	**2.0%**				

* Promoters should list only the names of clients that have missed payments. Only the principal, not the interest, should be included for each category. For each delinquent client, the amount of arrears should be listed in the appropriate delinquency period (i.e., if a client has missed part of two monthly installments, the oldest amount missed will be listed in the 31-60 days column and the most recent in the 1-30 days column. For each delinquent client, the balance of portfolio in arrears should be included once only in most delinquent category.

Another form which could be incorporated into the regular reporting by Promoters is the overall status of the portfolio and savings by branch, which should show outstanding figures (active number of banks, number of banks dropped during period, number of banks added during period, number of active clients, number of clients dropped during period, number of clients added during period, number of loans outstanding by loan type, amount of portfolio outstanding by loan type, current balance of compulsory savings, current balance of voluntary savings, interest due, interest collected, penalties due, penalties collected, expenses incurred) rather than cumulative figures. This would have the advantage of ensuring that Promoters are aware of the overall status of the portfolio they are managing as well as the individual clients. It would also provide the CB Program Coordinator with a quick overview of the situation at each branch. The CB Program Coordinator may wish to develop a visual program tracking system (on a large white board or butcher paper posted prominently) which could be used at monthly program meetings, which reflects the status of each branch. This could help motivate Promoters to ensure that their banks are performing well, and facilitate discussion amongst staff on where there are problems and how to address them. *Several forms in the monthly report are repetitive or do not provide critical information and can be abandoned in place of some of the more relevant forms indicated above (aging of arrears and overall status of portfolio and savings by bank).*

There are no documents that remain with the clients to indicate how much they have saved, how much they have borrowed, and their repayment status. It is important for accountability purposes that such source documents be part of the MIS. Introduction of passbooks would have the added benefit for clients of providing an important symbol of membership in a community bank and giving members an even greater sense of confidence in the program. This is true whether or not the clients are literate. *Savings and credit passbooks should be introduced to the program, with all client transactions recorded and initialed by a CB Management Committee member at the time of the transaction. Management Committees should be trained in recording the transactions in the passbooks and ensuring that they match their own monitoring forms for loan repayments and register for savings withdrawal.*

Since community banking is based on the premise of community management of the banks, CREDO may want to consider having the Management Committees maintain the basic tracking of member's savings as well as loans and repayments. Although this approach is initially likely to require additional support to the MCs on recordkeeping and more supervision and support both from the Promoters and Area Supervisors, over the long term it should reduce the work of the Promoters and empower the MCs and the Community Banks to take on more management responsibility in their banks. One way to have the MC maintain the records for savings and loan transactions would be to use carbon copies, with the original remaining with the Management Committee and the carbon copy going to the Promoter. Representatives from the MC would bring both copies to the Promoter along with the bank receipt to review entries, correct any mistakes, and identify strategies to deal immediately with any late payments.

Addressing these issues in the manual MIS should be a top priority for CREDO. This will involve introduction of some new forms and redesign of others; introduction of some additional reports from Promoters and discontinuation of others; training for Promoters on how to use the new forms and reports, especially for delinquency management purposes; and supervision and support for the Promoters from Area Supervisors and the CB Program Coordinator.

The MIS Officer enters the data from the manual records of the Promoters into the CLAMS MIS system. She produces quarterly reports, which are shared with the CB Program Coordinator, Accountant, and Secretary, General on the following: current loans, historical loans, savings balance, and bank status by donor. *Reports should be generated on a monthly basis and include activity for the period as well as outstanding data. In addition, performance indicators (following the SEEP Ratios) should be generated on a monthly basis to facilitate effective program management.* Although CREDO has benefited from two trainings on financial ratios (one by the MEDTU Assistant Coordinator in 1995 and the other at the SEEP Annual Meeting and WRC MED Workshop in 1997), it does not adequately utilize these tools for portfolio management and reporting.

The computerized loan portfolio tracking system used by CREDO is the CLAMS MIS system developed by World Relief Corporation at the end of the previous Matching Grant and refined during the course of the 1993-98 Matching Grant. CLAMS' strengths include:

- it was designed specifically for the community banking model and to support the information needs at the country level as well as for reporting to WRC
- overall reliability and accuracy of data (with the exceptions noted below)
- provides a means of checking the manual system
- can generate a variety of reports with fairly straightforward report design process
- can be used to provide information about all World Relief's microfinance programs for headquarters and for providing data to others such as donors and other practitioners.

Some of the problems encountered in using CLAMS include:

- Some of the data is not reliable or accurate (e.g., treatment of loans paid off during the current fiscal year, savings figures, and current loan fund outstanding)
- Troubleshooting on CLAMS for WRC is problematic since the person who developed the system is not employed by WRC
- Difficulties encountered at CREDO in reconciling the loan fund on the portfolio management software, CLAMS, and that on the accounting software, IDEAS
- The person currently responsible for CLAMS does not have the MIS and computer background to exploit the capabilities of the system in generating timely and useful reports
- The CB Program Manager is not familiar enough with MIS and computers to know what to ask for or to fully utilize the information available for interpretation, analysis, and decisionmaking
- Reports are not utilized at Promoter level to verify manual records or as in portfolio management
- The reports are not produced on a timely basis to be utilized effectively in management
- CLAMS has limitations in generating user friendly reports at different levels of aggregation (this has led to the person responsible for MIS retyping the data generated by CLAMS into Lotus for the CB Program Manager, despite assistance from the MEDTU Coordinator on how to design reports for management)

Although a number of problems were addressed during the course of the Matching Grant, via email, phone, and visits from the MEDTU Coordinator and the WRC Accountant, a number of problems remain. WRC has hired a MIS Specialist to examine how to go forward (improve CLAMS, design a new system, buy an off-the-shelf system). *Until these issues are sorted out, CREDO should do the following to improve its utilization of CLAMS:*

- *Hire an experienced MIS Officer.*
- *Train the MIS Officer and other key staff on CLAMS. In addition to detailed training for the MIS Officer, specific training should be provided to the CB Program Accountant and CREDO Accountant and another targeted training should be provided to the CB Program Coordinator and Area Supervisors. CREDO may wish to seek World Relief's assistance in providing the initial training. The MIS Officer and CB Program Coordinator should provide further training to Promoters.*
- *Key reports should be designed to provide the needed information to each priority user: CB Program Coordinator and Area Supervisors; Promoters; CB Program Accountant and CREDO Accountant; and World Relief. These reports should be designed to ensure ease of understanding and use. They should be standardized and saved on the system. CREDO may wish to ask World Relief to assist in the initial identification of key reports and report design.*
- *Reports should be generated on a timely basis, in order to be effectively utilized at all levels.*
- *CB managers (CB Program Coordinator, MIS Officer, and Area Supervisors) should provide support to Promoters to ensure effective use of reports.*

In terms of external reporting, initially CREDO submitted quarterly reports in English to World Relief. As MEDTU experienced some difficulties monitoring and supporting CREDO due to the time lag in reporting and differing definitions for certain terms among other things, this was later revised to also include copies of the monthly reports in French which are prepared for internal use. These reports are reviewed by members of the MEDTU team, which follows up on any questions or issues as needed by email. The financial reports are reviewed by World Relief Accounting to ensure that the information provided by CLAMS and that by IDEAS is reconciled, with follow up on any discrepancies.

Several improvements have been made in reporting during the Matching Grant. For example, CREDO is now reporting on savings balance rather than the amount saved during the period. Another improvement was the adoption of the following categories of bank status to ensure clarity and consistency:

- Active community bank with loan
- Active community bank without loan
- Community bank in sanction
- Graduated community bank
- Community bank with loan paid, but expelled
- Community bank with loan in default

The Community Bank Program has one computer for the MIS. The Coordinator does not have a computer, although she has expressed interest in using a computer. *CREDO should consider providing a computer for the CB Coordinator for program analysis, reporting, and communication with her team.*

2. Accounting and Financial Management

The accounting staff can produce basic financial statements. There tends to be some delays in generating the reports, due to the decentralization of the program. The MEDTU Coordinator recommended during his May 1998 field visit that CREDO ensure that it receives bank statements from the accounts of each branch and that it reconciles them on a monthly basis. The CREDO Accountant compares the information in the accounting system to that in CLAMS. At times there are differences, but she is generally able to reconcile them, sometimes with the assistance of WRC accounting. WRC provides assistance in finalizing financial statements, particularly year end closing. The CREDO Accountant is able to generate separate reports, including financial statements, for the Community Banking Program. It is useful for CREDO to continue to track the financial status of this program separately in order to determine the financial health of the program and progress towards sustainability. It will be particularly important if and when CREDO decides to comply with the BCEAO regulations regarding separation of microfinance programs from other NGO programs. CREDO uses fund accounting to be able to report on various donor funds.

In addition to salaries of the Community Banking Program staff, 50% of the CREDO Accountant and 33% of the General Secretary (50% in 1998) salaries are charged to the Community Banking Program. As this program has separate facilities, most of the expenses (such as rent, electricity, telephone, etc.) are direct program expenses. In addition, CREDO charges the program 5% of overall administration to cover other support expenses. World Relief provides substantial support in finalizing financial statements, although the final versions are not always accompanied by explanations. Since CREDO is not a World Relief office, the books are not sent to Wheaton for review.

CREDO currently uses the IDEAS accounting package used by the rest of World Relief. Woord et Daad is insisting that CREDO adopt another accounting software package called Exact. Woord et Daad has provided the software, manuals (all in English rather than French), and has sent a consultant to provide training to the accounting staff. The evaluation did not assess the appropriateness of either accounting package for CREDO's operations. Although CREDO seems to have been satisfied with IDEAS, it may not be as appropriate for CREDO in terms of reporting and auditing, given that accounting conventions in Burkina Faso follow the European rather than American model. In addition, the majority of CREDO's funding partners uses European conventions. Before switching accounting packages, however, CREDO should assess whether the new package meets its needs. *CREDO should carefully examine the extent to which the Exact accounting package can handle fund accounting, the ease of use, the data entry controls and posting procedures, the reports generated, and the kind of analysis that can be performed using the package. CREDO should pay particular attention to whether it accommodates the needs of the Community Banking Program and whether it can generate separate financial statements for that program. CREDO should consult its auditors regarding their assessment of the appropriateness of the software (and indeed CREDO has already asked them to do so). CREDO may also wish to ask World Relief for its advice on the appropriateness of the software for management of the Community Banking*

Program. CREDO should be sure to take the long term institutional perspective, rather than satisfying a particular donor, regarding adoption of any accounting package. If the program is not suitable, then CREDO should be able to propose a satisfactory alternative to the donor that meets CREDO's institutional needs as well as its external reporting needs. CREDO has indicated that it may maintain both accounting packages; while this may be suitable during a transition period, this is not a viable option over the medium term.

CREDO is in the process of translating into French the financial policies and procedures manual produced by World Relief West Africa in 1992. This is an important initiative as in order for the policies and practices to be accessible to management and staff, it is critical that they are in the language utilized for operations. Along with translating the policies and procedures, CREDO is adapting them to current practices, which will create a greater sense of ownership. After they are finalized, they should be introduced to all staff, particularly management through a workshop.

In 1997 CREDO changed its fiscal year to coincide with the calendar year, which is general practice in Burkina Faso. They closed FY97 on 30 September 1997 and again closed the books on 31 December 1997. This change should facilitate its financial management and reporting. CREDO uses cash based rather than accrual based system of accounting. If and when CREDO spins off a separate microfinance entity, it should consider adopting an accrual based system that is better suited to microfinance activities.

3. Policies and Procedures

CREDO does not have a general policies and procedures manual, although it does have a number of policies and procedures in place. As mentioned above, the financial policies and procedures manual is being revised and translated. The Community Banking Program has recently documented its policies and procedures (*Politique de Credit et d'Epargne du Programme Banques Communitaires,* September 1998) and has promulgated them amongst Promoters. This is an excellent initiative. Some of the policies or procedures are somewhat vague, however, (II. La politique de l'epargne) or are in the process of being revised (e.g., 3d. Grands Prets). *CREDO should review its policies once again in light of the evaluation before finalizing them. This manual should then be carefully reviewed with all promoters, and a copy made available to each Promoter. The Coordinator and Area Supervisors should work with the Promoters to ensure that any policy changes are clearly communicated to all community bank members.*

G. Internal Control, Audit and Supervision

1. Internal Control

Internal control is achieved through the accounting system for cash and through the portfolio management system (both manual and CLAMS) for loan status. As indicated above, these systems are reconciled regularly by the CREDO Accountant. In CLAMS, if a change is made in the tracking after the month is posted, the item enters the audit trail. CLAMS has some data entry controls which help catch data entry error. IDEAS also has mechanisms whereby certain items enter the audit trail, facilitating the internal control mechanism.

In May 1998 CREDO hired an Internal Auditor to provide internal audit functions, based on the recommendations of the external auditors. The responsibilities of the Internal Auditor are as follows: work with Promoters to improve recordkeeping and ensure good reporting; conduct spot checks of CBs; assist the Coordinators (including CB Coordinator) in managing the program budgets; aid Coordinators in putting in place appropriate internal controls; ensure that information is available to accounting on a timely basis for reporting; assist in bank reconciliation; and ensure that accounting is following appropriate accounting procedures. *CREDO should ensure that these functions are appropriately carried out and that the Internal Auditor provides the internal control desired.*

In 1997, CREDO fired a Promoter for creating fictitious members in order to take the loans herself. The creation of three Supervisor posts was intended to and does indeed provide an additional level of control. *Nevertheless, it would be better to name Area Supervisors who are based in the field to facilitate supervision and control.* The supervisory responsibilities would be in addition to their Promoter responsibilities, with the BC Program Coordinator and BC Program Accountant providing supervision of the Area Supervisors banks.

At the Community Bank level, there have been some cases of fraud amongst Management Committee members, either by creating fictitious members or by underreporting the repayments made by members and pocketing the difference. *Through careful review of bank membership rosters, comparisons of contracts to rosters, and spot checks on clients and banks, Promoters should catch such cases of fraud. Further spot checks by Area Supervisors and the Internal Auditor should reinforce the control of fraud. The BC Program Coordinator is ultimately responsible for ensuring that the Area Supervisors are performing the necessary checks and supplementing these checks by her own spot checks and unannounced visits to branches and banks. The BC Program Coordinator may wish to utilize a monthly or annual program meeting to organize supplemental training on how to avoid and deal with fraud at both the Promoter and Area Supervisor levels.* One of the major ways to catch incidents of fraud is in the reconciliation of records maintained by Promoters, BC Management Committees, and clients. Since the records of BC Management Committees are incomplete, and clients maintain no records other than receipts (which are easily lost or misplaced), such reconciliation is not possible at CREDO. *In order to provide another means for internal control and reduction of fraud, CREDO should ensure that records are maintained at the level of the Management Committees and that passbooks are introduced and maintained at the level of the clients,* as recommended above in the MIS section.

2. Audit

Audits of CREDO are conducted annually by an accredited Burkinbe auditing firm, FIDECI-SARL. A summary of the recommendations of audits from 1996, 1997, and 1998 appear in Annex 5. Comments in italics are mine and indicate where an audit recommendation may not be appropriate. The actions taken by CREDO, if any, are indicated in the second column. Since CREDO has not systematically responded to audits or documented such responses, the second column may not fully indicate the actions taken. *It may be useful for CREDO to adopt such an approach to documenting its responses to audits. Under such an approach, CREDO would implement the recommendations with which it agrees; document what has been done; justify why it has not complied with other recommendations; and note any other actions it has taken to address the problems identified in the audit.* It should then send a copy of the report to the external auditor and make the audits and responses available to potential or actual donors, investors, or creditors, as appropriate.

3. Supervision

As an unlicensed NGO providing microfinance services, CREDO is not subject to banking supervision. SPONGS does provide some informal supervision. In addition, the Central Bank sends out a form annually to each organization providing financial services that must be submitted to the Central Bank and SPONGs. There is not policy or procedure for any follow up on the forms submitted. If and when CREDO complies with the BCEAO regulations regarding provision of microfinance services, CREDO will be subject to supervision of the Central Bank.

112

III. PRODUCTS AND SERVICES/CLIENTELE AND MARKETS

A. Financial Products and Services

CREDO began providing credit and savings services in the late 1980s. In 1991 it formally began its community banking program, which continues to form the core of its microfinance products and services. The goals of the community banking program are the following:

- To improve the quality of life of all clients and their families;
- To create or reinforce solidarity of community groups;
- To encourage the development of new skills to increase incomes;
- To create new jobs and reduce rural exodus;
- To provide the community with locally-produced goods and services.

During the past year CREDO has introduced solidarity groups as an additional lending structure for clients who have successfully completed a specified number of cycles, as well as individual and supplemental loans. [7] These products and services are described more fully below.

1. Community Banking Loans

In its microfinance activities, CREDO primarily utilizes the community bank methodology, initially popularized by FINCA in Latin America, but now utilized by FINCA, Catholic Relief Services, Freedom from Hunger, as well as World Relief and myriad International and National NGOs throughout the world.

In Burkina Faso, poor community members with a viable economic activity and primarily women, organize themselves into groups of six to form a solidarity group. Four to seven solidarity groups constitute a community bank. After participating in a brief initial training, each member has access to an initial loan of 25,000-150,000 CFA. [8] Loan size increases with each cycle, with the ratio of savings to loans set at 1:10. The maximum loan size is 300,000 CFA. The loans are to be used to start or reinforce an existing business. Each client is responsible for the choice of economic activity to be financed, with the approval of the group and the Promoter. Members are collectively responsible for the individual loans; i.e., if one member does not repay, other members will contribute to make up for the non-payment. Loans are for a period of four months, and are payable in monthly installments of principal plus interest. There are no grace periods. According to the new credit policies and procedures, after one year of three loan cycles of four months each, the community bank may decide to adopt a six month cycle. The initial interest rate charged was 4% per four month cycle, or 1.0% per month; later this was increased to 10% per cycle, or 2.5% per month. Upon successful repayment of their loan—and complete repayment by the group and community bank, clients may access additional loans. Once a cycle has been completed, the Promoters return to Ouagadougou to meet with the BC team to review the performance during the previous cycle and examine the new loan requests. Previously this process could take up to three weeks, but now the time between cycles is on average two weeks. CREDO is planning on making improvements by preparing annual contracts with each branch to permit immediate renewal of community bank loans.

---

[7] The term "Community Banking Program" therefore no longer encompasses all of CREDO's activities in this sector. At some point, it may wish to consider changing the name of the program.

[8] In 1994 CREDO increased the minimum loan size from 1,000 CFA to 5,000 CFA, to ensure that loans would still be accessible to the poor, but would also provide enough capital to invest profitably in order to make a difference in their businesses. In practice, most initial loans are not less than 10,000 CFA and are usually 25,000 CFA.

During 1995-1997, CREDO experimented with extending the loan cycle to 6 months at the request of clients. Based on poorer repayment performance and clients changing their preference to a four month cycle, the loan duration reverted to the shorter cycle. This experience demonstrates CREDO's willingness to be flexible and respond to clients' needs and demands—and its readiness to revert if such changes are not appropriate. While it is not wise to make too many and too frequent changes to products, it is important to be responsive to clients' needs. An indication that the community bank loan product is well suited to the CREDO's target clients is the slow growth in average loan sizes: apparently the loan amounts are about right for rural clients, as they are not requesting larger loans—at least for the shorter loan period. CREDO has acknowledged the heavy demand for agriculturally related loans by introducing the supplementary loans, although it may be argued that it has not priced this product correctly. A final example of CREDO's products and services responding to clients' needs and demands is the return of clients who were not satisfied with the products and services of competitors.

There are currently 13 branches in 12 of Burkina Faso's 45 provinces. The branches, opening date, location, and number of promoters per branch are listed below. There were no new branches in 1995 or 1998. Most branches have only 1 Promoter per branch. *CREDO may wish to review whether it is possible to group 2-3 Promoters together in a branch to increase economies of scale (e.g., in terms of rent, communications, transport, and supervision costs). It may not be possible to adopt such a structure except in urban areas, however, due to the low population density elsewhere.*

Branch	Opening	Location	Promoters
Ouagadougou	10/91	Urban	1
Kokologho	11/92	Rural	1
Bousse	11/92	Rural	1
Koudougou	1/93	Rural	1
Sisslii—Leo	3/94	Rural	1
Sissili-To	3/94	Rural	1
Kombissiri	3/94	Rural	1
Dedegou	3/94	Rural	1
Yako	10/94	Rural	1
Ganzourgou	3/96	Rural	1
Nahouri	5/96	Rural	1
Bobo-Dioulasso	8/97	Urban	2
Samatenga	10/97	Rural	1

The process of opening new branches is as follows:

- BC Coordinator, with management team and Promoters, identifies high potential areas;
- BC Coordinator conducts area survey to ascertain whether conditions are favorable (sufficient population, people falling within target group of poor, adequate level of commercialization and markets, profitable enterprises, entrepreneurial population, close enough to other CREDO branches to facilitate coordination, and low competition from other credit providers);
- If results favorable, BC Coordinator consults with the village chiefs, prefet, high commissioner, and other local authorities, as well as local church leadership. If these individuals and institutions are supportive, then CREDO will open a branch.

There has been a very high rate of bank "graduation" at CREDO, necessitating additional work on the part of the Promoters to identify new clients, organize new banks, and train the bank members and

Management Committees. Banks tend to graduate in order to access their savings, as CREDO does not permit them to access savings while remaining active in the program. In addition, a number of banks were discontinued for other reasons, including late payments, internal embezzlement, poor internal organization, or lack of cohesion. CREDO has tried to put in place policies and mechanisms to reduce these other problems, but has not yet fully contended with the graduation issue. Despite repeated discussions about the negative effects of graduation on CREDO, and the absence of benefits to the banks themselves, CREDO still maintains the practice of graduating banks which have completed nine cycles of four months each. Clients tend to look at the community banking services as a three year project, rather than as program to continue to provide financial services to members over the long term. After three years, accumulated savings are returned to clients and the loan funds are used for lending to new community banks. This policy has the result of losing a large number of clients—particularly those clients and banks which have established a track record and utilize—and pay interest on—a large part of the loan portfolio. CREDO seems to equate graduation with empowerment, but it is not evident what the banks are empowered to do, as they still do not have access to other financial services and tend to be decapitalized upon graduation when members withdraw their savings. In the early 1990s, graduation was considered an objective of village/community banking, but most programs around the world have since dropped it. The many reasons for no longer promoting graduation include: MFIs lose some of their best clients; additional costs incurred by the MFIs to identify new communities and clients and organize and train new groups; the community banks are not able to meet the credit needs of their members from mobilized deposits and still have no access to other external resources. With all the exposure that CREDO has had through study visits, participation in workshops and conferences, and interaction with the MEDTU team, it is surprising that this policy has not been revised earlier.

CREDO should urgently review its policies and practices regarding graduation. Instead of the current practices, CREDO should liberalize access to savings and encourage voluntary savings, and review introduction of new products for clients who have a three year track record—rather than introducing options such as solidarity group loans after such a short time (4 cycles).

In contrast, CREDO's retention rate of individual clients is surprisingly high—perhaps indicating how much members value access to these financial services. In a "client turnover" study conducted by the MEDTU Assistant Coordinator, the membership of the community banks was found to be quite stable, with 90% of the CBs surveyed having all or nearly all of the original members after 2-3 years of operations. In other countries one would find only a handful of original members after 2-3 years of operations. This finding makes it all the more important that CREDO adjust its bank graduation policy so that these members can have continued access to financial services through the community bank, as well as through other mechanisms such as solidarity groups and individually.

2. Savings

Savings are mandatory for Community Bank members, but does not begin until the first repayment installment. This is based on the principle that the target group is the entrepreneurial poor—people who do not initially have money to save, but can begin to do so with the growth of their business. CREDO furthermore believes that people have to learn how to save and do not necessarily do it on their own.

Initially CREDO had a policy that savings must be 15% of the loan amount. In 1994, this was reduced to 10%. This policy change benefited clients by increasing the amount of capital they could access to grow their businesses; it also benefited CREDO in increasing the loan portfolio, which is its largest asset and the one that generates the most income. It did increase the risk to CREDO, however, as members' savings are used as a form of collateral. Each member must save each month, at a rate of 10% of the principal repayment installment. In fact, savings falls under the category of "reimbursement" on the loan

115

tracking form, along with the principal installment and monthly interest due. This reinforces the impression that savings are a cost of borrowing, rather than savings per se.

For the most part, savings are deposited into a formal sector account in the name of CREDO and the community bank, either with a commercial bank or through the Post Office. The exception is Bousse, which recently became a province and does not yet have its own Post Office branch or any commercial bank branches. Members do not earn interest on their savings, as per common practice in Burkina Faso on current accounts.

Voluntary savings are not permitted at this time for community bank members. Individual members receiving larger loans must place savings equal to 10% of the their loan with CREDO as a guarantee, however. Savings passbooks are no longer used because members were asking Promoters to save or withdraw too frequently and there are no safes where these savings can be readily available for withdrawal, and no interest was paid.

Clients do not have access to their savings during the first three years of participation in the community banking program. Clients must drop out of the program in order to access their savings. Some exceptions are permitted in the case of an emergency. CREDO has found that a significant number of banks still request savings services even after the bank has "graduated," demonstrating the value members place on a having a secure place to save. Although members also value savings features in addition to security, they do not really have other options. Commercial banks are reluctant to accept savings deposits, particularly after the devaluation, and in any case are not interested in small savings, whether by individuals or groups. One improvement made during the course of the Matching Grant was to encourage community banks to open group savings accounts at local banks, which has been possible for som community banks.

The policy of not permitting savings withdrawals until graduation led to the departure of a number of banks as well as the drop out of individual members in order to access savings. Initially CREDO had the erroneous impression that the Matching Grant did not permit members or banks to access savings while they were still participating in the program. Although this was clarified during a field visit of the MED Assistant Coordinator in March 1995 and a number of times subsequently, CREDO maintains its practice of limiting access to savings. Thus savings in this program is really only an additional cost of borrowing, as it has few of the features of savings services. The only feature CREDO's savings services provides is security—and even the security of members' savings is jeopardized by the lack of clear policies and absence of a good MIS for savings. A new savings policy was proposed during the April 1997 field visit of the MEDTU Coordinator: savings for the first three cycles must be 10% of loan amount after which time members would be able to access any savings in excess of 20% of the current loan. It is not clear to what extent this policy has been adopted. Withdrawals are not permitted until after three years when the bank "graduates." The concept of graduation was to have been discontinued, according to the April 1997 strategic planning exercise. More emphasis was to have been placed on the guarantee at the community bank level, rather than the solidarity group level to facilitate entry and exit of members. This policy has not been implemented, as the banks visited still talk about the three years of the "project" before they can access their savings.

CREDO would like to improve its savings services, but is concerned about appropriate management of client and potentially non-client savings. CREDO recognizes that savings management is more difficult than loan management. Yet savings services are needed at least as much as credit services by the rural poor. *CREDO should seek technical assistance in how to better manage client and non-client savings (some suggestions appear below). Furthermore, it should reconsider becoming a licensed provider of microfinance services, which would provide it with the legal basis for offering such services.*

Options to improve the quality of savings services while maintaining its role as a guarantee on the loan include restricting access to savings for a bank's and individual's first few cycles (WR Liberia has adopted this practice); imposing other limits on the frequency and timing of withdrawals; and maintaining the overall ratio of 20% of savings to loans (ratios should be adopted for loans to through community banks, solidarity groups, and directly to individuals—these may all be 20% or may differ), which would have the effect of further limiting withdrawals, while making savings available for those who need them for emergencies or other reasons. CREDO should urgently focus on reviewing and revising its savings policies. The new policy should clearly state the following:

- *Required ratio of savings to loans (e.g., a client may withdraw any savings in excess of 20% of the current loan)*
- *Policy on voluntary savings (it is suggested that the policy for a minimum compulsory savings be continued, but that additional voluntary savings be permitted)*
- *Policy on access to savings (frequency, advance notice required, ratios to be maintained, charges if any for withdrawal, etc.)*
- *Interest earned on savings and how that interest is paid*
- *Management of savings, including reintroduction of passbooks and separation of savings from monthly reimbursements on loan tracking sheets*
- *Policy regarding onlending of client savings (including maximum percentage of savings to be onlent.*

Finally, the policies judiciously adopted must be disseminated to staff and clients and must be implemented and adhered to.

3. Supplemental Loans, Solidarity Group Loans, and Individual Loans

In addition to the community bank program, CREDO has now adopted a number of additional products, based on a pilot period. There were no documented results from the pilot period, but program management has decided to continue providing the array of products identified.

The first category is **supplemental loans**, offered only to members of active community banks. Under this category, community bank members can access individual loans, in addition to or instead of regular community bank loans. These loans may be used for the following items: agriculture, livestock, grain, or transport (cart or bicycle). Loan sizes range from 25,000 CFA (for fertilizer loans) to a maximum of 300,000 CFA (for livestock, transportation, and grain). Each loan type within this category has different terms ranging from 10-18 months, although all loans are made available at 1% interest per month. In practice they are payable in lump sum at the end of the loan term, although sometimes clients pay some or the entire amount earlier. Since clients are not being obliged to repay the supplemental loans until the end of the loan duration (even though they are supposed to be paid monthly or quarterly), it is too early to tell what the repayment rates will be. The members of the community bank collectively guarantee other members' supplemental loans. CREDO's intention is to provide an extra incentive for people to remain community bank members by offering them an attractively priced loan and a loan which can be used to make productive investments that would not be permitted under the community banking program. CREDO may be unwittingly undermining its community bank loans, however, in that members may choose to take a supplemental loan instead of a regular loan. In any case, CREDO can not afford to provide these supplemental loans at 1% interest; this will rapidly translate into lower operational self-sufficiency.

After one year with the community bank, members are eligible for solidarity **group loans**, through a group of 5-8 members, instead of through the community bank. The loan duration can be 4, 6 or 12 months. The interest rate is 2.5%. Clients can access larger loans through this product than through the

117

community bank product, although CREDO has not defined the range in loan size for this product. It is not clear how community bank members make the transition from the community bank to the solidarity group.

The **individual loan** product is available to clients who have been community bank members for 5 cycles and who have met all their obligations during this time. These larger loans can be extended for a period from 6-12 months. The loan size ranges from 200,000 CFA to 500,000 CFA. The interest rate charged is 1% per month. A savings deposit of 20% of the loan amount is required as a guarantee. The interest rate on this product is far too low to cover CREDO's costs of delivering this service. Not only will it not cover its costs, but CREDO also risks cannibalizing its community banking loan product, as clients shift to a lower cost less hassle product. Furthermore, the experience to date with the individual loan product has revealed poor repayment rates. CREDO should not be offering this product at this time. CREDO is aware of the disastrous experiences in other WRC-supported programs with individual loan products, and has had extensive discussions with members of the MEDTU with regard to this product. In its latest credit policies document, however, CREDO indicated that it will continue to provide individual loan products, despite an apparent decision at the strategic planning session in April 1997 to provide loans only through community banks or solidarity groups completing nine loan cycles in the community banks. During the evaluation, however, the BC Program Coordinator indicated that CREDO would no longer provide individual loan products. It is critical for CREDO to address this issue firmly, drawing on its own experiences to date as well as those of other members of the MC Network.

There are other risks associated with these new products. The skills required of Promoters for individual loans versus group lending are very different, and it is not clear that all Promoters can do both well. Individual lending, for example, requires careful and individualized risk assessment, cash flow analysis, and assessment of the viability of businesses. In addition, the management systems currently in place are not adequate to track these loans. It is not clear to what extent Promoters have the training to effectively manage these loans. Further it risks undermining the community bank program since the terms are so much more favorable than the community bank loans. The new products, with the exception of the solidarity group loans, generate considerably less revenue than the community banking product, with effective monthly interest rates ranging as follows (see Annex 9 for details of effective interest rates):

- Community banking loans: 2.80% (6 month loan)-3.92% (4 month loan)
- Supplemental loans: 1.00% (cereal)-1.65% (transport)
- Solidarity group loans: 3.92%(4 month loan)-4.29% (12 month loan)
- Individual loans: 1.69% (6 month loan)-1.79% (12 month loan)

While it is laudable that CREDO is striving to retain its clients by providing them with products intended to meet their needs, CREDO is offering too many new products at once. The potential ramifications are that the array of options will be confusing to clients; difficult for Promoters and Community Bank Management Committees to manage; and that the MIS will not be able to accommodate all the variations. Breakdown of discipline is likely at various levels. The most immediate effect is likely to be the disintegration of community banks, as members opt for solidarity groups or individual loans, which are larger, cheaper, of longer duration, and without the hassle of participating in group meetings. The implications for CREDO is higher cost of administering loans as Promoters will be able to manage a fraction of the clients they could manage through the community bank mechanism; higher risk of losses due to a weaker guarantee mechanism; and significantly lower revenue due to interest rates which are only 40% of the community bank interest rates. For those members who opt to remain with the community bank, many will choose to take a supplemental loan rather than a regular loan, due to the lower interest rate (again 40% of the regular loan rate), and flexible repayment schedules. To the extent that community banks are able to survive the departure of members who opt for the individual loans or solidarity group loans, the members may be somewhat demoralized by the decrease in membership. It is not clear if CREDO will accept community banks with fewer than 18 members. If the minimum number of members is retained, some banks will not survive. If the minimum required number were lifted, then CREDO's costs would rise significantly, as Promoters would have to manage more community banks to reach the same number of clients.

Instead of offering such a wide array of products within the very short span of 3-5 cycles, CREDO should be focused on how to improve its core product—and its most lucrative product: ***community banking****. Improvements could be made by increasing access to savings during the course of the three years.*

Supplemental loans *could still be offered at favorable and clear terms as an incentive to the best community bank clients. For these supplemental loans, interest rates should approach if not equal the rates for community bank loans (part of the attraction is that clients can use the loan for purposes other than permitted for community bank loans), but they should at least t be in the range of 1.5%-2.0%. Repayment conditions (duration of loan and frequency of installments) should be clear and adhered to. If lump sum payments are adopted, CREDO may wish to collect interest up front to increase CREDO income or on a monthly basis to maintain the discipline of repayment and remind clients of their commitments.*

Solidarity group loans *should not be an option until a member has participated in three years of the community bank program. If CREDO is finding that the loan ceiling for community bank loans is too low, then it would be better to raise the ceiling for later cycles rather than drive members out of the bank in order to access larger loans.*

Individual loans *should not be offered at all, at least at the present time, due to the increased risk, increased cost, and lack of capacity to manage and track the loans.*

B. Non-Financial Services

As part of its Community Banking Program, CREDO provides training at two levels to ensure the success of its financial services: individual members and Management Committee members. The training at the level of the community banks is provided to all potential members and is composed of four separate two-hour sessions. Promoters meet with potential members to discuss the problems encountered in running a microenterprise and how to address these problems. These include marketing, profitability, understanding and assessing risks, daily management, etc. .

Training of Management Committee members focuses on community bank management techniques, including roles and responsibilities, development of bank bylaws, recordkeeping, running meetings, etc. These trainings take place over three days. Usually, 5-10 Community Bank Management Committees are trained at once to ensure economies of scale. In order to defray the costs of provision of training and to emphasis a fee for service approach, CREDO charges 1,500 CFA per person or a total of 7,500 CFA per Management Committee for the training. Due to high costs, CREDO has emphasized initial training and minimized follow up training for Management Committees. Instead, follow up on training is conducted informally by Promoters during the course of their work with Management Committees. In countries with higher client turnover rates, such an approach to member training might be a problem. Since clients tend to remain members of CREDO community banks for years, less follow up training is required.

CREDO has developed a training manual, which contains the basic elements of the training. *CREDO may wish to update the manual—and its training—to ensure consistency with current policies and expanded to provide more detail on collections, delinquency management, and recordkeeping.*

From the outset of its community banking program, CREDO hoped to provide access to literacy training for members, particularly management committee members. Unfortunately the government's programs did not seem to meet the needs of members. Although it applied to a number of European donors, it was not until 1998 that CREDO received funding from the Strommer Foundation. CREDO launched the literacy component, in which it provided tuition for a limited number of management committee members to participate in the training. The Ministry of Grassroots Education, which offers an initial literacy course of 48 hours and a complementary literacy course of 25 hours, provides the training. Thus far 7 branches have benefited from this training with a total of 443 women declared to have achieved basic literacy. CREDO is pleased with the results to date and will continue providing tuition to other management committee members in the future.

The table below provides a numerical summary of trainings conducted during the Matching Grant at the level of Community Bank members and Management Committees.

TRAINING PROVIDED TO CBs					
	1994	1995	1996	1997	1998
Number of members trained in business education and health	109	0	360	35	0
Number of members of Management Committees trained in CB management	158	300	215	418	464
Number of members of Management Committees retrained in CB management	109	30	360	35	0
Numbers of members trained in literacy through CREDO credits	25	0	0	0	443

CREDO produces an annual publication in French and English called *Dialogue*, which is mainly for partners and other development and microfinance institutions.

C. Client Outreach

Initial banks were started in Ouagadougou, the capital city, and then were created in outlying provinces of Sissili, Boulkiemde, and Mouhoun. Currently CREDO operates in 12 of Burkina Faso's 45 provinces. It has 13 Promoters (11 of which are female). During the Matching Grant it grew from 30 CBs in 1993 to 197 BCs in 1998. Due to its policy of promoting community bank graduation, CREDO needed to create many more banks each year in order to reach the target of 30 additional banks per year. The reasons for such high rates of graduation include:

- The initial strategy was to assist CBs to become independent after 3 years
- Members of the CBs wanted to access their savings which was not available until the bank "graduated"
- Some CBs were not well organized and had leadership and management problems
- Some banks had poor repayment records
- Subsidized competition resulted in high desertion rates and repayment problems (CREDO has subsequently adopted a policy of not working in areas where the President and other high government officials are from due to the entitlement sentiment that rapidly develops

Internally CREDO tends to focus its outreach tracking on number of community banks rather than number of active clients. WRC's program summaries report "members receiving loans" during the period rather than "outstanding number of loans" or "active clients,", as is industry standard. Outreach expanded from 1,956 members receiving loans during to 5,973 members receiving loans during GY5. The number of current clients at the end of the Matching Grant was 4,967, which reflects the reduction due to bank graduation and any client drop outs during the year. The growth in members served on an annual basis is as follows:

GY2: 43%
GY3: 21%
GY4: -2%
GY5: 80%

It is unusual to have such uneven growth in number of clients served. This can be attributed to practices regarding bank graduation. As mentioned elsewhere, in order to better serve its target clientele and provide a greater degree of program stability and income to CREDO, CREDO should review its policies regarding bank graduation, especially access to savings.

Neither CREDO nor World Relief have yet developed an adequate means to systematically track and report on client outreach for non-community banking financial services. The number of clients receiving individual loans in GY5 totaled 54. The number of individuals benefiting from loans through solidarity groups totaled 79. Since these clients are no longer members of community banks, they should be added to the clients served through community bank loans, bringing the overall total to 6,106 for GY5. Supplemental loans were provided to community bank members, therefore these loans do not affect the total client outreach.

D. Client Profile

All clients must be entrepreneurial, capable of being trained, have a cooperative spirit, and be willing to be supportive of others, and be upstanding. No client can be employed by the Government, have a regular salary, be a member of the military, have an incurable disease which could render the person incapable of carrying out their economic activities. Priority is given to women. The idea is that the clients are amongst the poor in a community. Overall CREDO seems to be reaching its target clientele. Ninety one percent (91%) of its clients are women. The poor figure prominently amongst the clients, although the less poor have also been included amongst the clients, presumably to ensure cohesion and acceptance within the community.

In the early stages of its credit and savings activities, membership in community banks was opened to men and women, with priority for women. CREDO decided to place a greater emphasis on targeting women for the following reasons:

- Men tend to want larger individual loans, whereas women tend to be more realistic about loan utilization;
- Men have a poorer repayment record, whereas women respect their obligation more and are more concerned about their honor;
- Men are more mobile, with some leaving an area entirely before repaying a loan, whereas women are more stable, due to their sense of responsibility for their children, and would tend not leave an area without fulfilling loan obligations

There are no guidelines regarding membership of multiple family members in one community bank—including spouses. In most group lending programs elsewhere, such practices are discouraged—if not prohibited—to reduce the covariant risk of default. *CREDO should consider developing guidance or a policy on membership of more than one family member in a bank.*

CREDO targets the poor through its choice of geographic zones: CREDO works in rural areas in a number of areas throughout the country, in particular Sahelian zones which suffer from desertification. CREDO also works in urban areas, serving poor entrepreneurs who do not have access to other sources of credit. In order to attract the poor, CREDO uses the following targeting approach:

- Small initial loan size
- Short loan cycle
- Savings requirement
- Loans are accessed initially through community banks with a subsequent option of solidarity groups rather than individually
- People receiving a regular salary, including civil servants are not permitted to participate.

In establishing community banks, Promoters first work with existing groups—whether social groups, marketing groups, church groups, or other groups. After these are exhausted within the area, then the Promoters will turn to the local representatives of the Ministry of Social Action or other associations or authorities for suggestions on existing groups. Promoters also create new groups by holding informational meetings and inviting interested women to form groups before providing initial orientation and training.

Community bank members receive loans for a variety of income generating activities. Due to the short duration of the community bank loans, most of the activities financed tend to be commercial and trade oriented, with some food processing, small scale production, and handicrafts, but little agricultural or livestock activities.

E. Market and Competition

Before beginning work in any new area, CREDO examines the market potential of the area: the density of the population, the types of activities typically carried out in the area and their profitability, the degree of entrepreneurialism and cultural characteristics that would affect microenterprise development, and the existence of local markets and a reasonable infrastructure conducive to economic activity. CREDO does not estimate the number of potential clients, however. CREDO also looks at what other providers of financial services are operating in the area to determine the gap in demand and whether the policies and practices of such organizations would have a tendency to destabilize a CREDO program. Unfortunately these area studies are not documented, so much of the valuable market knowledge is not retained and can not be shared systematically with Promoters and in future planning exercises.

CREDO works in both urban and rural areas. At the beginning of the community banking program, CREDO focused on rural areas, based on the problems encountered in urban areas with previous credit and savings activities. CREDO is now returning to urban areas, especially with the introduction of a branch in Bobo Dioulasso, in recognition of the larger potential market for its financial services and the reduced area that each Promoter must cover in order to reach the target number of clients.

Although Promoters are asked to continue to identify potential banks in the area where they operate, if they are at or near capacity this does not happen. Instead, CREDO has a tendency to open a new branch in a different area, rather than bringing in additional Promoters to an existing branch to ensure deep penetration of the market before moving on. *CREDO should consider adopting a practice of ensuring complete coverage of an area before moving to a new area. This will cut its costs as fewer branches will be required, ease supervision, and reduce some of the logistical challenges. This practice should be* *accompanied by more thorough and documented market surveys, which would indicate the overall potential for each area as well as more training and support to Promoters on developing a clients and bank formation.*

In terms of competition, one of the main threats to CREDO's microfinance program over the years has been the provision of subsidized loans, as well as the practice of being lax on collection, by other programs. Some other programs also offer additional services or gifts, which undermine the discipline demanded of a community banking program and pull clients away from CREDO's program. For example, in Kokologo, local NGO "Sahel Solidarite" provided free food aid, free wells, and interest-free loans. In 1995 this resulted in repayment problems for CREDO's banks. To address this problem, CREDO contacted the leadership of Sahel Solidarite to agree to exchange client lists to avoid double lending as well as to discuss the importance of charging interest. In addition, CREDO froze the opening of new banks in the area as well as other areas which were "contaminated" by interest free lending or similar practices. CREDO seems to have adopted sound practices to deal with unscrupulous competition. It is interesting to note that in several of these areas, former clients are coming back to CREDO to request services, since they were unable to get subsequent loans from the other organization or were not happy with the services provided.

IV. FINANCIAL PERFORMANCE

A. Income Statement and Balance Sheet

Analysis of the balance sheet shows the consistent growth of CREDO's outstanding loan portfolio over the years of the Matching Grant, with increases of 110%, 37%, 29%, and 46% over the five years. This growth has largely been achieved through expansion of the network, as the number of active community banks also expanded at rapid rates, with increases of 57%, 30%, -4%, and 42% during the same period. Average loan sizes have also increased as clients stay with the program longer, with a dip in 1997 as a record number of banks (47 banks) discontinued their activities in order to access their savings after three years. This drop is also reflected in a significant reduction in operational self-sufficiency from 58% in 1996 to 49% in 1997. The balance sheet and program statistics thus reveal the importance to CREDO of continuing to provide services to community banks rather than graduating them and starting again with the creation of new banks.

Notwithstanding the growth in the outstanding portfolio, CREDO is underutilizing its resources, with loan fund utilization rates of 48%, 54%, 44%, 38%, and 40% over the course of the five years. *Part of the low utilization rates is a function of seasonal factors, nevertheless much of it is due to other factors, which CREDO should track on a monthly basis and carefully analyze.* [9] *Before seeking additional capital to build the loan portfolio, CREDO should more fully utilize the resources it has. CREDO should examine what are the factors that are limiting portfolio growth, as capital is not one of the reasons.*

Initially, World Relief Burkina Faso and later CREDO maintained large cash balances in bank accounts in Burkina Faso. This resulted in a loss of nearly $250,000 when the currency was devalued by half in January 1994. As a result of this experience, CREDO leaves unutilized funds in an account in a dollar account in the U.S.

On the liabilities side, the only item is clients' savings, which grew 66% from 1994-1995, 55% from 1995-1996, declined slightly from 1996-1997 (due to large number of banks leaving the program), and grew again 46% from 1997-1998.

Looking at the Income and Expense Statement, income is derived from primarily from interest, with less than 4% of income from loan fees. Income increased steadily during the period, with only a slight increase in 1997, due again to the number of banks that dropped out of the program. The increases registered during the five years of the Matching Grant were as follows: 26% in 1995, 85% in 1996, 26% in 1997, and 66% in 1998. The expenses grew more slowly than the income, at 12%, 63%, 49%, and a decline of 7% in the final year of the matching grant.

Staff salaries grew slowly during the period, perhaps indicating that the staff may have been working significantly below capacity in earlier years, given the relatively small additions in number of promoters each year (1-2 per year). The Promoter salaries are reportedly in line with salaries of staff at the same level in other institutions. The Promoter salary is 375% of annual GNP of $320 per capita.

[9] Until mid-1997, CREDO had a policy of only using new funds for new community banks, thereby limiting program growth due to perceived lack of loan funds. It is not clear why CREDO adopted such a policy or what it intended to do with the unused funds from the over 70 banks that left the program. As of the field visit of the MEDTU Coordinator in April 1997, CREDO decided that it would no longer limit the utilization of loan funds.

B. Profitability

CREDO PROFITABILITY					
	1994	1995	1996	1997	1998
Return on Assets (Operating Profit / Average Total Assets)	-28%	-11%	-9%	-11%	-3%
Return on Equity Operating Profit / Average Equity	-54%	-18%	-14%	-16%	-3%
Operational Self-Sufficiency (Operating Income / Operating Expenses + Loan Loss Provision)*	25%	51%	58%	49%	88%

*Financial costs are usually considered in the denominator, according to the SEEP ratios, but are not included here.

The return on assets, while still negative, is improving, and CREDO looks to make a positive return in the year to come. The return on equity is lower than the return on assets, as a significant amount of CREDO's loan capital is not being utilized. The overall trend is improving, however, and with a better utilization of existing resources to expand outreach and the loan portfolio, CREDO should soon start to earn a positive return on equity.

The trend in operational self-sufficiency is excellent, from 25% in 1994 to 51% in 1995 to 58% in 1996 down to 49% in 1997 and up to 88% in 1998. Although CREDO did not reach the targets (increases of 20% per annum over four years to attain 100% at the end of FY98) set for itself at a course on financial management systems in March 1995, its progress ha been impressive. CREDO appears poised to reach operational self-sufficiency in the near future. Indeed projections made by the MEDTU Coordinator in consultation with the CREDO BC Program Coordinator indicated that CREDO should attain operational self-sufficiency in 1999.

C. Efficiency

	1994	1995	1996	1997	1998
Operational Efficiency (Operating Expenses / Average Net Portfolio)	160%	58%	59%	67%	45%
Personnel Costs as % of Total Admin Costs	58%	70%	44%	34%	39%
Costs Per Unit of Money Lent	.34	.13	.14	.19	.10
Number of Active Clients per Promoter	245	312	309	277	460
Outstanding Portfolio per Promoter (CFA)	4,758,593	16,323,712	22,281,923	29,213,082	36,893,781

The trend in operational efficiency is encouraging, as CREDO has seen its operating expenses decrease as a percentage of its average net outstanding portfolio. There is still room for improvements, primarily by expanding its outreach and by a gradual increase in average loan size from clients who have been with the program for longer. Successful MFIs often achieve an operational efficiency rate of less than 25%. In regard to the personnel expenses a proportion of total administrative expenses, this percentage ranges from 34%-70%. High percentages should not be surprising, as staff is the most important asset of a microfinance institution; in recent years, CREDO has been in an appropriate range. The cost per unit of money lent is quite low throughout the grant period, dropping from 0.34 CFA for every 1 CFA lent in GY1 to 0.10 in GY5. The ratio of clients to Promoters has been showing a positive trend upwards from 245 in 1994 to 460 in 1998, with a dip in 1997 with the departure of a number of banks and the hiring of a new Promoter. CREDO's target is about 450 clients per Promoter. Although there will inevitably be dips over the short term as CREDO brings on new Promoters and incurs other expansion related expenses, CREDO should maintain its incentives to bring all Promoters to the target level—while adding a maximum arrears rate into the incentive formula. The trend in the outstanding portfolio per Promoter is positive. As clients are with the program for longer, their average loan size will increase [10], and as Promoters become more experienced they will be able to manage more clients and clients with larger loans. The only caution regarding this trend is not to promote larger loans at the expense of reaching the target clientele: poor women.

D. Loan Portfolio Analysis

1. Portfolio Quality

The following table shows the trends in key portfolio quality indicators for CREDO over the past five years.

Ratio	Formula	1994	1995	1996	1997	1998
Portfolio in Arrears (>30 days)	Payment in Arrears / Value of Loans Outstanding	Nd	Nd	Nd	Nd	7.1%
Portfolio at Risk (>30 days)	Balance of Loans in Arrears / Value of Loans Outstanding	Nd	37%	13%	32%	24.3%
Loan Loss Ratio	Amount Written Off / Average Value of Loans Outstanding	No write offs	6.7%	1.9%	3.6%	No write offs
Reserve Ratio	Loan Loss Reserve / Value of Loans Outstanding	0	0	0	0	1.9%

Nd: No data available.

CREDO does not systematically use ratio analysis to assess its portfolio quality and as a management tool. *CREDO should be tracking, analyzing, and reporting on the data above on a regular basis—the first two ratios should be tracked monthly and the second two ratios on a quarterly or semi-annual basis.*

[10] In new areas, often there is low growth initially until people in the area became more familiar with CREDO, the individual Promoters, and the community banking approach. Thereafter, demand for loans grew, as evidence by the experience in Dedegou, noted by the MEDTU Assistant Coordinator in his March 1995 trip report: initial loan size for the three most newest banks was 186% higher than that for the three initial banks and loan growth between cycles was 132% between cycles 1 and 2 and 173% between cycles 2 and 3.

From the information available for the most recent fiscal year and shown in the table below, 7.1% of the portfolio is in arrears. This ratio should alert the BC Program Coordinator to take immediate action, by first identifying the branches and banks which are problematic, and working with the concerned Promoters to step up delinquency management. Most of arrears are long overdue—2.7% are more than 91 days and 3.6% are more than 120 days. The longer that payments are in arrears, the less likely it is to be able to collect. The portfolio at risk is high at 24.3%. This ratio indicates the part of the portfolio that would be lost if all those clients who were delinquent did not pay back the remainder of their loan. Fortunately for CREDO, most of the value of loans that are at risk falls in the 30-60 days range. Quick action may halt potential deterioration of the portfolio. *CREDO does not systematically age its arrears and its portfolio at risk, but it should begin to do so on a monthly basis. Furthermore, it should include a category of 1-30 days late for internal management, as this is the key period in which to take action in following up with clients.* This information is available through CLAMS, although some manual tabulation is required. CLAMS does not capture loans which are less than 30 days delinquent, however. It may be advisable for Promoters to track this information manually as well, as they are the people who need to be most keenly aware of delinquency. CREDO may want to experiment with a few Promoters to determine how feasible this would be. A suggested format for aging of arrears is as follows, with data for 31 October 1998:

Aging of Arrears and Portfolio at Risk				
Date of Analysis: 31 October 1998			*Outstanding Portfolio: 165,509,268 CFA*	
Number of Days Late	**Amount in Arrears (CFA)**	**% in Arrears**	**Balance of Loans in Arrears (CFA)**	**% at Risk**
1-30 days				
31-60 days	362,001	0.2%	25,206,000	15.2%
61-90 days	1,067,000	0.6%	2,354,825	1.4%
91-120 days	4,468,684	2.7%	6,839,933	4.1%
>120 days	5,887,100	3.6%	5,887,100	3.6%
Total	**11,784,785**	**7.1%**	**40,287,858**	**24.3%**

2. Delinquency Management

Delinquency is defined by CREDO as payments that are more than 30 days late, which represents one repayment period. *While this is in the range of acceptable microfinance practice, for internal management purposes, CREDO and the Community Banks should consider anything that is not paid on the day due as late, and take immediate action.*[11] Since the main tool of delinquency management is that banks with delinquencies at the end of the cycle will not get new loans, Promoters tend to be more concerned about late payments at the end of the cycle than during the cycle. Promoters need to be aware that delinquency costs CREDO from the first day a payment is missed. *CREDO should also consider some additional incentives for on-time repayment or penalties for late repayments during the cycle.* For example, if there have been a certain level of delinquencies during the last cycle, the bank will have to wait longer to get access to additional loans or the loan limits will be lower than they would otherwise.

To ensure better loan collection, CREDO takes certain steps even before the loan is made. The first step before the loan is made is a visit by the Promoter to the homes of each member of the Management Committee. One week after the loan disbursement, members of the Management Committee visit at least

[11]. Currently on CLAMS, payments do not begin to show up as late until after 30 days have passed.

one third of the Community Bank members' homes or businesses to ensure that clients have received the amount requested, comparing the amount received to the amount noted on the loan disbursement form, and that they have invested in and are actively carrying out their activities. The third step is to monitor throughout the cycle the repayments.

The process of collection is as follows. Members of the Management Committees are responsible for collecting payments from each group within their bank, and then one or two representatives deposit the payments to the bank or post office. They then bring a bank receipt to the Promoter to verify that payment has been made. They often rely on memory as to who in the bank paid what, which sometimes leads to confusion as to the status of repayments of individual members and makes follow up difficult. This problem is compounded because loan passbooks are not used, since CREDO felt it was too expensive and not necessary since many clients were not literate. *As noted in the MIS section above, CREDO should consider introducing passbooks for both credit and savings. Community Bank Management Committees should immediately note all payments of bank members at the Community Bank meeting on the loan status form as well as on the client's passbook to ensure accuracy. A duplicate of the MC's loan status form should be submitted to the Promoter along with the bank receipt of deposit. This would ensure the accuracy of who made what payment, and ensure that the records of the Promoter and Management Committees are the same. This would also facilitate follow up of delinquent payments.*

According to the Credit Policies and Procedures document, the process of delinquency management is as follows.

1. Visit to the delinquent member by members of the Management Committee to remind them of their obligation and find out what a member has not paid. If someone is sick or encountered an emergency, usually other group members will cover until she can pay. If the non-payment is deliberate, members of the Management Committee pressure the delinquent member to pay.
2. If the members still do not pay, the Management Committee will convene a special Community Bank meeting to address the delinquency problem.
3. If the member still does not pay, there will be another visit to the home of the delinquent member.
4. The Management Committee applies the CB bylaws applicable to cases of late or non-payments.
5. If there is still no payment, savings of the member will be seized.
6. If there is still an outstanding balance, legal action will be taken.

Whereas The Credit Policies and Procedures document is a good start, it does not provide specific enough guidance. It should indicate when each step happens, for example, the visit of the delinquent member should take place on the same day as the missed payment. It should also indicate the role of the group in recovering any delinquency through visits to the delinquent member, group pressure, and other mechanisms. It should also indicate to what extent other group members and the Community Bank as a whole are liable in terms of confiscated savings and blocked access to new loans. The policies and procedures do not indicate what the role is of the Promoter in delinquency management. If CREDO adds Area Supervisors, it will also need to indicate their role in the process. Some suggestions of improving delinquency management at the Community Bank level that have worked well elsewhere include making announcements at the end of each meeting of who is delinquent. Another step before judicial proceedings could be involving local leaders or officials in encouraging the delinquent member to repay. *CREDO should review and refine its delinquency management procedures, and include more detail on each step, who is responsible, and when each step takes place. It should also offer suggestions to CB management, Promoters, and Supervisors, on innovative and effective delinquency management techniques.*

Not only does CREDO not charge any penalties on late payments, it does not charge any interest for period during which the loan is delinquent. For example, if a loan is 3 months late, the CB will only be responsible for paying interest through the original due date. This greatly reduces the incentive for on-time repayment from CBs. Moreover, it dramatically reduces the interest income earned by CREDO, as CREDO loses 2.5% of the outstanding balance on late loans for every month the loan is late. This practice results in significant reductions in progress to overall sustainability. *CREDO should ensure that it collects interest on the loans for the entire period the money is held. In addition, CREDO should charge a penalty on late payments that is enough to be a deterrent to late payment but not so much that it will not be enforced. These changes should be introduced into the loan contract. Penalties and all interest should be remitted to CREDO rather than remain at the bank level.*

CREDO should consider developing a delinquency management training workshop for Promoters to be held during one of the regularly scheduled meetings. This should also include training on how to train the Community Bank Management Committees on delinquency management.

3. Refinancing, Provisioning, and Write Off

CREDO does not permit refinancing of loans.

CREDO has not made provisions for losses until 1998, when 1.9% of the loan portfolio was provisioned and the same amount placed in a loan loss reserve. Previously CREDO wrote off loans directly.

In the first few years of the program, CREDO did not write off any loans, and thus the outstanding portfolio was overstated. Despite the directives and instructions on how to declare banks in default issued by WRC beginning in November 1993, CREDO did not declare any banks in default until the July 1994 field visit by the MEDTU Assistant Coordinator. At this time, defaulted banks were defined as those that had been inactive and still had unpaid loans which were disbursed through February 1993. This represented the first time any community banks in any of the World Relief programs were declared in default. Current practice at CREDO is that after community banks are one year late, the bank is declared expelled, but collection efforts continue. In 1998, CREDO wrote off the unpaid loans of 12 community banks, although information was not provided on how much was written off. CREDO does not have clear write off policies--in terms of at what stage it writes off loans and with what frequency it writes off. *CREDO should clearly define its write off policies, and follow them. CREDO may want to provision on the basis of a maintaining a loan loss reserve that is a certain percentage of the outstanding portfolio based on historical loan losses. At some point it may wish to change to provisioning on the basis of aging of arrears, but it is most important at this stage to put the basic policies in place and to begin aging mostly for portfolio management.*

E. Interest Rate Analysis and Portfolio Yield

As a non-regulated NGO providing financial services, CREDO is free to set its own interest rate. It is constrained by clients' willingness and ability to pay and competition. For many clients, the alternative is moneylenders, which charge upwards of 10% per month, making CREDO's interest rate attractive. In areas in which there are other informal providers of financial services (NGOs and caisse populaires), the rates set by competition are more of a factor. Given its experience with clients returning to CREDO after deserting to go to lower priced competition, CREDO should focus on setting interest rates at a level which will enable it to reach operational and financial sustainability, and which will eventually allow it to capitalize its loan funds. Below is an analysis of CREDO's theoretical and actual interest rate yields over the past five years.

Annual Interest Rate Yield on Portfolio					
	1994	**1995**	**1996**	**1997**	**1998**
Interest Rate Yield: Community Bank Loans & Solidarity Group Loans *% Loan Portfolio*	58.6% *100%*	47.1% *100%*	47.1% *?*	47.1% *?*	47.1% *86%*
Interest Rate Yield: Supplemental Loans *% Loan Portfolio*	Na	Na			18.7% *3%*
Interest Rate Yield: Individual Loans *% Loan Portfolio*	Na	Na			20.3% *11%*
Theoretical Weighted Interest Rate Yield	58.6%	47.1%			43.3%
Actual Yield on Portfolio (Gross Interest Income / Average Net Portfolio)	31.0%	29.8%	34.4%	32.7%	39.2%

Although the theoretical annual interest rate yield on the community bank loans is 47%, when the other two types of loans are included the theoretical annual interest rate yield declines to 43%. Obviously the weighted yield would be much lower if either of these products were to increase as a part of the loan portfolio. *In the future, as mentioned elsewhere, CREDO should reconsider the rate charged on its supplemental loans and discontinue individual loans—at least at present. For the supplemental loans, CREDO should consider increasing to the same level as the regular community bank loans—with the benefits being the longer loan term, different repayment frequency, and opportunity to use the loan for purposes other than permitted under the community banking program. If CREDO feels that it must also offer an additional incentive on pricing, then it should be closer to 2.0%. As mentioned elsewhere, such attractive terms will cannibalize the main loan product and will reduce CREDO's operational self-sufficiency.*

The table above indicates that in 1998, whereas the theoretical weighted annual interest rate yield should have been 43%, the actual yield on the portfolio was only 39.2%. This discrepancy can be explained in part by delinquencies within and beyond loan cycles. The performance on individual loans has been particularly poor, which has brought down the overall yield. In addition, no interest or principal is collected on the supplemental loans until the end of the loan period, which may not have fallen within the period considered. Perhaps most importantly, CREDO has a policy and/or practice of attributing partial payments to principal first, and then interest. Finally, CREDO does not levy penalties nor does it charge interest on overdue balances. *CREDO should further analyze its revenue collections to determine if there are any other factors that contributed to this low yield. It should address those identified above which negatively affect its yield (which include: tighten up delinquency management; discontinue individual loans; review interest rates charged on supplemental loans; apply partial payments to interest before capital; charge interest on overdue balances; apply penalties for late payments.*

Another significant factor that is not taken into consideration in the calculation of theoretical interest rate yields is the potential yield on loan fund capital that is not part of the outstanding portfolio. During the course of the Matching Grant, the loan fund utilization rate at year end was consistently low, ranging from 38%-54%. As CREDO did not provide information on the interest rate it is earning on its "idle

130

funds" the evaluator can not analyze this component of yield. It can be said nevertheless, that CREDO is not using its funds effectively to reach a larger number of clients and increase its income and self-sufficiency. Since loan funds are not the constraint to expansion, either capacity or commitment must be the constraint. If capacity is the constraint, then CREDO should develop and implement a plan to rapidly build its capacity. If commitment is the constraint, CREDO should consider whether it wants to be in the microfinance sector over the medium to long term and take actions accordingly. *CREDO should ensure that it better utilizes available loan funds for onlending, which will increase its self-sufficiency and better serve its clients.*

F. Sources of Funds: Equity and Liabilities for Loan Fund and Operations

The table below indicates the grant resources that have been provided to CREDO during the past five years.

GRANT RESOURCES TO COMMUNITY BANKING PROGRAM (IN CFA)

Donor	1994	1995	1996	1997	1998	Total
World Relief [12]	48,549,938	34,079,825	47,275,200	68,559,300	48,000,000	246,464,263
Woord et Daad	0	14,668,538	40,861,237	53,167,621	47,098,614	155,796,010
CNPONG		2,559,000	2,559,000	2,559,000	0	7,677,000
World Relief Canada	0	0	9,838,000	10,009,750	9,534,900	29,382,650
Strommer Foundation of Norway	0	0	27,300,000	35,374,576	49,338,091	112,012,667
World Bank		1,505,000				
Total	48,549,938	52,812,363	127,833,437	169,670,247	153,971,605	551,332,590
WR contribution as % of total grants	100%	65%	37%	40%	31%	45%

Source: CREDO Finance Department

The above table indicates that World Relief's contribution to CREDO's community banking program has been declining as a percentage of overall contributions, from 100% in 1994 at the beginning of the matching grant to 31% in 1998 at the end of the matching grant. The Matching Grant has thus played an important role in leveraging additional resources from other funders. CREDO has done an excellent job

[12] Analysis of composition of funds from World Relief appears in the table below:

Matching Grant Expenses for CREDO (in USD)

	1994		1995		1996		1997		1998		
	USAID	WRC	USAID	WRC	USAID	WRC	USAID	WRC	USAID	WRC	Total
Loan Funds	27,982	39,487	0	69,804	14,646	18,075	15,304	23,840	9,975	3,251	**222,364**
Other Direct Costs	4,134	16,374	12	19,532	0	13,901	0	6,866	0	26,709	**87,528**
Personnel, Travel, Subcontracts	19,319	38,242	21,402	34,861	29,931	37,971	31,021	44,527	13,850	65,837	**336,961**
Total	51,435	94,103	21,414	124,197	44,577	69,947	46,325	75,233	23,825	95,797	**646,853**
Less Local Income	0	12,671	0	32,790	0	0	0	0	0	0	**45,461**
Plus Indirect Cost Factor	0	0	27,867	0	28,287	0	30,025	0	0	0	**86,179**
Total MG	**51,435**	**81,432**	**49,281**	**91,407**	**72,864**	**69,947**	**76,350**	**75,233**	**23,825**	**95,797**	**687,571**

Source: WRC HQ Fifth Annual MG Report

at mobilizing additional resources for this program and diversifying its funding base. This has come at a cost, however. World Relief is one of CREDO's only partners that has experience in microfinance. The other partners take a more traditional, project based view, and insist on CREDO implementing the community banking program in the funder's priority areas, and require separate reporting for the community banks that it has funded. This creates a significant additional burden for CREDO without bringing a value added to CREDO or the funding partner.

Given that this situation is likely to continue, however, CREDO will continue to track loan funds received from different donors by different fund numbers. Initially CREDO did not have a good system for such tracking, but after the July 1995 field visit and subsequent technical assistance, the accountant was able to separate out funds from different sources. This was also introduced in the CLAMS system.

LIABILITIES OF COMMUNITY BANKING PROGRAM (IN USD)

	Liability 1	Liability 2
Creditor	World Bank-PSAN	N/a
Date provided	January 1995	
Duration of liability	2 years	
Schedule of repayment	3	
Interest rate	0%	
Original amount	6,880,000	
Balance outstanding	0	

CREDO should develop a strategy for educating its donors about more effective ways of institution building rather than project funding and about microfinance in general. CREDO should demonstrate the capacity of its management information systems as well as its financial management systems to reassure funding partners that the resources will be well utilized for the intended program and in the intended zone, if required. CREDO should endeavor to convince them to accept reporting on the entire loan portfolio in terms of performance and on the financial situation of the entire community banking program, rather than insisting on seeing only their slice of the pie rather than the whole pie. This should have the added attraction to the donor of contributing to a larger more sustainable effort, and leveraging their limited resources to have a greater impact. In order to achieve this, CREDO needs to improve its utilization of its MIS and ensure that internal portfolio reporting is done on a monthly basis and utilized by management in decisionmaking.

CREDO may want to consider inviting past, current, and potential donors to a round table to discuss CREDO's positioning in the market, future strategy for the community banking program, and portfolio and financial projections. The objective of such an event would be to educate partners about more effective ways of supporting institution building and microfinance and solicit funding commitments for the future. Part of the visit should include visits to community banks and individual clients. For those invited partners or potential partners who can not attend, CREDO should prepare a marketing package which includes the material covered during the roundtable, and seeks their participation in CREDO's expansion of its community banking program. CREDO may want to solicit the assistance of World Relief in preparing for such an event.

132

V. STRATEGIC PLANNING AND PERSPECTIVES ON THE FUTURE

A. Strategic and Business Planning

Strategic planning in the past has been somewhat linked to the development of new donor proposals. In 1995, the MEDTU Coordinator facilitated an analysis by the staff and board of strengths, weaknesses, opportunities, and threats (see Annex 4), but it was not clear if or how this was taken further in planning or building on strengths/opportunities or mitigating weaknesses/threats. One of the recommendations of the mid-term evaluation was that strategic planning should become a part of CREDO's normal operations. Based on this recommendation, CREDO held a strategic planning exercise with the assistance of the MEDTU Coordinator in April 1997. This process included identifying the key issues (graduation policies, savings policies, large loan policies, interest rates, expansion, financial resources, human resources, sustainability—overall and branch level, internal controls, and financial information). After information gathering, two days were spent with the Secretary General, the Project Managers, and five of the twelve promoters to discuss the issues and future direction. A half day was spent at the end to discuss financial management issues.

In the spring of 1998, CREDO conducted an in-house strategic planning exercise, from which management and staff developed a five year plan. The plan as documented was too vague to serve as a useful framework for the Community Banking Program, however. The plan was developed by zones, rather than by program areas. The zonal demarcation is not as relevant for the community banking program, which does not strictly adhere to the zonal approach, but instead looks for areas of high potential demand for microfinance services. It would be useful for CREDO to develop a more comprehensive strategic and business plan, which includes portfolio and financial projections and incorporates a plan to secure additional resources as required. It may be beneficial if World Relief Corporation were to facilitate this process for the first time, drawing on business planning resources developed by The SEEP Network and CGAP.

The annual planning and budgeting process is as follows. Each program within CREDO must develop an annual plan and a related budget. Each program must then defend the plan and budget before the management team, before the Secretary General presents the program and institutional plans and budgets to the Board of Directors. This is an excellent process, but it appears that the plans are not always detailed enough to provide the level of guidance for work on a day to day basis. Moreover, not all program coordinators take enough control over developing and managing their own budget. Finally, it seems that often the planning and budgets are prepared for donor proposals rather than developing an integrated program and institutional plan that then serve as the basis for donor proposals.

An excellent initiative of CREDO's is to hold days of reflection on a particular issue confronting CREDO. CREDO invites staff, board, members, government, and representatives of other agencies to join in discussions on these topics and uses the conclusions to help outline plans or improve programs.

Within the Community Banking Program, efforts to encouragement improvements and innovation are made through monthly meetings and the recently initiated annual program reflection and planning meeting. The monthly meetings include reports from the Promoters on the situation in their branch including any problems encountered; planning of training, disbursement, and any travel required for the next month; and submission of requests for funds as well as new contracts; and receipt by Promoters of checks for disbursements and any savings withdrawals. At the first annual program meeting, Promoters participated in branch projections for 1999; Promoters were glad to participate in this planning process and it may result in more accurate projections. CREDO has updated five year portfolio projections

133

prepared with the assistance of the MEDTU Coordinator, but it does not appear that they can carry out the projections or analysis on their own or utilize it in their overall planning or budgeting. *CREDO should carry out a more detailed strategic planning session for the Community Banking Program. Projections should be an integral part of the 3-5 year plan.*

B. Vision and Objectives

The Community Banking Program has refined its vision of the future into documents that serve to guide its activities over a five year period. Thus the September 1993 document noted that the program objectives were to: (1) Promote the emergence of a structure well adapted to respond to the financial needs of members of the community banks and which is easy to understand and manage; and (2) Permit self-development of the target population by empowering community bank members to manage their banks and use them as a development tool. The structure would progressively move from a focus on individual development to community development. The means would be through building local savings, providing credit to increase income in the locality, and enhancing the management capacity of bank members. This plan envisioned a number of community banks in the same village linking together through a village community bank structure, with a union linking a number of village bank structures together, which would function as a union of savings and credit cooperatives. These unions would eventually be part of a national federation.

In October 1998, the Community Banking Program produced a new vision document, which has not yet been approved. According to this vision document, the objectives of program would be to (1) restructure the program to enable it to be more dynamic and better respond to the needs of the clients; and (2) to attain operational self-sufficiency by the year 2002 (projections completed by the MEDTU Coordinator with the CB Program Coordinator indicate that CREDO will achieve operational self-sufficiency in 1999; these projections should be reviewed as CREDO develops a more detailed operational plan for the coming year). The operational side of this vision is to ensure that at each branch there would be one Promoter, who would be responsible for 15 Community Banks with an average number of 450 clients per Promoter. At least four branches would make up a region of 3 Promoters supervised by a Regional Supervisor. This proposed vision is generally consistent with the recommendations in this evaluation. It has been suggested in this report that CREDO review whether it is possible to group 2-3 Promoters together in a branch to increase economies of scale (e.g., in terms of rent, communications, transport, and supervision costs). It may not be possible to adopt such a structure except in urban areas, however, due to the low population density elsewhere.

One of the main strategic issues that CREDO will need to address in the medium term, is its legal structure. At present it appears that the Central Bank is not enforcing the BCEAO regulatory framework for microfinance activities, but it may do so in the future. *CREDO should carefully study the options for complying with these regulations and the implications of each option for CREDO.*

C. Expansion and Projections

As mentioned above, CREDO has completed only a very general strategic plan for the institution including the Community Banking Program. The Coordinator of the Community Bank Program has prepared some short term projections (through early to mid 1999) for the portfolio with the input of Promoters. While this is a start, it is insufficient for planning purposes. In order to continue expansion, CREDO should have a clear and specific operational and financial plan, grounded in the overall strategic plan and based on portfolio projections. The MEDTU Coordinator has worked with CREDO in the past in developing such projections, but it appears that CREDO does not use them for planning or sensitivity analysis on its own. These projections were most recently updated during the evaluation, based on CREDO's rough plans (See Annex 10). These projections apply to the community bank loan and individual loan products; solidarity group and supplemental loan products are not included. These projections for 2003 indicate that CREDO's outstanding loan portfolio will be 583,602000 CFA for 13,350 active clients, managed by 44 Promoters. At this time, CREDO should have achieved an operational self-sufficiency of 171% and a financial self-sufficiency of 104%.

D. Resources Required

Future funding for the Community Bank Program is an outstanding question, with funding commitments from World Relief, Strommer Foundation of Norway, and Word et Daad all coming to an end this year.

World Relief Canada has indicated that it will provide funding for the coming year, but an amount has not yet been set. CREDO will not benefit financially from the next WRC Matching Grant since USAID has closed its mission in Burkina Faso and will not provide any financial assistance to that country as part of its streamlining. WRC has indicated, however, that it is committed to provide $50,000 to the CREDO Community Banking Program in addition to the technical assistance that it can provide to non-Matching Grant countries as part of the next Matching Grant. World Relief has asked CREDO to identify its technical assistance needs as well as its priorities for utilization of the funding and submit it to World Relief for review and discussion.

CREDO's partnership with World Relief is an important and strategic one, given CREDO was created out of the former World Relief Burkina Faso Program and that World Relief is the only partner to date that really understands microfinance and can provide CREDO with technical assistance to help it move forward. This will be particularly important as it is likely that CREDO will need to look again at its legal structure in the future and consider whether to create a formal financial institution, given the policy adopted by the BCEAO for all member states regarding provision of financial services.

Additional funding will be required for CREDO, particularly in capitalizing its loan portfolio. The projections prepared by the MEDTU Coordinator in conjunction with the Community Bank management indicated the following resource requirements.

Fund Requirements for CREDO 1999-2003 (in CFA)

	1999	2000	2001	2002	2003	Total
Loan Funds Required	86,270,927	77,636,811	78,894,659	83,322,683	174,016,943	500,142,023
Operational Subsidy Required	(3,394,343)	(23,067,829)	(40,730,668)	(59,040,908)	(94,295,355)	(220,529,103)
Total New Funds Required	82,876,584	54,568,982	38,163,991	24,281,776	79,721,588	279,612,921

CREDO should more clearly refine its strategic plan over the next five years and revise its projections accordingly. Once it is comfortable with these projections, it should develop a resource mobilization strategy, with an initial focus on grant equity funding. After it is has built a capital base of funds for onlending and achieved full operational sustainability, including the effect of inflation on its own funds, CREDO may want to consider seeking soft loans to supplement its own funds. CREDO will have to improve its portfolio management systems as well as its financial management systems before it seeks to access loans.

VI. MAIN RECOMMENDATIONS

Recommendations from this evaluation can be found throughout the report, along with the findings that led to these recommendations. The main recommendations are summarized and regrouped below to provide an easy reference for program managers and other interested parties.

A. Institutional Factors

1. CREDO should periodically review its decision not to become a financial institution, in light of its current program and future plans and any changes in the legislation. As part of staying abreast of these issues, CREDO may wish to help establish network of microfinance service providers to address issues of common concern, particularly how to deal with the new regulatory framework.

2. CREDO should continue to ensure that decisions regarding location of new branches, selection criteria for community bank membership, and programmatic decisions are made separately from other programs—while ensuring that the programs complement each other overall. CREDO should continue to maintain technical rather than zonal management for the Community Banking Program.

3. CREDO should further decentralize decisionmaking and authority in the Community Banking Program by devolving more authority to the CB Coordinator and creating the post of Area Supervisor (which would be filled by the top Promoters rather than other team members who have other responsibilities).

4. In regard to staffing of the Community Banking Program, an experienced MIS Specialist should be recruited. In addition, CREDO should identify a means to obtain additional support for financial management, perhaps by hiring a part time highly skilled person. Finally, CREDO may wish to review some of the current staffing to ensure that the appropriate people are in place.

5. CREDO should adopt a plan under consideration for providing incentives to Promoters who maintain high levels performance, as indicated by number of clients and on time repayment/arrears for all loan products. The incentive program should be introduced in conjunction with the minimum standards guidelines currently under revision, whereby Promoters consistently below a minimum level of performance as measured by the same two indicators listed above would be dismissed.

6. The training curriculum for new Promoters should be reviewed by the CB Coordinator and CB Training Officer and altered or supplemented with material more directly relevant to the Community Banking Program.

7. Area Supervisors (if adopted) and the CB Coordinator should provide more regular oversight on maintaining records and better utilization of records and reports for delinquency management. One suggested change in the recordkeeping system is that columns for payments collected late and the date collected should be incorporated into the loan tracking form.

8. CREDO should generate aging of arrears reports of all late payments, including those payments that are 1-30 days late by introducing an aging of arrears form as part of the regular tracking/reporting from the Promoters. CREDO should track within cycle delinquency, to avoid nasty surprises at the end of cycle, deal with potential problems immediately, and ensure that it is earning its projected interest income.

9. CREDO should modify the monthly reporting forms from the promoters to show outstanding figures rather than cumulative figures and to reduce some of the repetitive entries.

10. Savings and credit passbooks should be introduced to the program, with all client transactions recorded and initialed by a CB Management Committee at the time of the transaction. Management Committees should be trained in recording the transactions in the passbooks and ensuring that they match their own monitoring forms for loan repayments and register for savings withdrawal.

11. CREDO may want to consider having the Management Committees maintain the basic tracking of member's savings as well as loans and repayments to increase their management responsibilities.

12. Reports should be generated on a monthly basis and include activity for the period as well as outstanding data. Cumulative data is not a useful management tool for microfinance institutions. Performance indicators (following the SEEP Ratios) should be generated on a monthly basis to facilitate effective program management, as has been introduced in the Honduras program.

13. Key staff should be trained on how to interpret data generated by the MIS, and specifically how to read CLAMS reports.

14. CREDO should ensure that it has an accounting package that meets its many needs, including the ability to generate separate financial statements for its microfinance program.

15. CREDO may want to review its credit policies and procedures once again in light of the evaluation. The final version of the manual should be carefully reviewed with all Promoters and a copy made available to each. The Coordinator and Area Supervisors should work with the Promoters to ensure that any policy changes are clearly communicated to all community bank members. Once promulgated, these policies should be implemented and adhered to.

16. CREDO should improve its internal control mechanisms to further reduce the possibility of fraud and document them in the Credit Policies and Procedures Manual. These mechanisms include regular review of bank membership rosters and comparisons of contracts to rosters, as well as spot checks on clients and banks by Promoters; spot checks by Area Supervisors and Internal Auditor; introduction of passbooks to be held by clients; and maintenance of records by Management Committees.

17. CREDO should respond systematically to audits—a practice that it has already adopted on an ad hoc basis. Under such an approach, CREDO would implement the recommendations with which it agrees; document what has been done; justify why it has not complied with other recommendations; and note any other actions it has taken to address the problems identified in the audit.

B. Products and Services/Clientele and Markets

1. CREDO may wish to review whether it is possible to group 2-3 Promoters together in a branch to increase economies of scale (e.g., in terms of rent, communications, transport, and supervision costs). It may not be possible to adopt such a structure except in urban areas, however, due to the low population density elsewhere.

2. CREDO should urgently review its policies and practices regarding graduation of CBs. Instead of the current practices, CREDO should liberalize access to savings and encourage voluntary savings, and review introduction of new products for clients who have a three year track record—rather than introducing options such as solidarity group loans after such a short time (e.g., as early as 4 cycles).

3. CREDO should urgently focus on reviewing and revising its savings policies and seek technical assistance in how to better manage client and non-client savings. Furthermore, it should reconsider

becoming a licensed provider of microfinance services, which would provide it with the legal basis for offering such services. Revised policies should clearly state the following:

- Required ratio of savings to loans (e.g., a client may withdraw any savings in excess of 20% of the current loan)
- Policy on voluntary savings (it is suggested that the policy for a minimum compulsory savings be continued, but that additional voluntary savings be permitted)
- Policy on access to savings (frequency, advance notice required, ratios to be maintained, charges if any for withdrawal, etc.)
- Interest earned on savings and how that interest is paid
- Management of savings, including reintroduction of passbooks and separation of savings from monthly reimbursements on loan tracking sheets
- Policy regarding onlending of client savings (including maximum percentage of savings to be onlent)

4. Instead of offering such a wide array of products within the very short span of 3-5 cycles, CREDO should be focused on how to improve its core product—and its most lucrative product: community **banking**. Improvements could be made by increasing access to savings during the course of the three years. **Supplemental loans** could still be offered at favorable and clear terms. For these supplemental loans, interest rates might be in the range of 1.5%-2.0% per month instead of 1.0% per month. Repayment conditions (duration of loan and frequency of installments) should be clear and adhered to. If lump sum payments are adopted, CREDO may wish to collect interest up front to increase CREDO income or on a monthly basis to maintain the discipline of repayment and remind clients of their commitments. **Solidarity group loans** should not be an option until a member has participated in three years of the community bank program. If CREDO is finding that the loan ceiling for community bank loans is too low, then it would be better to raise the ceiling for later cycles then drive members out of the bank in order to access larger loans. **Individual loans** should not be offered at all, at least at the present time, due to the increased risk, increased cost, and lack of capacity to manage and track the loans.

5. In regard to its training for Promoters, CREDO may wish to update the training and revised the manual to ensure consistency with current policies and expanded to provide more detail on collections, delinquency management, and recordkeeping. It should ensure that the trainers of the contracted organization have the capacity to provide appropriate training for Promoters.

6. CREDO should consider developing guidance or a policy on membership of more than one family member in a solidarity group. At a minimum, family members should be in different groups within the same bank to reduce risk.

7. CREDO should consider adopting a strategy of ensuring complete coverage of an area before moving to a new area. This will cut its costs as fewer branches will be required, ease supervision, and reduce some of the logistical challenges. This should be accompanied by more thorough and documented market surveys that would indicate the overall potential for each area as well as more training and support to Promoters on developing a clients and bank formation.

C. Financial Analysis

1. CREDO should track and analyze loan utilization on a monthly basis. CREDO should examine what are the factors limiting portfolio growth in order to facilitate more rapid expansion.

138

2. CREDO should age its arrears and its portfolio at risk on a monthly basis. Furthermore, it should include a category of 1-30 days late for internal management, as this is the key period in which to take action in following up with clients.

3. CREDO should review and refine its delinquency management procedures, and include more detail on each step, who is responsible, and when each step takes place. It should also consider holding a training for Promoters on delinquency management with tips for each level (CB management, Supervisors, Promoters, and CB Management Committees) on innovative and effective delinquency management techniques.

4. CREDO should ensure that it collects interest on the loans for the entire period the money is held. In addition, CREDO should charge a penalty on late payments that is enough to be a deterrent to late payment but not so much that it will not be enforced. These changes should be introduced into the loan contract. Penalties and all interest should be remitted to CREDO rather than remain at the bank level.

5. CREDO should clearly define and implement write off policies. CREDO may want to provision on the basis of a maintaining a loan loss reserve that is a certain percentage of the outstanding portfolio based on historical loan losses. CREDO should track its write offs and loan loss ratios and adjust its reserves accordingly on a semi-annual or annual basis.

6. CREDO should address factors which negatively affect its yield, by doing the following tighten up delinquency management; reconsider or redesign individual loans; review interest rates charged on supplemental loans and individual loans; apply partial payments to interest before capital; charge interest on overdue balances; apply penalties for late payments. It should further analyze its revenue collections to determine if there are any other factors that contributed to a lower yield than expected.

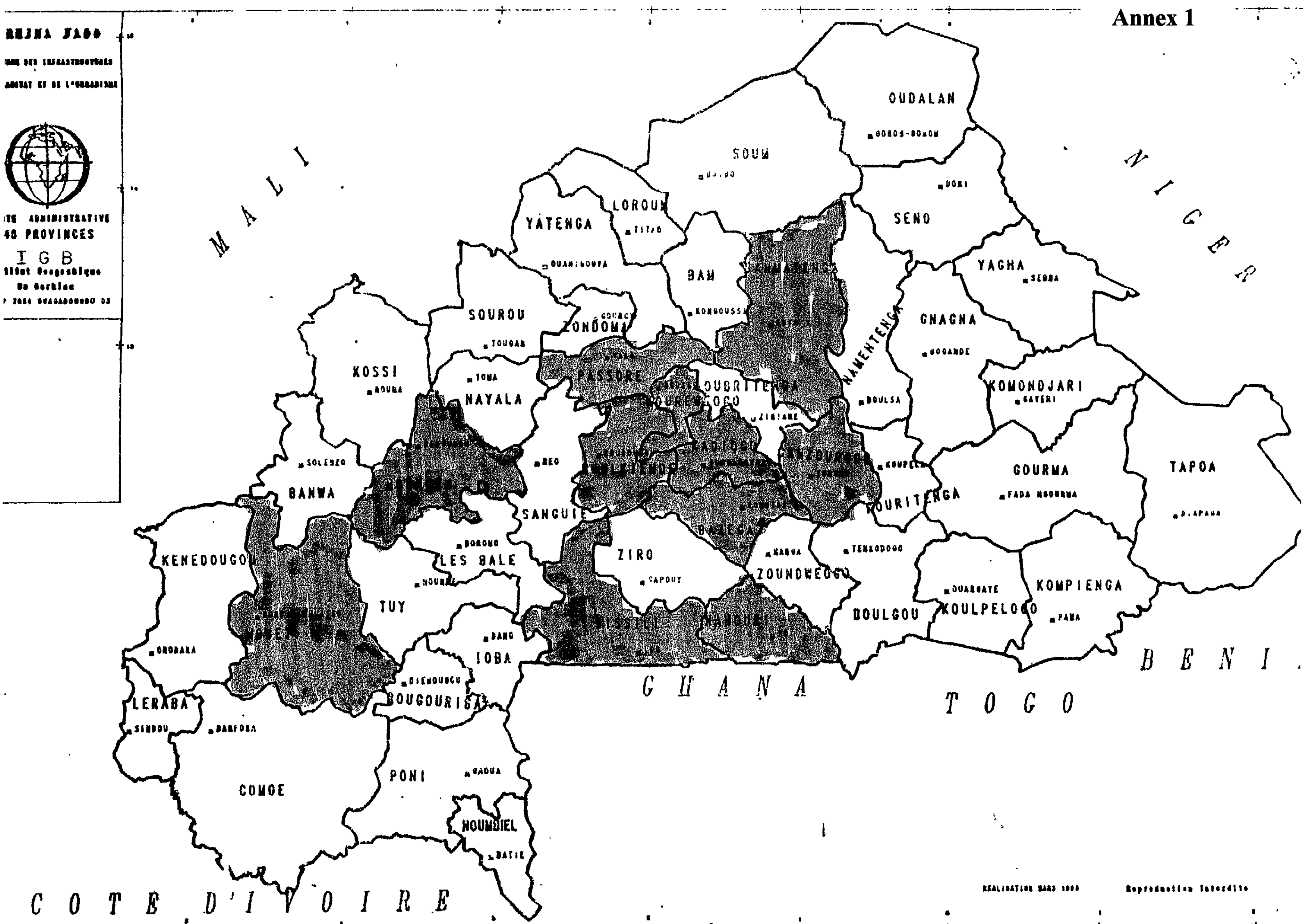
7. CREDO should develop a strategy for educating its donors about more effective ways of institution building and about microfinance in general. In order to reassure funding partners that the resources will be well utilized for the intended program and in the intended zone, CREDO will need to demonstrate the capacity of its management information systems as well as its financial management. CREDO may want to consider inviting past, current, and potential donors to a round table to discuss CREDO's positioning in the market, future strategy for the community banking program, and portfolio and financial projections.

D. Strategic Planning and Perspectives on the Future

1. CREDO should carry out a more detailed strategic planning exercise for the next 3-5 years with a focus on the community banking program. Based on the portfolio projections, CREDO should develop a resource mobilization strategy, with an initial focus on grant equity funding. The projections should also include staffing requirements so that they may be hired and trained on a timely basis.

2. CREDO should carefully study the options for complying with the BCEAO microfinance regulations and the implications of each option for CREDO.

Annex 1


45 PROVINCES
I G B
MALI
NIGER
BENIN
TOGO
GHANA
COTE D'IVOIRE
OUDALAN
SOUM
SENO
YAGHA
LOROUM
YATENGA
BAM
NAMENTENGA
GNAGNA
SOUROU
ZONDOMA
KOMONDJARI
KOSSI
NAYALA
PASSORE
OUBRITENGA
KOURWEOGO
BOULSA
KADIOGO
KOUPELA
GOURMA
TAPOA
BANWA
SANGUIE
KOURITENGA
FADA NGOURMA
KENEDOUGOU
LES BALE
ZIRO
ZOUNDWEOGO
TENKODOGO
TUY
BOULGOU
KOULPELOGO
KOMPIENGA
IOBA
DANO
LERABA
BOUGOURIBA
SINDOU
BANFORA
COMOE
PONI
GAOUA
NOUMBIEL
BATIE
TOUGAN
TOMA
NOUNA
SOLENZO
REO
BOROMO
ORODARA
DIEBOUGOU
SAPOUY
MANGA
SEBBA
BOGANDE
GAYERI
DORI
OUAHIGOUYA
KONGOUSSI
PAMA
OUARGAYE

KEY SOCIAL AND ECONOMIC INDICATORS FOR BURKINA FASO

Social Indicators

Population (millions)	10.9
GNP per capita (US$)	240
Average annual population growth	2.8%
Urban population	17%
People per sq. km	40
Life expectancy at birth (years)	46
Infant mortality (per 1,000 live births)	97
Child malnutrition (% of children under 5)	33%
Access to safe water (% of population)	78%
Illiteracy (% of population age 15+)	81%
Gross primary enrollment (% of school age population)	38%
Religious composition	
Traditional beliefs	40%
Muslim	40%
Christian	20%
Ethnic composition	
Mossi	24%
Others (Gurunsi, Senufo, Lobi, Bobo, Mande, Fulani)	76%

Economic and Financial Indicators

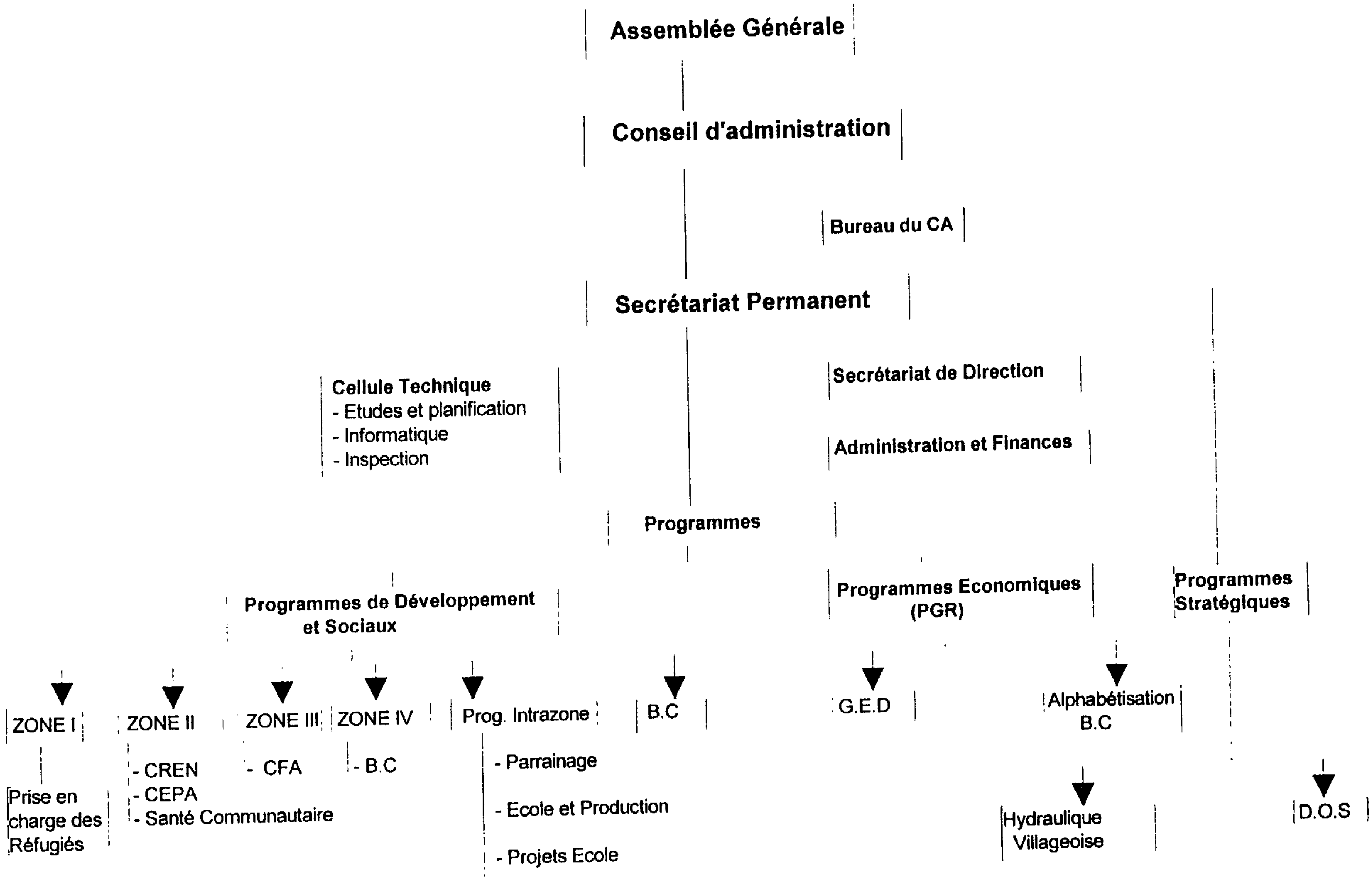
Structure of the Economy	% GDP	% Work Force
Agriculture	32.1%	92.0%
Industry	26.8%	2.1%
Services	41%	5.5%

Inflation-Year	1993	1994	1995	1996	1997
-Annual % change in consumer prices	1.0%	24.7%	7.8%	6.1%	2.3%

Sources:
World Bank, Burkina Faso at a Glance, 30 September 1998, internet, for all data unless noted below.
U.S. Department of State, Background Notes: Burkina Faso, March 1998, for work force percentages and religious composition.
Central Intelligence Agency, Factbook: Burkina Faso, for ethnic composition.
IMF World Outlook, October 1998, Statistical Appendix, p. 189, for inflation figures.

Annex 3

ORGANIGRAMME DE CREDO



142

Annex 4

CREDO INTERNAL SWOT ANALYSIS (JULY 1995)

ASSESSMENT BY BOARD

Strengths/Opportunities	Weaknesses/Threats
• Ties to the church • CREDO's experience • Target group • Community bank program • Broad experience in Board	• Insufficient funding and funding dependency • Limitations in responding to needs • Weak Church invovlement • Time limitations of Board • Inadequate understanding of CREDO by beneficiaries and other organizations
How to Build Upon	**How to Overcome**

ASSESSMENT BY STAFF

Strengths/Opportunities	Weaknesses/Threats
• Access to credit and savings mobilization • Employment generation, increased incomes, and improved livign conditions • Group organization • Dedicated personnel • Good management information system • Interest income important for sustainability • Good repayment levels	• Illiteracy • Inappropriate cycle lengths and grace periods • Competition from other programs • Challenges of and decapitalization of returnign savings to clients • Problems with business viability • Repayment difficulties • Member drop out • Social problems that can not be addressed through credit
How to Build Upon	**How to Overcome**
	• Study contracted looking at business viability, repayment difficulties, cycle length and grace period (study was of poor quality, however, and not much use in overcoming problems)

CREDO Audit Recommendations and Responses 1996-1998

1996 General Audit

Audit Recommendations	Actions Taken/Responses
1. Improve organization of accounting to permit better and more timely understanding of the financial situation and monitoring of the budgets by line item; 2. develop procedures manual for administration, accounting, and finance; 3. organization of workshops for promoters to help improve their day-to-day performance; 4. hire an internal control officer to conduct periodic and unannounced control visits to community banks and all other CREDO projects and who reports directly to the Secretary General—this should be supplemented by the usual external control; 5. improve recordkeeping of promoters (no white out or erasures, legible); 6. make reimbursements into bank accounts in presence of promoters; 7. improve timeliness of recording all transactions by promoters; 8. all documents completed by promoters should be regularly provided to Secretary General; 9. ensure that bank statements from all relevant branches are received and reconciled monthly; 10. register each individual transaction at all financial institutions in CREDO books to facilitate reconciliation; 11. recruit additional staff for accounting and finance, given heavy workload.	1. 2. 3. 4. 5. 6. *not necessary to have promoters present, as long as bank deposit slip is provided to promoters* 7. 8. *if proper controls are in place, Secretary General does not need to review this level of documentation unless problems are discovered* 9. 10. 11. Not done.

1997 General Audit

Audit Recommendations	Actions Taken/Responses
1. improved organization of accounting to permit better and more timely understanding of the financial situation and monitoring of the budgets by line item; 2. development of a procedures manual for administration,	1. 2. 3. 4. *as microfinance is not the expertise of the accounting firm, it should*

accounting, and finance; 3. organization of workshops for promoters to help improve their day-to-day performance; 4. taking into consideration the suggestions of beneficiaries who have been with the program the longest—particularly from monthly reimbursements to two reimbursements per cycle; 5. lower the interest rate, given the rates of other institutions; 6. hold annual meetings with all beneficiaries of the community banks at their branch to reinforce the solidarity of members; 7. hire an internal control officer to conduct periodic and unannounced control visits to community banks and all other CREDO projects and who reports directly to the Secretary General—this should be supplemented by the usual external control; 8. improve recordkeeping of forms by promoters without erasures, overwriting, white outs, etc.; 9. all disbursement documents must be signed or thumb-printed by recipient; 10. accountant assigned to particular bank should periodically verify all repayments and reimbursements by CBs should be made into the bank accounts in the presence of promoters; 11. promoters should maintain up to date records for individual beneficiaries including payments made; 12. provide all documents completed by promoters on regular basis to Secretary General; 13. register each individual transaction at all financial institutions in CREDO books to facilitate reconciliation; 14. recruit additional staff for accounting and finance, given heavy workloads	*not include recommendations regarding products and services in their audit report;* 5. *as microfinance is not the expertise of the accounting firm, it should not include recommendations regarding products and services in their audit report;* 6. *this may be a good idea, but is not in the purview of an audit;* 7. 8. 9. 10. *not necessary to have promoters present, as long as bank deposit slip is provided to promoters* 11. 12. *if proper controls are in place, Secretary General does not need to review this level of documentation unless problems are discovered* 13. 14.

1997 General Audit (April 1998 for new FY)

Audit Recommendations	Actions Taken/Responses
1. improved organization of accounting to permit better and more timely understanding of the financial situation and monitoring of the budgets by line item; 2. development of a procedures manual for administration, accounting, and finance; 3. organization of workshops for promoters to help improve their day-to-day performance;	1. 2. 3. 4. *this may be a good idea, but is not in the purview of an audit;* 5. Not done. 6. 7.

4. hold annual meetings with all beneficiaries of the community banks at their branch to reinforce the solidarity of members; 5. hire an internal control officer to conduct periodic and unannounced control visits to community banks and all other CREDO projects and who reports directly to the Secretary General—this should be supplemented by the usual external control; 6. improve recordkeeping of forms by promoters without erasures, overwriting, white outs, etc.; 7. all disbursement documents must be signed or thumb-printed by recipient; 8. accountant assigned to particular bank should periodically verify all repayments and reimbursements by CBs should be made into the bank accounts in the presence of promoters; 9. promoters should maintain up to date records for individual beneficiaries including payments made; 10. provide all documents completed by promoters on regular basis to Secretary General; 11. ensure better monitoring of all bank accounts in the name of CREDO opened at different financial institutions; 12. recruit additional staff for accounting and finance, given heavy workloads	8. *not necessary to have promoters present, as long as bank deposit slip is provided to promoters* 9. 10. *if proper controls are in place, Secretary General does not need to review this level of documentation unless problems are discovered* 11. 12. An additional accountant was hired in ////, primarily for the UNCHR program, but who also provides other accounting support.

1998 Program Audit (April 1998)

Audit Recommendations	Actions Taken/Responses
1. Put in place a better monitoring system. 2. Hhire an internal control officer to conduct and report on periodic and unannounced control visits to community banks and branches; 3. Update and train the promoters to better carry out their daily responsibilities; 4. Ensure that all reimbursements are complete before the next loan is made; 5. Ensure that each payment for the community banks is approved by the Secretary General; 6. Avoid having the CB Presidents recover repayments;	1. There is now a monitoring system in the branches which permits easy tracking and control via the following documents: promoters ledger, accounting ledger, receipts of CB deposits, credit control cards, loan contracts, forms tracking loan disbursements. 2. An internal control officer was hired in May 1998, primarily for the CB program, but also for other programs. He carries out periodic and unannounced visits to branches. 3. An annual review and planning meeting was held for the first time in October 1998. There are training and information exchange opportunities at the monthly meetings of promoters. 4. New loans are made only after an assessment of the previous loan and after the community bank completes repayment of the previous loan. 5. *The CB Program Coordinator should be authorized to approve all*

	transactions up to a certain amount (e.g.e, 250,000-500,000), to improve efficiency of operations and delegate responsibility to program management. *5. This recommendation is not clear. Part of the methodology is for the Community Bank Management Committees to collect the loans. The MC should ensure that it keeps good records of all collections and disbursements and each member should have her own passbook, but it is appropriate that the MCs continue to collect repayments*

Annex 6

CREDO Responses to Matching Grant Mid Term Evaluation

1. *CREDO needs to address the issue of its beneficiary focus. Currently about one-third of all banks have male members. The policy is to avoid male membership in new banks, but to allow such inclusion if women so request. It would be advisable to establish a uniform policy restricting membership to women in all new banks, since other than financial goals for bank members, such as empowerment, may suffer from the presence of men, however creditworthy they may be.*

Since 1996 the Community Banks of new branches have been comprised of female clients. Older branches have maintained their mixed composition for those men who have been faithful to the program.

2. *CREDO needs to establish clear policies with regard to the future of "graduating" banks. Since these banks are no longer able to function without assistance from CREDO when members redeem their savings, they do not, in fact, graduate, but dissolve. There are some exceptions to this, however, which should be examined as graduation models for groups desiring to graduate in future.*

CREDO apparently no longer utilizes the concept of "graduation."

3. *The practice of acting as a savings repository for inactive members should not be continued by CREDO. Although this money may earn interest and no interest is paid to savers, transaction costs of this service for an increasing number of former bank members are overly high. This is moving too far from village banking.*

Based on demand from some Community Banks, in practice the CBs can continue their savings activities even after they stopped participating in the loan program. CREDO has not established an official policy on this, however.

4. *The option of extending individual loans to former bank members is also problematic. Not only does it contribute to bank dissolution, because of the great popularity of individual loans, but at 12% the interest charge is much too low compared to the 30% annual interest for village bank members (3 cycles at 10%). In addition, amounts equal to 25% of the loans are kept on deposit by CREDO. As the number of these loans grows, promoter workloads will become overly intensive. Before engaging in this program beyond a few experimental loans, CREDO must be sure it has the personnel and resources to assure its support to what should continue to remain for the foreseeable future a sideline to village banking.*

CREDO has maintained the interest rate of 12% on individual loans with the intention of retaining the best clients in the program. CREDO is considering a revision in the near future of an increase in this rate.

5. *CREDO should focus on convincing bank members to remain in their banks, while redeeming only a part of their savings. If all savings are taken, then enough monies should be left to constitute a loan loss reserve and group fund. CREDO should, thus, offer individual loans only to good credit risks who stay in their bank programs and should not take savings deposits from graduated members. CREDO should focus on building its bank portfolio and growing loan size. Graduation, as a concept should be abandoned.*

Members are permitted to access their savings while continuing to participate in the program. Credit and savings policies have been established which cover savings withdrawal and credit extension. For example, after the third cycle of credit, the client can have access to her savings while maintaining a balance of 20% of her credit needs.

6. *Related to growing loan size and number of banks is the drive toward operational and financial sustainability concepts which should become the basis of new strategic planning and annual action plans. Progress has been made in recent years, but graduating banks in the next two years will stall progress and required renewed efforts to expand the loan portfolio.*

In 1997 with the support of the MED Coordinator, CREDO developed a five year plan which took the desire for financial sustainability into consideration. Since 1997 the number of banks graduating has decreased, in part due to measures CREDO has taken to retain them, such as diversification of loans, solidarity group loans, and individual loans.

7. *The CREDO case study materials, currently gathered on a few members per bank, should be synthesized on a yearly basis. These case studies, although somewhat skeletal, may show some impact trends on beneficiaries. Their results should lead the way to a more comprehensive study in future.*

The case study format was revised in 1997 and includes new indicators. Although preparation of such studies is not regular, in 1999 CREDO expects to have an evaluation unit which will address this issue, among others.

8. *Beyond participation in the joint impact evaluation with RCPB in late 1996, CREDO should plan similar efforts in future, especially if significant impacts are found. If it is discovered that impact on children is significantly increased by targeting health and nutrition messages to women, CREDO should consider introducing such a component to its minimalist credit activities.*

CREDO clients have at least a minimum of knowledge of health and nutrition messages through the government health serves. What is lacking is the financial means to observe the rules of hygiene and appropriate nutrition. The comparative study between programs with health education and those without on the impact of the programs on clients confirmed that health and hygiene education was not very useful. As a result, CREDO decided not to introduce such a component to its activities.

9. *Two issues requiring decisions by CREDO are what to do about the illiteracy of bank members and about continued requests for separate transportation loans, particularly bicycles and donkey carts. Launching into a literacy program, even if funded by separate grant, should be undertaken only if it can be streamlined enough to avoid constraining women's scarce time. Nevertheless, on or more members of each village bank should receive some level of literacy and numeracy training.*

The literacy component was launched in 1997 for members of the Management Committees of Community Banks. This component will facilitate the reinforcement of the capacity of members to manage their own activities.

10. *Developing a transportation loan facility for bicycle purchase may be possible as individual loans to bank members or as part of a regular village bank loan. This will have to be reserved for good credit risks and for those able to generate significant levels of additional sales through increased mobility.*

The program introduced supplementary loans in 1997 to better respond to clients' needs. These loans are individual loans approved by the membership of the Community Bank for transport (bicycles and carts), livestock raising, grain, and inputs.

CREDO LOAN PRODUCTS AND SERVICES

Product Name	Purpose	Structure	Duration	Repayment Schedule	Loan Size Range	Interest	Savings & Guarantee
Community Bank Loans	Income generating activities, particularly commerce	Banks of 24-42 members, divided into solidarity groups of 6	4 months After 4th cycle, bank can choose duration of 4 or 6 months	Monthly repayments No grace period	5,000-150,000 CFA for 1st loan; 300,000 CFA overall maximum	10%/4 mos. 10%/6 mos.	10% savings required to access loans. Savings confiscated in case of default (1st of defaulter, then of SG, then of CB)
Solidarity Group Loans	Income generating activities, particularly commerce	Solidarity groups of 5-8 members, available only after 3 cycles of CB.	Choice of 4, 6 or 12 months.	Montly repayments. No grace period.	Not specified	2.5%/mo	20% savings required to access loans. Savings confiscated in case of default (1st of defaulter, then of SG)
Supplementary Loans I	Agricultural	Individual loan to CB members available after 4 cycles. Provided simultaneously with CB or SG loans.	Policy: 12 mos Practice: 9 mos	Policy: Quarterly Practice: lump sum	25,000-100,000 CFA	1%/mo	Endorsment of non-spouse
Supplementary Loans II	Livestock	Individual loan to CB members available after 4 cycles. Provided simultaneously with CB or SG loans.	12 mos	Quarterly payments	100,000-300,000 CFA	1%/mo	Endorsment of non-spouse

Supplementary Loans III	Transportation	Individual loan to CB members available after 4 cycles. Provided simultaneously with CB or SG loans.	18 mos	Quarterly payments	100,000-300,000 CFA	1%/mo	Endorsment of non-spouse
Supplementary Loans IV	Grain	Individual loan to CB members available after 4 cycles. Provided simultaneously with CB or SG loans.	10 mos	Lump sum repayment	100,000-300,000 CFA	1%/mo	Endorsment of non-spouse
Big Loans	Income generating activities	Individual loans or individual loans through SG. Available after 5 cycles.	6-12 mos	Monthly	200,000-500,000 CFA	1%/mo	20% savings; personal guarantee or collateral (signed document)

CREDO Income and Expense Statement, FY 1994-1998

	1994	1995	1996	1997	1998
Financial Income					
Interest on Current and Past Due Loans	6,837,111	16,326,777	31,185,595	39,071,545	65,356,433
Interest on Restructured Loans	0	0	0	0	0
Income on Investments	0	0	0	0	0
Other Fees from Loans	902,350	1,164,634	1,119,750	1,502,401	2,032,975
Total Financial Income	**7,739,461**	**17,491,411**	**32,305,345**	**40,573,946**	**67,389,408**
Financial Cost of Lending					
Interest on Debt	0	0	0	0	0
Interest Paid on Deposits	0	0	0	0	0
Total Financial Costs	**0**	**0**	**0**	**0**	**0**
Gross Financial Margin	**7,739,461**	**17,491,411**	**32,305,345**	**40,573,946**	**67,389,408**
Less Provision for Loan Losses	0	0	0	0	(3,828,552)
Net Financial Margin	**7,739,461**	**17,491,411**	**32,305,345**	**40,573,946**	**63,560,856**
Operating Expenses					
Staff Salaries and Benefits	17,561,164	23,764,735	24,079,037	27,739,384	29,510,496
Travel and Business Meetings	696,588	1,116,307	2,518,532	4,542,360	5,232,747
Telephone & Fax	839,899	329,963	2,133,699	2,278,480	4,256,669
Postage & Mailing	0	255,800	162,057	289,720	573,480
Office Supplies	1,214,394	1,197,124	1,632,991	1,380,649	1,997,259
Printing	656,550	994,345	1,192,800	1,604,415	1,115,950
Equipment < $1,000	3,256,702	390,150	4,878,050	6,783,999	2,694,140
Vehicle Expenses >$1,000	1,867,623	1,544,247	2,944,598	15,185,605	9,646,639
Repairs and Maintenance	1,138,215	465,263	1,629,099	3,448,346	4,055,575
Personnel	1,476,819	1,788,335	2,596,530	7,210,051	3,920,063
Currency Exchange Losses	0	64,573	914,598	15,009	0
Office Rental	1,616,744	1,878,019	4,981,421	2,427,148	3,273,072
Miscellaneous	69,126	220,947	1,057,948	945,404	1,973,528
Allocated Indirect Expenses @5%	0	0	4,568,060	6,244,537	8,358,865
Allocated Audit Fees	0	0	0	467,238	0
Depreciation	0	0	0	1,884,745	0
Total Operating Expenses	**30,393,824**	**34,009,808**	**55,289,420**	**82,447,090**	**76,608,483**
Net Income before Subsidy	**(22,654,363)**	**(16,518,397)**	**(22,984,075)**	**(41,873,144)**	**(13,047,627)**
Income from Grants for Credit Services	25,842,624	16,941,512	30,466,139	51,984,680	49,314,244
Net Income from Operations	**3,188,261**	**423,115**	**7,482,064**	**10,111,536**	**36,266,617**
Income from Grants for Loan Fund Capital	31,158,904	52,100,361	74,874,812	108,354,503	84,899,523
Income from Grants for Fixed Assets	0	0	0	0	0
Total Income from Restricted Grants	**31,158,904**	**52,100,361**	**74,874,812**	**108,354,503**	**84,899,523**
Excess of Expenses over Income	**34,347,165**	**52,523,476**	**82,356,876**	**118,466,039**	**121,166,140**

CREDO Balance Sheet, FY 1994-1998

	1994	1995	1996	1997	1998
Assets					
Cash and Bank Current Accounts	41,851,980	52,487,352	121,585,194	196,026,744	275,426,527
Interest Bearing Accounts	0	15,000,000	15,000,000	15,000,000	0
Loans Outstanding-Current	38,068,746	79,426,058	108,515,963	139,530,247	208,021,184
Loans Outstanding-Past Due	0	0	0	0	0
Loans Outstanding-Restructured	0	0	0	0	0
Total Loans Outstanding	**38,068,746**	**79,426,058**	**108,515,963**	**139,530,247**	**208,021,184**
Less Loan Loss Reserve	0	0	0	0	3,828,552
Net Loans Outstanding	**38,068,746**	**79,426,058**	**108,515,963**	**139,530,247**	**204,192,632**
Other Current Assets	0	0	0	0	0
Total Current Assets	**79,920,726**	**146,913,410**	**245,101,157**	**350,556,991**	**479,619,159**
Property and Equipment	0	0	0	24,755,718	24,755,718
Less Accumulated Depreciation	0	0	0	8,787,231	8,787,231
Net Property and Equipment	**0**	**0**	**0**	**15,968,487**	**15,968,487**
Total Long Term Assets	**0**	**0**	**0**	**15,968,487**	**15,968,487**
Total Assets	**79,920,726**	**146,913,410**	**245,101,157**	**366,525,478**	**495,587,646**
Liabilities and Net Worth					
Short Term Borrowings (Commercial Rates)	0	0	0	0	0
Client Obligatory Savings	17,204,095	28,643,721	44,474,592	44,345,791	64,812,925
Client Voluntary Savings	0	0	0	3,087,083	5,420,333
Total Current Liabilities	**17,204,095**	**28,643,721**	**44,474,592**	**47,432,874**	**70,233,258**
Long Term Debt (Commercial Rates)	0	0	0	0	0
Long Term Debt (Concessional Rates)	0	0	0	0	0
Deferred Revenue	0	0	0	0	0
Total Long Term Liabilities	**0**	**0**	**0**	**0**	**0**
Total Liabilities	**17,204,095**	**28,643,721**	**44,474,592**	**47,432,874**	**70,233,258**
Equity					
Retained Net Surplus (Deficit) Prior Years	0	3,188,261	3,611,376	11,093,440	21,204,976
Retained Net Surplus (Deficit) from Operations	3,188,261	423,115	7,482,064	10,111,536	36,266,617
Total Retained Net Surplus (Deficit)	**3,188,261**	**3,611,376**	**11,093,440**	**21,204,976**	**57,471,593**
Loan Fund Capital from Prior Years	21,258,620	59,528,370	114,658,313	189,533,125	297,887,628
Net Increase from Current Year	38,269,750	55,129,943	74,874,812	108,354,503	84,899,523
Total Loan Fund Capital	**59,528,370**	**114,658,313**	**189,533,125**	**297,887,628**	**382,787,151**
Total Net Worth	**62,716,631**	**118,269,689**	**200,626,565**	**319,092,604**	**440,258,744**
Total Liabilities and Equity	**79,920,726**	**146,913,410**	**245,101,157**	**366,525,478**	**510,492,002**

Annex 9

Interest Rate Analysis

Loan Type	Duration in Months	Repayment Schedule	Loan Amount (Range, Avg, $ Equiv)	Nominal Interest	Monthly Payment	Effective Monthly Interest Rate
CB	4	Monthly	(5000-150000; 300000) $200	10%/4 mo cycle (2.5%)	$55.00	3.92%
CB	6	Monthly	$200	10%/6 mo cycle (1.67%)	$36.67	2.80%
SG	4	Monthly	(200000-500000) $200	2.5%/mo	$55.00	3.92%
SG	6	Monthly	$200	2.5%/mo	$38.33	4.14%
SG	12	Monthly	$200	2.5%/mo	$21.67	4.29%
Supplementary Loan: Agricultural	12	Quarterly	(10000-50000, 25000) $50	1.0%/mo	$14.00	1.56%
Supplementary Loan: Livestock	12	Quarterly	(100000-300000; 150000) $300	1.0%/mo	$84.00	1.56%
Supplementary Loan: Transport	18	Quarterly	(80000-200000; 130000) $260	1.0%/mo	$51.13	1.65%
Supplementary Loan: Cereal	10	Lump sum	(300000-500000; 350000) $700	1.0%/mo	$770.00	1.00%
Individual Loans-6 mos.	6	Monthly	(300000-500000; 350000) $700	1.0%/mo	$123.67	1.69%
Individual Loans-12 mos.	12	Monthly	(300000-500000; 350000) $700	1.0%/mo	$65.33	1.79%

154.

Annex 10

Variables: / Cycles:	9/30/97 0	FY98 1	2	3	FY99 4	5	6	FY2000 7	8	9
a - nominal interest rate/cycle	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
b - initial individual loan size		cfa.	58,000							
c - savings rate/cycle	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
d - loan size increase per cycle		18%	5%	2%	2%	2%	2%	2%	2%	2%
e - number of groups/promoter (max)			15							
f - length of loan cycle		months	4							
g - arrears rate/cycle	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
h - default rate/cycle	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
i - number of beneficiaries/group	24	25	25	25	25	25	25	25	25	25
k - *expenditure increases per year*		%	8%							
l - fees charged/cycle	0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
m - cycles/year			3							
n - max ind loan amount		cfa.	200,000							
o - avg. group loan amount		cfa.	1,800,000							
p - avg. group savings amount		cfa.	318,000							
q - fund capital factor		%	70.0%							

A. Individual Loan Fund Projections Cycle:	9/30/97	FY98 1	2	3	FY99 4	5	6	FY2000 7	8	9
Loan Amount:	60,000	58,000	68,440	71,862	73,299	74,765	76,261	77,786	79,341	80,928
Loan Increase This Cycle		10,440	3,422	1,437	1,466	1,495	1,525	1,556	1,587	1,619
Savings This Cycle:	11,720	5,800	6,844	7,186	7,330	7,477	7,626	7,779	7,934	8,093
Accumulated Savings:		5,800	12,644	19,830	27,160	34,637	42,263	50,041	57,975	66,068

B. Group or Bank Loan Fund Projections

Cycle:		1	2	3	4	5	6	7	8	9
Loan Amount:	1,440,000	1,450,000	1,711,000	1,796,550	1,832,481	1,869,131	1,906,513	1,944,643	1,983,536	2,023,207
Loan Increase This Cycle		261,000	85,550	35,931	36,650	37,383	38,130	38,893	39,671	40,464
Savings This Cycle:	281,280	145,000	171,100	179,655	183,248	186,913	190,651	194,464	198,354	202,321
Accumulated Savings:		145,000	316,100	495,755	679,003	865,916	1,056,567	1,251,032	1,449,385	1,651,706

C. Program Projections

	9/30/97	FY98			FY99			FY2000		
Cycle:		1	2	3	4	5	6	7	8	9
Number of New Promoters This YEAR		1	0	0	2	0	0	4	2	2
Cumulative Number of Promoters	12	13	13	13	15	15	15	19	21	23
Number New Groups per Cycle	124	40	27	25	26	27	27	20	20	20
Non-Active Groups per Cycle		6	6	7	6	6	6	5	4	4
Cumulative Non-ActiveGroups		6	12	19	25	31	37	42	46	50
Cumulative Number of ActiveGroups	124	158	179	197	217	238	259	274	290	306
Number of Borrowers	2,976	3,950	4,475	4,925	5,425	5,950	6,475	6,850	7,250	7,650
Number of Groups per Promoter	10	12	14	15	14	16	17	14	14	13
Amount Loaned for Cycle	178,560,000	238,345,600	268,121,200	302,240,200	339,412,290	379,123,162	425,484,381	462,797,419	499,355,693	536,394,111
Default Rate Plus Arrears Rate	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Repayments per Cycle	171,774,720	229,288,467	257,932,594	290,755,072	326,514,623	364,716,482	409,315,975	445,211,117	480,380,177	516,011,135
Cumulative Amount Lent	1,605,661,036	1,844,006,636	2,112,127,836	2,414,368,036	2,753,780,326	3,132,903,488	3,558,387,869	4,021,185,287	4,520,540,981	5,056,935,091
Amount Saved per Cycle		5,800,000	6,943,000	15,430,900	20,228,109	25,279,196	30,459,638	34,733,822	38,931,089	43,176,371
Cumulative Amount Saved	221,301,304	227,101,304	234,044,304	249,475,204	269,703,313	294,982,509	325,442,147	360,175,969	399,107,058	442,283,430
Income Earned	40,573,946	19,489,520	21,924,271	24,714,181	27,753,743	31,000,901	34,791,858	37,842,945	40,832,315	43,860,946
Operating Costs per Cycle	82,288,327	25,000,000	25,000,000	25,000,000	27,000,000	27,000,000	27,000,000	29,160,000	29,160,000	29,160,000
Loan Losses per Cycle	1,428,480	1,906,765	2,144,970	2,417,922	2,715,298	3,032,985	3,403,875	3,702,379	3,994,846	4,291,153
Total Costs	83,716,807	26,906,765	27,144,970	27,417,922	29,715,298	30,032,985	30,403,875	32,862,379	33,154,846	33,451,153
Profit (Loss)	(43,142,861)	(7,417,245)	(5,220,699)	(2,703,740)	(1,961,555)	967,916	4,387,983	4,980,566	7,677,469	10,409,794
Cost Per Dollar Lent	0.47	0.11	0.10	0.09	0.09	0.08	0.07	0.07	0.07	0.06
Self-Sufficiency Ratio	0.48	0.72	0.81	0.90	0.93	1.03	1.14	1.15	1.23	1.31
No. Borrowers per Promoter	248	304	344	379	362	397	432	361	345	333
Loan Fund Requirement	124,992,000	166,841,920	187,684,840	211,568,140	237,588,603	265,386,213	297,839,067	323,958,193	349,548,985	375,475,878
Loans Outstanding	99,993,600	133,473,536	150,147,872	169,254,512	190,070,882	212,308,971	238,271,253	259,166,554	279,639,188	300,380,702

156

D. Annual Summary

Year	1997	1998	1999	2000	2001	2002	2003
Total Program Expense	82,288,327	75,000,000	81,000,000	87,480,000	94,478,400	102,036,672	110,199,606
Funds Required:							
Loan Funds Required	124,992,000	86,576,140	86,270,927	77,636,811	78,894,659	83,322,683	174,016,943
Operational Subsidy	43,142,861	15,341,685	(3,394,343)	(23,067,829)	(40,730,668)	(59,040,908)	(94,295,355)
Total New Funds Required	168,134,861	101,917,825	82,876,584	54,568,982	38,163,991	24,281,776	79,721,588
Number of New Groups Formed	124	92	80	60	60	60	144
Number of Groups Operating	124	197	259	306	354	402	534
Number of Active Clients	2,976	4,925	6,475	7,650	8,850	10,050	13,350
Number of Promoters	12	13	15	23	25	29	44
Loan Fund Size	124,992,000	211,568,140	297,839,067	375,475,878	454,370,537	537,693,220	711,710,163
Loans Outstanding	102,493,440	173,485,875	244,228,035	307,890,220	372,583,840	440,908,440	583,602,334
Average Portfolio per Promoter	8,541,120	13,345,067	16,281,869	13,386,531	14,903,354	15,203,739	13,263,689
Average Loan Size ($)		60,577	64,091	68,899	72,302	75,424	75,430
Portfolio at Risk		4%	4%	4%	4%	4%	4%
Total Annual Income	40,573,946	66,127,971	93,546,502	122,536,206	149,871,838	178,545,665	226,671,451
Total Annual Expense	83,716,807	81,469,656	90,152,159	99,468,378	109,141,170	119,504,757	132,376,096
Operational Self-sufficiency (Total Cost)	48%	81%	104%	123%	137%	149%	171%
Financial Self-sufficiency (Total Cost)		64%	78%	89%	92%	97%	104%

157

WORLD RELIEF MOZAMBIQUE COMMUNITY BANKING PROGRAM
Matching Grant Final Evaluation

Prepared for Office of Private and Voluntary Cooperation
Bureau of Humanitarian Response, USAID

Based on CGAP Appraisal Format
Elisabeth Rhyne

October 26, 1998

Table of Contents

Summary

A. Summary of Key Data

	Sep 96	Sep 97	Aug 98
Number of currently active **loan clients**	2.147	2.965	5.049
Total **outstanding loan balance** (US$)	55.852	102.622	284.108
Average loan balance per client	26	35	56
Number of **voluntary savings clients**	2.147	2.965	5.049
Total **balance** of voluntary **savings accounts** (US$)	21.214	45.169	93.158
Loan loss rate	n/a	0,0%	0,0%
Delinquency rate (portfolio at risk basis > 30 days late)	2%	3%	11,1%
Administrative efficiency	247,7%	220,4%	69,6%
Portfolio yield	94,6%	92,5%	66,2%
Operational self-sufficiency	38,2%	42,0%	69,1%
Year-end free market **exchange rate**	11.5	11.6	11.9
Per capita gross domestic product (US$) (no updates available)	90	90	90

B. Summary of Major Conclusions and Recommendations

1. General Assessment

World Relief Mozambique's Community Banking Program (WRM/CB) has completed four years of operation. Its accomplishments during that period are impressive. Through very hard work World Relief has developed the first successful microfinance program in Mozambique. Its example is proving important in helping to establish an understanding of microfinance in Mozambique, including an understanding of best practice principles, and thus, its impact goes beyond the services it provides directly.

In creating this program, the WRM/CB team has had to overcome many obstacles, including initial skepticism about village banking on the part of most people in Mozambique, a period of high inflation, poor transportation and security conditions, a flood, and an internal fraud. Thus, it can be proud of its status today. Its more than 5,000 active clients were found in a recent survey to represent more than half of the total microfinance clients in Mozambique. The great majority of these clients are poor women, including both urbanites and people with strong rural linkages. The program has built a competent, stable field level staff, whose levels of client caseload (388 per promoter) are high. It has developed effective operating systems. Its level of operational self-sufficiency, at 69 percent, puts it among a small group of relatively sustainable microfinance programs operating in the region. The program has the potential to achieve financial self-sufficiency within a short time, provided it can deal with certain issues discussed below.

As a part of the first Matching Grant to WRC, this program is a good example of the kind of active technical support that a U.S. PVO should provide. WRC's MEDTU unit has provided guidance throughout the development of the program, and the technical quality of its support has been high, particularly in village banking operations and systems. WRC has worked with little fanfare and a modest amount of funding. The Matching Grant program can also take pride in WRM/CB's accomplishment, as it has been the sole public funder of the program, and has contributed to WRM's technical capacity to support programs such as this.

This program remains a project of WRC, rather than a local Mozambican institution. Creation of a local institution is proving somewhat more difficult than anticipated. While a competent operational level staff is now in place, the program is still highly dependent on expatriate management. The main thrusts of the next phase will be to develop management capacity among Mozambican staff and to spin the program off into a local organization. These tasks will absorb a great deal of effort.

During the course of the evaluation a more immediate issue was identified: a high rate of within-cycle late payments and a worrisome increase in the general level of delinquency. The former is evidenced by a drop in the yield on portfolio from 92 percent to 66 percent during the past year, and the latter is seen in the increase of the portfolio at risk rate to 11 percent. These problems appear to have arisen during the past few months, as the same indicators showed better values in previous years. Some of the deterioration is probably a direct or side effect of the fraud committed by one promoter in Xai-Xai. The consequences of delinquency levels such as these are felt in lost revenue (the program could have been over 95 percent operationally self-sufficient if it had kept its portfolio yield high) and in the danger of an even greater spike in delinquency. The program must place an immediate high priority on correcting this downturn. This evaluation provides a range of recommendations to assist in improving on-time repayments.

A general observation about the program at the operating level is that it has good processes, and that attention is paid to following those processes, but that there is insufficient attention to performance or results. A theme that underlies many of the recommendations made here is to increase the focus on results, while maintaining attention to process.

2. Priority Recommendations

This section points out three areas of highest priority for action. The body of the report contains recommendations on a wide range of issues, written in italics so that they can be easily identified. They are not repeated in full here.

As just noted, the highest priority for immediate action is improvement of on-time repayment. The organization should gather more complete information on the existing status of repayments and make staff aware of key indicators, such as portfolio yield. It should revitalize its delinquency management protocol for banks, promoters, and supervisors so that everyone becomes more aware of how they are expected to respond to missed payments. The improved delinquency management system should include revised forms that make it easy to assess late payment status at the individual, bank, and promoter levels. At the same time, it is important to greatly improve recordkeeping by clients. This step will contribute not only to delinquency management but also to internal control.

The highest priority for both the medium and long term is development of a local staff capable of managing the program effectively with little or no expatriate assistance. This is a major, ongoing task. It will require a combination of developing a more formal training program for field staff, holding internal workshops with supervisors, finding relevant external training opportunities for managerial staff, providing one-on-one technical assistance, and hiring from outside to obtain staff with specialized skills. The program's own training budget should reflect the priority of training, as should the program of technical assistance to be provided by WRC.

The third major area of recommendations involves development of a local institution. The organization should begin now to put a planning process in place to examine options in detail and begin taking necessary steps. This process should include the identification of people from outside the organization who could become prospective board members. It will involve meeting with lawyers and accountants to gather details of legal requirements and the implications of various forms of registration. It will involve separation of the operations and accounting of WRM/CB from those of the other WRM programs. Creation of a more local image, with an identity distinct from WRM, should begin soon, through a name change. While the process should move forward with all due speed, WRC should not turn management control over to the newly created organization until it is highly confident in that organization. This could imply some period during which the local governing structure works with WRC management.

Finally, the three priority areas listed here: improved delinquency management, staff development and the creation of a local institution, constitute a full plate for the organization. Accordingly, its growth goals should involve steady, moderate rates of growth. It should ensure that the more rapid growth associated with opening a new region is conducted in a way that will not detract from the development of the existing program.

3. Comparison to Grant Targets

Target	Year 5 or Total Target	Achievement	Percent Achieved
New community banks begun	84	179	213%
Members receiving loans	2280	5,049	221%
Size of loan fund	$129,000	$284,108	220%
Loan repayment rate	97%	100%	103%
Member savings	$122,000	$93,158	76%
Community banks graduating	18	None	0%

Program self-sufficiency	100%	69.1%	69%

The original grant established several numerical targets for WRM/CB, as well as several more qualitative targets. The most striking feature of performance against targets concerns the reach of the program. It has more than twice as many community banks and clients as anticipated, and a loan fund more than twice as large. This is an impressive achievement, particularly since it was accomplished without additional funding. The program has done well in financial performance, with a 100 percent long run repayment rate, and a level of 69 percent operational self-sufficiency. This actual self-sufficiency level, however, falls below the 100 percent target originally anticipated. As noted elsewhere, the program appears to have the potential to achieve full self-sufficiency, if it can raise its portfolio yield.

In some other areas, the program has not achieved targets, and this in fact reflects a general evolution of village banking programs away from some of its earlier assumptions. In practice, the idea that banks would graduate from village banking programs and operate independently using their internal accounts, has yielded to the recognition that banks need a continuing link to the program. In accord with this general shift, World Relief has not emphasized bank graduation, and it has not implemented an internal account per se, but rather a savings program linked to loan size eligibility. This shift accounts for the somewhat lower than targeted level of savings, and the lack of banks graduating.

WRM/CB has also shifted its relative emphasis during the grant period toward the expansion of financial services, which has meant that it has paid less attention to measuring the health message component. Although health messages continue to be an important feature of bank meetings, WRM/CB has not systematically monitored the results of these messages in terms of knowledge and application by members.

Institutional development targets were very general in the original grant, and it is difficult to assess progress against them. They called for a movement in institutional capacity from 2 to 4 on a scale of 5. Any "score" on such an undefined scale would have little value. The overall judgement on institutional development is that it has proved somewhat more difficult than anticipated in the Mozambican context. Substantial achievements have been made, but the program is somewhat behind the level it originally hoped to achieve by the end of the grant. Its current activities are strongly focused on building institutional capacity.

4. Note on the Evaluation

This evaluation was conducted in Mozambique during the period of September 28 through October 9, 1998. It involved interviews with WRM/CB headquarters staff, visits to branch offices in Chokwe and Xai-Xai, and interviews with four community banks. MEDTU staff members David Larson and Tom Goering were also involved in the visits and interviews. I would like to thank the staff of World Relief – particularly Galen Carey, Jose Mendes, Catarina Langa, and David Larson – for making this evaluation a fun and rewarding experience for me through their hospitality, willingness to share information and eagerness to discuss ideas. I hope that my suggestions will prove useful to them.

II. INSTITUTIONAL FACTORS

A. Legal Structure

World Relief Mozambique Community Banking (WRM/CB) is a project of US PVO World Relief Corporation (WRC) of Wheaton, Illinois. The microfinance program is one of three projects operated by WRC in Mozambique. In Mozambique WRC operates as an international organization, with permission from the Ministry of Foreign Affairs.

B. History

The Community Banking program began in 1994, less than two years after the signing of the peace accords that ended the civil war in Mozambique. The economy had barely begun to rebound, infrastructure had not yet been repaired, and most international efforts were still aimed at providing humanitarian relief or basic rehabilitation. Major events in the program's evolution are:

- First loans made: April, 1994.
- Floods destroy businesses of a large percentage of clients: January, 1996.
- 40 percent of active clients leave Chokwe, in process of returning to place of origin: early 1996.
- Branch office opened in Xai-Xai: December, 1996.
- WRM director who founded community banking program, Trudi Schwartz, left: September, 1997.
- Branch office opened in Chibuto: December, 1997.
- New WRM director, Galen Carey, arrived: November, 1997.
- Significant programmatic changes made: biweekly payments, increased minimum loan size, and a higher multiple of savings in computing loan size for experienced clients: December, 1997.
- Loan officer in Xai-Xai branch is found to be committing fraud, and leaves: June, 1998.

Comment: This program began in a very difficult operating environment. It has weathered several serious challenges. Its level of operations today represent a highly impressive achievement, certainly one unparalleled in Mozambique.

All support for WRM/CB has come from two sources: USAID's Matching Grant Program, and the private funds raised by World Relief to match the USAID contribution. Total funding for the program during its first five years of operation has been $571,682, excluding the costs incurred by WRC headquarters (general overhead and technical assistance). WRC has just been awarded a new Matching Grant, which will provide an additional $328,000 in funds for the next five years, to be matched by $276,000 in World Relief funds and $1,256,000 in program income.

Comment: The amount of funding this program has received to date is surprisingly modest.

Sources and Amount of Funding

Source	Date	Amount	Terms	Total	Status
USAID/MGP1	94-98	US$152,763	Grant	$152,763	Fully disbursed
WR Private	94-98	US$418,919	Grant	$571,682	Fully disbursed
USAID/MGP2	99-03	US$328,000	Grant	US dollars	Approved
WR Private	99-03	US$276,000	Grant	US dollars	Pledged

C. Program Governance and Leadership

The Community Banking program is governed by WRC through its Country Director, Galen Carey, who devotes half his time to the program. Dr. Carey has a great deal of authority to make operational and policy decisions about the program. He reports to WRC's Africa Regional Director, who reports to the Vice President for Ministries. Technical advice from WRC's Microenterprise Development Technical Unit (MEDTU) is provided outside the line of reporting responsibilities, but the staff of the MEDTU play a very active role in managing the program, particularly in the areas of management information and community banking operations.

During the first phase of the program, it was led by WRC Country Director, Trudi Schwartz. Ms. Schwartz was apparently very strong in terms of operations, and was the major force behind the program's successful launch and growth. However, Ms. Schwartz did not focus on developing local management capacity, and left a knowledge gap behind her. Dr. Carey, who has not previously worked in microfinance, has been focusing on two elements since his arrival early this year: 1) adjustments to the program to make it more sustainable; and 2) identification and development of effective middle management. Both of these are important contributions to building the program.

The combination of a strong in-country leader, highly responsive technical backup at headquarters, and WRC's institutional commitment to both community banking and the Mozambique program provide a basis for confidence in the overall program quality and in the ability of the program to survive adverse situations. The WRC team appears to be deep enough to ensure that changes of leadership safely take place.

The major governance and leadership challenges facing the program relate to the development of local staff capacity to take increasing responsibility, particularly in preparation for the establishment of the program as a local organization. These issues will be discussed later.

D. Alliances

WRM/CB has relatively few external alliances, but it is beginning to develop more:

- Local government. In each area in which it operates, the program maintains relationships with district administrators. When it operates in markets, it is also in contact with the chiefs of each market.
- Microfinance practitioners in Mozambique. WRM/CB participates in the informal working group on microfinance, which brings together practitioners, government and donors, and in

other similar fora. It has relationships with individual microfinance programs, such as MEDA, CARE, and Save the Children. These links relate either to possible collaboration in specific geographical areas or to technical support.

- International microfinance programs. Through WRC, the Mozambique program is linked to programs in Honduras, Rwanda, Liberia, Burkino Faso, India, Bangladesh and Cambodia. It is also exploring a connection to the Small Enterprise Foundation in South Africa, for potential exchange visits.
- National government. WRM/CB has kept a low profile in terms of interaction with the central government.
- WRM's health programs. Links between the Community Banking project and the health projects that WRM runs provide WRM/CB with knowledge of local communities in Gaza that can be potentially helpful in making project decisions and in providing better service to clients.

Comments: During the next phase of operations, WRM/CB should seek to develop stronger alliances. These will be necessary if it is to transform into a local organization. Among the alliances that should be developed are:

- *The Government of Mozambique, particularly the central bank, is increasingly interested in microfinance, and is likely to be involved in significant policy decisions. It will also have to sign off on the creation of a local entity.*
- *An alliance with a local commercial bank should be developed, with the aims of: negotiating a better deal with a bank for its services; possibly running more transactions through a bank; borrowing from the bank -- either for short term liquidity needs or for long term financing of the portfolio; as a source of local support (or even investment) for becoming an institution, and finally, as a source of potential members of a Board of Directors.*
- *WRM/CB, as the leading program in Mozambique, can contribute to the strengthening of microfinance in the country as a whole if it participates more actively in various fora, particularly in the areas of setting standards and training staff.*
- *In preparation for becoming a local organization, WRM/CB should begin identifying potential board members. In the near term, it may wish to organize such people as an advisory committee.*

E. Human Resource Management

Human Resources Statistical Summary

	Sep 96	Sep 97	Aug 98
Number of **total staff**, end of period	12	21	25
Average staff (for computation only)	12	17	23
Number of staff **hired** during period	2	8	6
Number of staff who **left** during period	1	2	1
Turnover rate (staff who left over avg. staff)	8%	12%	4%
Number of **loan officers**, end of period	9	12	13
Percent **loan officers** of total staff	75%	57%	52%
Average annual loan officer **salary** (Mts. millions)	27.6	28.8	32.5
Avg. loan officer salary as **multiple of per capita GDP**	27.9	27.8	30.1
Avg. loan officer salary as **multiple of avg. outstanding balance per loan**	99	75	50
Amount spent on **formal training**	$9	$105	$1,791
% of admin budget spent on formal training	0%	0%	1%

1. Profile and Recruitment

Of the 15 promoters and 2 health educators, 9 were originally borrowers. The second source of promoters is other World Relief programs. The remaining staff are recruited externally, through churches, word of mouth, etc. Schools have not been used, nor has there been a formal advertising process. Most local managerial staff have been recruited from within the program, through promotions.

As a result of this method of recruitment, and more generally as a result of the scarcity of educated people in Mozambique, the education levels of the promoters are extremely low. Of the 17 promoters (including the two health educators), 13 have between a 6th and 8th grade education, and only 4 have a 10th or 11th grade education. In fact, there are probably few village banking or microfinance programs around the world with such low levels of education among front line staff. This also applies to the bookkeepers and cashiers at the branches, most of whom have an 8th or 9th grade education.

Comment: The staff education situation has important implications for program operations, as the program is well aware.

First, the basic decision to recruit from among the client population is probably a good one. It yields staff who understand their clients, whose salaries are affordable, and who are likely to stay with the program. Given the costs of operating in Mozambique, compared to loan sizes, it is probably a *necessary decision if the program is to become sustainable, and contributes to the relatively high sustainability the program has already achieved.*

Second, the program must adapt itself to the capabilities of its staff. Operating systems must be extremely simple -- as they are. Any redesign of systems must put simplicity first. However, it is not easy to design simple systems that also provide the most important information, and there is a need to work on this point (discussed further in section on information systems). The need to fit the program to staff capabilities is also a reason to reconsider the individual loan program.

Third, staff training is essential. To date, training has been primarily conducted on the job. A few senior staff have attended formal training events. Training needs to be beefed up considerably (discussed immediately below).

Fourth, it will probably not be possible to recruit all middle and senior level staff from within. Some staff with higher level qualifications need to be recruited. In particular, this includes the senior accountant/financial manager and a program director (as the program transitions to become a local institution).

2. Salary, Benefits, and Staff Incentives

Salaries for promoters are about $2,800 per year. This rate falls within the lower portion of the range of salaries paid by other similar programs. WRM provides relatively few non-salary benefits, and does not engage in the practice common in Mozambique of providing a large portion of remuneration in kind so as to reduce tax burdens. It pays local social security and income taxes, and provides health care cost assistance on a case by case basis. It is planning to create a more systematic health benefit program in the near future.

Comment: WRM should continue to avoid providing remuneration in kind, but it may want to explore improving its benefits package somewhat.

Although staff do complain from time to time that they are not well-paid, they seem to be generally satisfied. Non-monetary sources of motivation for staff include a commitment to the program's mission of helping poor people and possibly prospects for promotion, as good performers become supervisors. Turnover does not appear to be a problem. The program has lost one or two staff each year. Because the total staff size is growing, the turnover rate is trending down. Most staff at the branch level have few other employment opportunities.

A monetary incentives program operated for several months during 1997, but was abandoned when the previous country director left. Staff interest in reviving these incentives is mixed. Some staff reported that monetary incentives provide good motivation, while others prefer non-monetary incentives. Some feel that individually-based incentives are a good idea, while others would prefer group-based incentives.

Comment: A staff incentive program could be used to focus attention on the kind of performance the program wants. In particular, it could focus on the need to improve on-time repayments (discussed below). The choice between monetary and non-monetary incentives is a matter of program values.

Monetary incentives should only be used in conjunction with improvements in information availability at the supervisor and promoter level (also discussed below) so that the system is transparent. While monetary incentives are probably more powerful than non-monetary incentives, it may be possible to develop some non-monetary incentives that would focus attention on bottom-line performance goals. Such incentives may be as simple as public recognition through awards or certificates or eligibility for external training opportunities. The important thing is to tie any such measures to achievement of specific goals (probably a combination of number of clients and on-time repayment). In no instances should a staff member whose portfolio quality is below an acceptable level receive an incentive.

One particular salary item: all promoters receive the same salary (after their initial trial period). Thus, someone who has worked for the program for three years receives the same salary as someone who has worked for it for six months. It might improve staff motivation to introduce some salary reward for years of service combined with performance: for example through introducing grades within the promoter ranks – junior and senior promoters.

3. Training

New front line staff are trained mainly through a job-shadowing procedure in which they learn by observing and then by assisting an experienced promoter. This training is provided informally by supervisors and fellow promoters. There is relatively little formal training, either inside WRM/CB or externally. One program manager had the opportunity to attend the SEEP meetings in the US as well as an international WRC meeting. WRM has recognized the need to strengthen its training program. It is hiring a part time training advisor (covering both health programs and community banking) and has created a training position in community banking.

Comment: Staff training will be absolutely critical if the program is to achieve its expansion and institutionalization goals. Training will need to become more systematic as the staff expands. At the level of branch staff and promoters, the job-shadowing training should be supplemented by a brief (say 1 week) classroom training course, provided internally. Such a course would have the goals of: 1) indoctrination to the mission and values of the program; 2) highly job-specific information to ensure that all staff know exactly what is expected of them (something that on-the-job training is often not so good at); and 3) identification of any individual skill deficiencies that may need further work.

Managerial staff should also receive additional training. It would be worthwhile for the most senior staff (with English proficiency) to attend the Boulder course. Other training opportunities should be sought in Mozambique or in the region. However, given that appropriate opportunities are hard to find (and it is a waste of money to send someone to a training program that does not match needs), most training for managerial staff will have to be provided through one-on-one technical assistance.

4. Dependence on Technical Assistance

At present WRM/CB is very dependent on consultants. The most important of these are the MEDTU consultants, who filled a critical gap between the departure of the first country director and the arrival of the second, and who continue to assist in operations, accounting and information systems. A local consultant is also working with the program in the area of strategic planning. A resident accountant has just arrived, and a part-time training coordinator will begin shortly (both covering WRM as a whole). The quality of assistance has been high, and WRC is commended for the level of support its headquarters offers, which is greater than that offered by many other US PVOs to their affiliates. The need for such assistance is going to remain high during the next few years, given the program's priorities: building local staff capabilities, expanding, and becoming a local institution.

Comment: A greater effort should be made to ensure that consultants' jobs are defined as training local staff rather than as performing main line operational tasks. Although the program recognizes this issue, it may not notice how strong the tendency remains for expatriate staff to do it all. The areas in which this tendency appears to be strongest are accounting and information systems. WRC develops systems that serve its entire network -- which is highly commendable, because it means that WRC has something very concrete to offer its programs. However, to make these systems effective, it is necessary to devote considerable effort to developing a sense of local ownership of the systems.

F. Organizational Structure

Regional Distribution of Institution

	Sep 96	Sep 97	Aug 98
Branch Offices	1	2	2
Posts	0	0	1
Community Banks	86	124	179
Average **Employees** per Branch	12.0	10.5	8.3
Average **Loan Officers** per Branch	9.0	6.0	4.3

WRM/CB is still small enough to have a simple organizational structure. Its branches consist of a supervisor, several promoters, a health education specialist, a bookkeeper, cashier and a guard. Head office staff consist of a program coordinator (based at one of the branches), a senior supervisor (who is converting into internal auditor), and staff shared with the rest of WRM: the administrator, accountant/accounting assistant, and the country director. The lines of accountability are clear, with the main operational line running from promoter to supervisor to program coordinator to country director. A separate line of authority running from cashier to bookkeeper to accountant provides a cross-check for internal control.

Comment: in preparation for conversion to a local institution, it is time to begin re-thinking the jobs of those people who are shared with WRM as a whole. By the time it becomes a local institution, the program will need a program director and a financial manager who are both dedicated to the program. These people should be recruited and trained well in advance.

Small note: Consideration should also be given to finding ways to use the bookkeepers and cashiers more effectively to support the program. Currently they perform more nearly as staff of WRM than as part of the CB program, and they may have some additional time available.

Decisions on loan approvals are appropriately decentralized, at the level of the branch supervisor. Procedures appear to be standardized well across branches, and to be followed carefully by branch staff. As a result of simple operating systems and faithful application of those systems, the program operates with high physical efficiency (i.e. high level of clients per staff).

Comment: At present, the program focuses on process more than performance. Process means performing each transaction correctly, maintaining records properly and the like. It seems to do a good job on process. Performance means that each person acts with an awareness of the overall goals of the program and how well he or she is contributing to those goals. The program needs to enhance its focus on performance while maintaining its attention to process.

G. Management Information Systems

WRM/CB manages its operating information through three systems: CLAMS, a loan tracking systems developed by World Relief; the World Relief accounting system, an off-the-shelf package called Ideas, customized for WRC, and a paper system for recording transactions, used in the branches. These systems have interrelationships and cross-checks that ensure that information is accurate in all the systems.

1. Manual System

Promoters and their supervisors conduct nearly all their business using the manual system, which consists of a set of forms used to initiate loans, track weekly/biweekly repayments, and close out loans at the end of a cycle. These forms provide all the raw data that is entered into the CLAMS system and the accounting system. They are maintained in binders for each bank. The strengths of the manual system are:

- Simplicity: few forms; forms easy to understand.
- Use: the forms are being properly used and maintained. Recordkeeping is good.
- Connections to the computer-based system provide good checks for accuracy.
- Availability: immediate.

Nevertheless, the manual system needs some improvements to remedy a few significant weaknesses:

- Greater focus on amounts due and amounts paid or not paid. The forms should tell the supervisor or promoter: 1) what payments are due each week; and 2) how payments received compare with payments due; --- at the member and bank level. At present, promoters must carry out calculations in order to answer these questions. This information should be available at a glance to focus everyone's attention on timely repayment.
- Greater focus on the overall performance and status of portfolios (at the bank and promoter levels), in addition to the current focus on individual transactions. For example, promoters should complete a weekly report that presents the status of all their banks.
- Development of tracking systems by the banks themselves. The treasurer of each bank should be maintaining complete records, and each member should have a passbook. At present, member passbooks are just notebooks or even a scrap of paper where the amount

of payment received is recorded. Members particularly lack records of the amount of savings they have.

Development of the bank/member information systems will require both design work and extensive training. The improvement of the internal system involves redesign of existing forms and probably the addition of a few new forms.

Comment: The improvement of the manual system should be the highest priority in work on management information. It is the backbone of the operation, and it is the main resource for ensuring that repayments are being made on time.

2. CLAMS

Through the CLAMS system, World Relief can obtain high quality data about WRM/CB loans and can structure that data in a variety of ways, depending on the need for information. CLAMS' strong points appear to be:

- Reliability and accuracy of data.
- Use in assessing status of the program as a whole, particularly at the headquarters level, and in providing data to outsiders, such as donors.
- Provides a check against the manual system, with information available that the manual system does not provide.

The main drawback to CLAMS as it is now operating appears to be its relative lack of use at the supervisor and promoter level. For example, no CLAMS print-outs were found in the bank files that promoters use. Moreover, the definitions of delinquency in use by promoters differ significantly from those being used in CLAMS. The information available in CLAMS was at least a month old, and therefore of reduced value to branch staff, in comparison to up-to-date information that could be obtained from the paper systems. Finally, staff were unable to interpret much of the information provided in some of the CLAMS reports.

In order to make CLAMS into a system of use to program operations (especially at the level of branch supervisors), the following would need to be done: 1) Update information more frequently, so that status reports are available more often and with very little time lag. 2) Design forms from the point of view of the supervisors/promoters, emphasizing ease of understanding (and using Portuguese). 3) Design reports so that they provide immediate assessments of *performance* at the bank, promoter and branch levels; and 4) Integrate use of the relevant CLAMS information into operations, including training supervisors in using the reports as a regular part of their work.

Comment: The technical limitations of CLAMS make some of these tasks long term projects, which is the reason for an immediate focus on upgrading the manual systems. As the program grows, it will need a loan tracking system, however, and so work on the system should continue. I am not qualified to determine whether WRC should continue upgrading CLAMS or should seek another system. However, I can state that the main focus in planning such a system should include ability to generate data at least weekly, at the branches, and in a form that branch staff understand and find useful.

3. Accounting System

The accounting system appears to work well. It generates accurate information in a variety of formats, and it ties in to the CLAMS system. The main issue for the accounting system, in addition to finding a local financial manager, is to prepare for the separation of the community banking program from the rest of WRM. The accounting system already has the capability to produce information in that form. Again, language is an issue, and at least some of the financial viability reports should be produced in a Portuguese (or two-language) version.

WRC is now developing a financial and operational policy manual, which is an important tool to have. The concern is to enhance "ownership" of this manual by the local staff, by consulting staff in its development, and by producing the manual in Portuguese.

Comment: At this time, it makes sense to begin producing separated WRM/CB financial statements regularly, together with a few critical performance ratios (such as administrative efficiency, portfolio yield, financial self-sufficiency, liquidity), so that program management can focus more easily on the financial viability of the operation. It also makes sense to start planning now for the full separation of accounting systems.

H. Internal Control and Audit

Internal controls are provided in the system through the interaction of two mechanisms. Controls on the use of cash are provided through the accounting system, while controls on the status of loan accounts is provided through the manual records maintained by promoters, which feed into the CLAMS system. These systems are reconciled regularly. If all procedures are properly followed, as they seem to be, cash controls inside the program appear to be adequate.

Comment: I am not an expert in internal controls. My judgment on this issue is therefore not to be taken as definitive.

In credit programs, fraud is most likely to occur when loan officers create fictitious borrowers (who receive loan disbursements) or fail to record the full amount of payments received, pocketing the difference. In either case, the point of control is reconciliation between the records of the loan officer and those of clients. A major function of supervisors and internal audit is to perform this type of cross-checking regularly.

WRM/CB has experienced two episodes of fraud, the first one very minor, and the second more important, but still confined to one staff member. Fortunately, in each case, the fraud was detected fairly early and action was taken to remove the staff member and make corrections in operations. In both cases, there was a lapse in supervisor oversight. Verification that promoter records matched clients was not adequate. In the first case this occurred because the promoter who misbehaved was working in a distant location where regular oversight was not possible. That location was closed, and WRM/CB has changed its approach to branching in order to prevent a recurrence. In the second case, the perpetrator apparently realized that the supervisor was not attending to the detail of how records were kept or verifying the status of clients, so he began to falsify records. The promoter fled when his scheme was uncovered. WRM is pursuing the promoter through the police, but given the status of police work in Mozambique, it is unlikely that he will be caught.

In response to the fraud, WRM/CB transferred the negligent supervisor to other tasks. It recognizes that it will need to have an internal audit function as it expands, and in keeping with WRC headquarters policy to have an internal auditor when programs reach 5,000 clients, it has designated one of its staff to become the internal auditor.

Comment: Both the internal auditor and the program coordinator must be directly responsible for ensuring that supervisors are performing the kinds of checks required. Both must do some spot checking and surprise visits. In order to protect against problems in the future, it is critical to improve the system of recordkeeping by the community banks, to provide verification of transactions, as discussed above.

External audit has taken place only through the audit of WRC as a whole. The auditors, Arthur Anderson, select specific grants for focus each year, and in some years that has included the Matching Grant. Audit is based on checking the integrity of the accounting system, and is largely based in the U.S. The auditors have not been to Mozambique to look at WRM/CB, and even if they did, their audit would not include a review of portfolio soundness. No local audit has been carried out. As it prepares to become a local organization, WRM/CB will need to identify a local audit firm.

III. SERVICES / CLIENTELE / MARKET

A. Services

1. Community Banking Loans

The principal financial service WRM/CB offers is lending using a FINCA-style village banking methodology, with adaptations developed by WRC. No internal account is used. The program works with self-identified groups of between 15 and 50 people (average closer to 30). It trains each group through a seven week period, before disbursing the first loan. Initial loans are the local currency equivalent of $50 per member. All bank members receive disbursements at one time and repay over a period of four months (17 weeks). Payments to WRM/CB take place at bank meetings every two weeks. Interest is a flat 20 percent of the loan amount. There is a one week grace period before the repayment schedule begins, i.e., the first payment takes place three weeks after disbursement. The effective interest rate of these loans is 97.6 percent (excluding savings and excluding compounding of interest on payments received). Repayments also include regular savings payments of 12 percent of the loan amount (discussed in more detail below).

In order to be eligible for a subsequent loan, the bank must repay all principal and interest from the initial loan. If its loan has been paid in full, the new loan can be made in week 17. If not, the new loan is delayed until WRM/CB receives all repayments. Members may withdraw from the bank at the completion of a cycle, and new members may be recruited. At the start of each cycle, loan amounts for each member are calculated as follows:

- $50 (in meticais this is now 580,000) for new members;
- An additional base amount, which rises automatically at $5 per cycle ($10 for cycle 2).
- A multiple of the amount of savings the member has accumulated. For cycles 2-5, the multiple is 2, while for cycles 6 and beyond the multiple is 3.

Thus, a member in her 2nd cycle, who saved according to the standard 12 percent plan during the first cycle, qualifies for a loan of $72 ($60 base amount, plus 2 times the $6 saved during the first cycle). The maximum loan amount is $300.

Comment: The maximum loan size could probably be raised somewhat, to $350 or $400, without placing too much stress on the banks.

The banks elect an executive committee (president, treasurer and secretary) who preside over the disbursement of loans and receipt of payments, together with the promoters. Members are expected to attend each meeting. The bank, which adopts bylaws for conducting its business, may charge fines for non-attendance or for late arrival.

The program's philosophy is that the bank as a whole is responsible for repayment. Thus, when a member defaults, the program calls on the bank, through its executive committee, to rectify the situation, and avoids direct pursuit of the delinquent member. In order to pay delinquent loans, banks use any or all of the following: direct pressure on members, seizure of the member's property, use of the member's savings, or, finally, payment of the delinquent amounts through a charge on all members. Cycles continue as long as the bank continues to repay fully: there is no automatic graduation. All transactions take place at the meetings, in cash, with the assistance of the promoter.

Comment: WRM/CB's philosophy of community banking is in accord with other village banking programs in giving the banks themselves the responsibility for managing loans and avoiding direct one-on-one interactions between the program and individual members. In order to strengthen this aspect of the program, WRM's banks need a stronger set of tools. Suggestions along these lines appear in various places in this document. They include: ensuring that bank treasurers keep full records and that members have passbooks with more complete information, developing education messages related to community bank management, specific strategies for dealing with delinquent loans, and suggestions on the conduct of meetings (see annex).

2. Savings

WRM/CB considers its savings to be voluntary. In fact, the terms of the savings constitute a hybrid between standard forced savings and true voluntary savings. In calculating repayment requirements, for individual members, it is assumed that 12 percent of the loan amount will be saved during each cycle. Thus, for a $50 loan, a savings payment of $.75 would be expected every two weeks: $6 (50*.12) divided into 8 equal payments. However, no sanction is levied if the borrower fails to save the expected amount.

Savings can be withdrawn in cash at the end of a cycle. This generally happens when a member decides to leave the program. Members remaining in the program usually prefer to leave their savings so they can qualify for larger loans. Savings can also be withdrawn in order to pay off debts, either of the member herself or as a contribution to the payment for a member in default. No interest is paid on savings. World Relief places savings payments in its general bank account, along with other portions of repayments. It maintains records of savings balances for individual members.

Comments: The recent decree on microfinance in Mozambique allows for NGOs to take savings as part of loan contracts – i.e., forced savings – but not to take voluntary savings. WRM/CB's savings program is more like forced than voluntary savings, particularly since the funds are deposited into one general bank account rather than being kept separately in the name of the clients. The program should take some precautions to ensure that savings are protected and that outside observers would be satisfied that the program is acting prudently. One approach would be for WRM/CB to establish a savings reserve in a separate account. The size of this reserve would be calculated by looking at the timing of cash flows to identify the period toward the end of each cycle when members are net savers rather than net borrowers and estimating the amount of savings liability represented by clients in that position in the program as a whole. Once WRM/CB becomes a local institution it will need to ensure that clients' savings are handled transparently, with adequate protection against losses.

On another note, clients need to have improved records for their own use of the amount of savings they have at any given time, in passbooks. Providing this information may enhance the use and value of the savings side of the program.

3. Health Education

At regular bank meetings, health messages are delivered by one of two health educators on WRM/CB staff or by promoters. These messages cover basic topics, with an emphasis on maternal and child health: prenatal care, diarrhea control, breastfeeding, basic nutrition, AIDS prevention, etc. In developing its health messages, WRM/CB can draw on its close connection to the other health programs WRM runs. Some meetings involve a complete presentation of a message (half an hour), while others involve brief reminders of previous messages, and others involve no messages at all. This aspect of the program has not been emphasized in recent times. However, with the arrival of a non-formal education specialist on the WRM staff, the health education portion of the program will be re-evaluated.

Comment: If WRM/CB decides to upgrade its education component, it should consider including some messages that will help the banks to function better. Sample topics: roles of the executive committee; recordkeeping, dealing with delinquent clients; recruiting and assessing new members; helping a member who has problems; savings; etc.

4. Individual Loans

In February 1998, WRM/CB instituted an individual loan program open only to members who have been in community banks for several cycles and whose credit requirements have outgrown the limits of the community banks. The intent was to continue serving some of the best members, who would otherwise have no access to finance, as there are no sources of credit at the $300 plus level in Gaza Province. Because the program is only open to experienced bank members, the number of individual loans requested is not large, and only 37 loans are outstanding. The average loan size is just over $700. This program is experiencing high delinquency, with portfolio at risk over 30 days at 45 percent. Much of the delinquency is connected to the portfolio of the promoter who committed fraud, but even if his portfolio is removed from consideration, the portfolio at risk rate is 28 percent. At this point it looks likely that the program will eventually have to write off a significant portion of those loans. WRM/CB has put a moratorium on new individual loans and is considering whether to serve this group of people through a solidarity group program instead.

Comment: WRM/CB should consider eliminating this program. The main reason for this recommendation concerns the capacity of the staff to administer it well. Larger loans, especially individual loans, require that loan officers have very different skills than the skills needed to be a community bank promoter. WRM/CB's promoters have particularly low levels of education, and therefore need to follow carefully prescribed rules. As the program is presently constituted, the promoters are not asked to make judgments about the creditworthiness of individual clients or businesses. However, an individual loan program requires such judgments. Moreover, in order to keep quality and efficiency high in the main program, promoters jobs need to stay simple and focused. Individual loans could prove a distraction, especially if they perform worse than community bank loans -- as initial data suggest. Moreover, operating a separate loan product complicates loan tracking system requirements. WRM/CB has an ambitious set of plans for the future. It should not let a desire to serve a small percentage (currently less than 1 percent) of its clientele distract it from its central tasks. A solidarity group program might partially resolve some of these issues; however, it *would only work if there is a critical mass of graduating members who could form themselves into effective solidarity groups and if promoters were given effective training in managing such loans.*

B. Client Outreach

The number of members in WRM/CB has been growing increasingly rapidly as the program has gathered strength. In 1998 it grew by 41 percent, to 5,049.

Comment: A recent study of microfinance in Mozambique revealed that the WRM/CB program has approximately as many active clients as all the other existing programs combined!

Most of the clients are women, but the percentage has been slowly decreasing. This may be due to the fact that in earlier periods members were recruited by promoters, who sought out women specifically, but that more recently most recruitment is done through word of mouth -- and therefore increasingly reflects the gender balance of the market.

Average loan size has increased over time, reflecting the existence of experienced banks whose members are gradually increasing the size of their loans, and, in 1998, two policy changes (increased initial loan size from $30 to $50 and higher savings multiples). It is not yet clear what the long run average loan size will be. This figure will be determined by the combination of the total growth in members and the turnover rate.

This program has a very high turnover. In the first 11 months of fiscal year 1998, the number of active clients grew by 2,084, from 2,965 to 5,049. This growth came not only from recruitment of new clients, but is a net figure representing the addition of 3,032 clients and the departure of 948 clients. If this pattern were to hold into the future, the program would have to recruit three new members for every two-member increase in its client base it wishes to achieve.

Community Bank Loans	Sep 96	Sep 97	Aug 98
Number of active borrowers (members)	2,147	2,965	5,049
Year's growth in number of members	9.1%	27.6%	41.3%
Community banks	86	124	179
Average number of members per bank	25	24	28
Current percent women	82%	81%	77%

Comment: WRM/CB should examine the dynamics of client drop-outs more closely, to understand why people leave the program, with a view toward identifying changes that might reduce drop-outs. Reducing the drop-out rate would contribute to financial self-sufficiency: 1) average loan size would go up because a higher proportion of borrowers would be in the later loan cycles; and 2) staff efficiency would go up, as promoters would probably be able to handle somewhat more clients if fewer of them were new. Moreover, a more stable group within a bank may make it more rewarding for members, who would have to recruit fewer new members and would have a better-known group of people as co-members.

C. Member Characteristics

Services are provided in three locations. Chokwe, the first branch, is a significant regional town with ties to rural areas. Many of the families in the area have members working in South Africa. The program operates in both organized markets and in other locations. Many, perhaps most, clients are venders. Some trade in rural areas. Xai-Xai, the second branch, is more urbanized -- a small city which serves as the provincial capital. Again, some clients are market-based, but others are not. Fewer Xai-Xai clients appear to have strong rural linkages. The third location, Chibuto, is a smaller town in a more remote area. It is operating as a sub-branch or post. The program assesses the market potential in each area by talking with key people in the area, including government officials and market chiefs. This is supplemented by direct observation. The focus of the investigation is to determine the size of the informal markets. The estimates are that the program can expect to maintain about 2,000 clients in Chokwe, about 4,000-5,000 in Xai-Xai, and about 2,000 in Chibuto.

During this assessment, discussions were held with four community banks, each somewhat different in character. The following summarizes their responses to questions about the nature of their businesses and other issues.

- Large informal market, Xai-Xai. This bank was made up almost entirely of market vendors. Products sold included vegetables, used clothing, and small grocery items. There was one tailor. By far the majority of the vendors operated their businesses alone. Only one had an employee, and another operated the business with her husband (also a member). Most of the members reported using their loan proceeds to increase the amount of inventory they purchased. They stated that their participation in the program had helped them improve their standards of living, for example, allowing them to pay for medical care when sick.
- Non-market location, Xai-Xai. This bank had a diverse range of clients. At the high end were a man with several businesses and a salaried job, who used the World Relief loan to finance his business of making crutches for the local hospital, and a woman with a bakery, six employees and several sales locations. This woman's daughter was also a member, but her loan was used in her mother's business. At the low end were several vendors.

Comment: It is generally not a good idea to allow immediate family members to participate in the same bank. This practice can invite abuses and may cause friction among members. It can also result in overexposure to the risks of a particular household.

- Peri-urban location, Chokwe. Most of the members of this bank engaged in one of two businesses: selling used clothing in the market, or up-country trading. The latter business involved buying capulanas (cloths used as clothing) and other items in town and trading them in rural areas for maize. One client bought maize and traded it in Zimbabwe for goats. In all the banks, several members reported having family agricultural activities. One member of this bank reported that the loan had enabled her to start a business, which in turn allowed her to hire someone to work on her mashamba (small agricultural plot). Several of the members in this bank reported that the loans from WRM/CB had enabled them to start their businesses, and that they had no income earning activities of their own before that. This bank reported on the health messages it had received, and did an excellent job of summarizing the messages.

Comment: These businesses illustrate the way in which financial services aimed at the residents of towns and smaller cities can support the rural economy.

- Central city market, Chokwe. This bank was the first bank started in the program. The members were vegetable vendors in the government-built market in the center of town. These members were, however, still receiving relatively small loans, as a result of a lack of savings, and they reported that their businesses had not grown during the time they had been clients. Observations suggested that perhaps the central market had declined as a business location as informal markets in other parts of town had grown. One of the members reported that she helped her daughter set up a vegetable vending business in such a location.

From these observations, it appears that the program is strongly focused on supporting small vending activities, but that a substantial minority of its clients engage in various other businesses. Clients report using their loans to strengthen their businesses, reflecting an emphasis on this kind of usage during the training. Many of the women have not previously had businesses of their own. Most of the members would be classified as poor (as are the large majority of Mozambicans). Some are very poor, and a few are not poor. It is not likely that many of these people are "the poorest of the poor," as the poorest people are likely to be located in remote rural areas. This mix of clients is in keeping with the intent of the program, which is to rely on the fact that only relatively poor people will be interested in loans beginning at $50, rather than using more elaborate screening devices. The program regards the presence of some better off people among its clients as beneficial to the program as a whole.

WRM/CB has virtually no competition on the credit side, and very limited competition on the savings side. It is the only microfinance program operating in the areas it currently serves. Clients uniformly report that they have never had access to credit (other than possibly friends or family) before they joined the program. This includes lack of access to supplier credit. Some of the better-off clients in Xai-Xai report that they have savings accounts in a local bank.

The main external risks WRM/CB sees are events that would change the level of economic activity in Gaza Province. As the economy of the province is largely agricultural, and is also dependent on migrant labor sending remittances from South Africa, events that would disturb these economic patterns could threaten the program – such as drought flood, serious recession in South Africa, or changes in policy toward migrant labor. And, of course, the program would suffer if Mozambican political and economic stability were disrupted.

The program does not collect impact information on its clients. However, it is confident of its positive impact on clients for the following reasons:

- Direct observation of and conversations with clients provide continual feedback.
- Client willingness to pay for the loans and willingness to conform to the rules of the program demonstrates that they find the program valuable.
- Demand for the program is strong; WRM/CB's growth is fueled not by outreach efforts, but by clients' word of mouth.

Comment: Similar indicators of the value clients place on the service include repayment rates and client turnover, both of which the program should monitor as indicators of whether the program is serving clients well.

It is the view of WRM/CB that it would prefer to spend its resources on actually serving clients rather than on analyzing impact, although it would be happy for someone else to examine impact, using alternate resources. The evaluator concurs with this view. In some programs, systems are set up to collect additional data about clients; however, as already stressed, the nature of the staff in this program makes it essential to keep information collected to the minimum needed to operate prudently and efficiently. WRC's MEDTU will be doing some investigation of low-cost and participatory types of impact assessments. This may lead WRC to develop proposals along these lines in the future.

IV. FINANCIAL PERFORMANCE

A. *Income Statement and Balance Sheet*

Income Statement (in U.S. dollars)

	Sep 96	Sep 97	Aug 98
OPERATING INCOME			
1. Interest and fee income from loans	44.006	61.102	143.750
3. Income from investments	-		
4. Total Operating Income	44.006	61.102	143.750
OPERATING EXPENSES			
5. Interest and fee expense	-		
6. Loan loss provision expense	-		6.165
7. Personnel expense	59.479	99.160	118.477
8. Other administrative expenses	55.738	46.402	83.427
Rent	337	5.742	4.285
Office materials and supplies	4.389	4.870	16.782
Transportation and travel	33.172	17.760	25.074
Utilities (telephone, etc.)	1.793	2.351	5.859
Staff training	9	105	1.791
Repairs and maintenance	474	4.245	719
Bank charges (insurance)	6.489	2.052	-
Depreciation	7.194	6.813	9.528
Other	1.882	2.464	19.387
9. Total Operating Expenses	115.217	145.562	208.069
10. NET OPERATING PROFIT (LOSS)	(71.211)	(84.460)	(64.319)
NON-OPERATIONAL INCOME			
11. Cash donations	100.966	112.512	177.145
13. Total Non-Operational Income	100.966	112.512	177.145
15. *TOTAL CONSOLIDATED PROFIT/LOSS*	29.755	28.052	112.826

Balance Sheet (in U.S. dollars)

	Sep 96	Sep 97	Aug 98
ASSETS			
15. Cash and due from banks	68.679	57.148	31.821
18. Total loan portfolio	55.852	102.622	284.108
19. (Loan loss reserve)	-	-	(6.165)
20. Other assets, including investments	-		
22. Fixed assets	9.081	25.849	36.141
23. TOTAL ASSETS	133.612	185.619	345.905
LIABILITIES			
25. Savings Accounts: voluntary	21.214	45.169	93.158
31. Other liabilities	-		
32. TOTAL LIABILITIES	21.214	45.169	93.158
EQUITY			
33. Paid-in equity from shareholders	-		
34. Donated equity -- prior years, cumulative	82.643	183.609	296.121
35. Donated equity -- current year	100.966	112.512	177.145
36. Prior year's retained earnings/losses	-	(71.211)	(155.671)
37. Current year retained earnings/loss	(71.211)	(84.460)	(64.319)
39. TOTAL EQUITY	112.397	140.449	253.275
40. TOTAL LIABILITIES AND EQUITY	133.612	185.618	346.434

The WRM/CB program has made significant strides in financial performance during the past year.[1] These changes have enabled it to move from 42 percent operational self-sufficiency in 1997 to 71 percent in 1998. Note, however, that these figures exclude the cost of WRC headquarters technical assistance, on which the program depends. They do include the cost of the locally-based expatriate director.

Comment: This improvement in financial viability is an impressive achievement. Moreover, the absolute level of self-sufficiency the program has now reached—71 percent—makes it one of the more financially viable microfinance NGOs in Eastern and Southern Africa, and certainly far out in front of any other programs in Mozambique. If WRM/CB can maintain its current high productivity, while keeping portfolio yield high and gradually increasing the average loan size, it has the elements to become a fully financially-viable program in the next couple of years.

However, it should be noted that the program's expansion plans will probably mean higher costs and lower rates of productivity during the next couple of years, before the investment in expanded capacity pays off. While the part of the program represented by the existing branches should become

Note that these figures reflect performance through August 1998, i.e., 11 of the 12 months of FY 1998. Adding the 12th month would not change the ratios cited here in a significant way *fully self-sufficient, new branches will begin at low levels of cost recovery until they build up fully operational portfolios.*

WRM/CD brought this increase in financial viability about through growth in the loan portfolio of 177 percent, which in turn is a result of two factors: a 60 percent increase in the average size of loans and a 70 percent increase in the number of clients. The larger loan portfolio has provided the program with much more income (136 percent more). As discussed below, this increase could have been even higher, were it not for some deterioration in on-time repayments. The increases in income far outpaced the growth in administrative costs, which went up only 42 percent. The biggest component of those costs, personnel, increased a modest 20 percent. It appears that in 1997 the program was operating with a number of promoters that had not yet reached a full level of operations. Promoters at the end of 1998 all have full client loads. The average number of clients per promoter, 388, is probably as high as the program can sustain, and it is well above the 247 average per promoter of the previous year.

Although WRM/CB is performing well in terms of reaching financial viability, it remains, relatively speaking, a rather expensive operation. Its operating expenses have dropped dramatically from 220 percent of the portfolio to 70 percent. However, the top-performing microfinance institutions have operating expenses in the range of 10 to 25 percent of portfolio. It is expected that an NGO operating in Mozambique would have a high number for operating efficiency. Mozambique's poor infrastructure and scarcity of qualified staff drive costs up, while the poverty of its population means that loan sizes must be very small. WRM/CB should , nevertheless, consider whether it can reduce costs, focusing on the items that generate unusually high costs, including office supplies and travel expenses.

B. Profitability and Efficiency

	Sep 96	Sep 97	Aug 98
a. Operational Self-Sufficiency	38%	42%	71%
b. Financial Self-Sufficiency	34%	37%	59%

Note: The financial self-sufficiency calculation assumes a dollar-based cost of capital of 10 percent.

	Sep 96	Sep 97	Aug 98
1. **Administrative Efficiency** (administrative costs excluding financial costs as % of avg. net portfolio)	247,7%	220,4%	69,6%
2. **Operational Efficiency** (total operational costs as % of avg. net portfolio)	247,7%	220,4%	71,7%
3. **Personnel costs as % of total costs**	52%	68%	57%
4. Number of **active loan clients per staff member** (end of period)	179	141	202
5. Number of **active loan clients per loan officer** (end of period)	239	247	388
6. **Outstanding portfolio** per loan officer ($, end of period)	6.206	8.552	21.854
7. Number of **clients per branch office** (end of period)	2.147	1.483	1.683

C. Loan Portfolio Quality and Delinquency Management

Throughout its lifetime, the WRM/CB program has been able to keep loan recovery high. Nearly all its loans have been fully recovered, thanks to the requirement that banks cannot receive new loans until existing loans have been completely repaid. It has survived two serious crises among clients – the loss of 40 percent of members in one month, due to a refugee resettlement that took place, and floods that destroyed the premises and inventory of a large number of clients. In both cases, loans were repaid. A third difficulty occurred as a result of the fraud of one of the promoters (discussed above), which caused a general question of confidence among members. This, too, appears to have been contained.

However, there are some worrying signs. Recent data indicate that portfolio quality has dropped in the past few months. The rate monitored by WRC, portfolio-at-risk over 30 days, has climbed to 11 percent, well above its level during most of the rest of the program. This level is generally considered to approach a slippery slope for programs, where client discipline is thought to deteriorate easily due to the "tipping" phenomenon in which good clients see bad behavior and follow it. In addition, the yield on portfolio has dropped, indicating that many loans are being repaid late, resulting in slower receipt of interest income. Moreover, there is confusion among staff about measurement of delinquency and the appropriate time for action against late payers.

1. Delinquency Measurement

At present, the program appears to use three different ways to measure delinquency:

- At the bank level: Promoters consider a bank late when it has not closed out its cycle within one month of its expected closing date. In other words, no bank can be late until Week 21 after disbursement.
- At the bank level: Supervisors using CLAMS focus on an indicator of days late. This indicator compares payments received against payments due. When the gap is equivalent to one full payment, the bank is shown as late. This figure is not actually a measurement of delinquency in the program as a whole, but an indicator of which banks (and which promoters) need remedial attention. One drawback to this measure is that it is difficult to compute and interpret. CLAMS produces the figures, but it would be difficult for promoters to duplicate it using their own records.
- At the program level: Senior management, including WRC headquarters, compute a portfolio at risk rate, which is derived in the same way as the days late indicator, and then aggregated. All banks whose number of days late exceeds 30 are considered late. The outstanding principal associated with these banks is then compared to the total outstanding portfolio, to put the figure into percentage form. At most recent measurement, this figure was 11 percent. It should be noted that this measure considers a bank late when it has missed three full (biweekly) payments.

Comment: Village banking programs in general face a quandary in trying to determine the most appropriate form of delinquency measurement. The original philosophy of village banking treated the bank as a "black box," meaning that banks handled their own internal affairs, while the program *only monitored whether the bank paid back its loan to the NGO. Originally, payments were only made back to the NGO at the end of a cycle. In such a setting, the only available point for measuring delinquency was end-of-cycle repayment. Two important changes have occurred in many village banking programs, however, including WRM/CB. First, repayments are returned to the NGO as they are made by borrowers, and second, programs have learned that banks need assistance in maintaining repayment discipline, and so programs take on more responsibility for keeping records, etc. Both of these changes require the program to pay more attention to the status of individual bank members and to delinquency within cycles. Such delinquency has a direct effect on the NGO's income (through reducing portfolio yield), and may also make the program more burdensome for those members who choose to repay on time and who risk losing their savings through the actions of others. However, it is difficult to measure such delinquency at the bank rather than individual level.*

WRM/CB needs to revise its system of measuring and managing delinquency to ensure strong repayment discipline and reduce risk while being as faithful as possible to the philosophy of giving banks maximum responsibility. And it must do this using a system that is easy for clients, promoters and supervisors to compute and interpret. A suggested system of delinquency measurement is presented in Annex 1.

2. Delinquency Management

The main method to prevent and control delinquency WRM/CB now uses is the requirement that the loan must be fully repaid before the bank can receive a new loan. This feature of the program allows WRM/CB to give a great deal of leeway to banks in ensuring repayment, while retaining confidence that it will eventually recover nearly all loan principal and interest due. However, given the declining portfolio quality and portfolio yield observed recently, it appears necessary for the program to step up its attention to on-time repayment.

Comment: The following suggestions may be helpful.

- *Focus attention of clients, promoters and supervisors on timely repayment*
  -- *Redesign paper forms and CLAMS reports, as discussed above and in Annex 1, to provide information on amounts due, and to focus each week on gaps between amounts due and amounts received.*
  -- *Develop routine status-checking mechanisms: Treasurer or president should announce status of bank at the end of each meeting; read out names of people who have not paid on time; Program should require written report from promoters each week on the status of his/her portfolio and actions taken with respect to banks at risk. A special mid-cycle check point might be useful.*

- *Increase incentives for on-time repayment. Positive or negative incentives may be used. These might include:*
  -- *not allowing banks with late payments above a certain level to get larger loans, or, conversely, increasing the multiple for banks with excellent records.*
  -- *requiring a longer waiting period for late paying banks*

-- *offering a rebate of some of the interest paid if a bank makes all payments in full and on time, or a lower interest rate on the next loan, or charging a fine if the loan is not closed on time.*

- *Establish clear standards for acceptable performance. The program is currently monitoring delinquency using definitions that are very lenient (portfolio at risk more than 30 days; banks late 30 days after expected date of closure). Such measures are inadequate for internal management. Banks, promoters, and branch supervisors should be given targets for on-time repayment that begin monitoring from the time the first payment is missed. All tracking of arrears should include aging categories.*

- *Clarify appropriate strategies for dealing with late payers. At the individual level, action needs to be taken from the first time a borrower does not make a payment. The executive committee of the bank should visit that person right away, perhaps with the promoter. If the problem has not been cleared up in three weeks, a sanction should be applied – such as drawing down savings from the member or even from the bank as a whole. In some village banking programs it is not acceptable for the bank to pay less than 100 percent of the required amount at each meeting.*

Of course, designing the specifics of such a program and implementing it will require a large and sustained effort, including a good deal of training of staff and clients.

The program has appropriate policies for provisioning and write-offs, and it does not allow loans to be refinanced.

D. Interest Rates and Portfolio Yield

As noted in the description of services (Part II), the effective interest rate on community bank loans is currently 97.6 percent. The program began during a period of high inflation, with the interest rate set at 6 percent per month. It was reduced to 4 percent per month in October, 1995, as inflation began to fall, but raised to 5 percent in January 1997. For the last two years, inflation has virtually disappeared from the economy (zero during the past 12 months). Thus, the 97.6 effective rate represents a high real rate. Other rates in the economy are also high in real terms -- such as commercial bank rates at 18-25 percent. Some other microfinance programs charge comparable rates, although some subsidized loan programs remain. A microfinance program's interest rate should be sufficient to provide financial viability, and currently, it appears WRM/CB's is such a rate. However, the program should seek efficiencies as discussed above that may in time allow it to reduce the rate somewhat. The change from weekly to bi-weekly payments lowered the effective rate very slightly -- not enough to make an appreciable difference.

The program has been free to set interest rates. A recent decree by the Bank of Mozambique on microfinance gives the central bank the right to set interest rates for microfinance programs. However, the central bank has stated that it will not exercise that right. Nevertheless, there is some risk that the current freedom to set interest rates could change.

Portfolio yield for 1998 was 68 percent, leaving a gap of 30 percentage points between effective interest rate and income earned. It is likely that the major cause of this gap is late payment, mainly within loan cycles but also at their end. Members regularly skip payments and are not charged penalty interest unless repayment is incomplete at the end of the loan cycle. At that point they are only charged penalties for weeks past 17. There are indications that the yield on the portfolio has deteriorated over time, beginning in the third quarter of FY 1997 (i.e., March-June 1997). Yield was relatively stable throughout 1998, but at a significantly lower level than in 1996 and the first half of 1997. Improving the yield on portfolio requires attention to on-time repayment, as suggested in the section on delinquency, above.

Yield vs. Effective Rate

	FY 96	FY 97	FY 98
a. Nominal effective interest rate, annualized	97,6%	97,6%	97,6%
b. Actual yield on portfolio	94,6%	92,5%	66,2%
c. (e) as a percentage of (d)	97,8%	95,7%	68,5%

For FY 96, the effective rate shown was in effect during the last three quarters. A lower rate was in effect during the first three quarters. For FY 98, the table reflects 11 months of operations, annualized.

Comment: If the program had sustained its yield on portfolio in 1998 at the levels it achieved during 1996-1997, the added income would have raised its level of operational self-sufficiency to 97 percent! For a multitude of reasons, therefore, increasing portfolio yield should be a matter of urgency.

V. Future Plans

A. Vision and Objectives

The ultimate objective of WR Mozambique's Community Banking Program, as defined by the country director and senior staff, is to provide opportunity to the poor people of Mozambique to improve their economic status, and to do so in a way that will be sustainable and that can be the basis for expansion.

Key points and further elaboration of this concept of mission are:

- To reach the poor – without reference to a specific subgroup of the poor.
- To be around over a long time as a service provider.
- To reach a large number of people. The local program coordinator's vision statement included becoming a nationwide operation.
- To be financially viable. The program defines this objective as generating a profit which can be used for growth.
- To become a permanent part of the local scene. The program coordinator's key vision included developing the Mozambican staff to the point where they could run the program, and all the stated plans call for the creation of a separate, Mozambican organization.

Comment: This vision is consistent with the activities of the program to date and the plans elaborated in the new Matching Grant and the recent proposal to UNDP. It does not yet appear to penetrate deeply among the staff, however, most of whom appear to be focused more simply on providing good and useful services to clients. Some of the elements necessary to achieve it, particularly those concerning the ultimate form this organization will take, are only beginning to be seriously examined.

B. Expansion Plans

WRM/CB plans to expand gradually throughout Mozambique. It will build from its operation in Gaza Province to cover the southern region, particularly in the more densely populated areas in the east. A first point for expansion outside Gaza will be Inhambane. Eventually, branches in Maputo Province are contemplated (in towns and suburbs). A the same time, the program plans to expand to the northern part of Mozambique, through an office it would establish as an essentially separate operation. Separation is necessary because of the difficulty and expense of attempting to supervise an activity in northern Mozambique from Maputo. Some funding for the northern expansion has been provided through the new Matching Grant, and WRC has just been notified that it will be awarded additional funds from UNDP.

Growth projections for the southern operation assume steady expansion at a rate of 25 percent per year in numbers of active clients. This rate is sufficient, combined with high portfolio yield and a small natural increase in average loan size, to bring the southern operation to the point of financial self-sufficiency. It is an appropriate rate of growth, given the other significant priorities for the program.

Projections in the north call for rapid growth, such that by the end of the fourth year there are projected to be more than 80 percent as many clients in the north as in the south. Put another way, the projections would bring the northern operation in four years to the level it will take the southern operation eight years to reach. These projections appear to be somewhat optimistic, start-up assistance from the southern program notwithstanding, because the northern region is likely to have a less conducive local economy and more difficult logistics.

Because of the scarcity of funds, and as a matter of learning private sector financial discipline, the program may need to seek borrowed sources of funding in the next few years. The most appropriate source of such funding would be Mozambican commercial banks, who could provide loans without exchange rate risk. Such an arrangement between a bank and an NGO has not yet been seen in Mozambique, and therefore, it would probably take a significant amount of negotiation to arrange.

C. Creating a Local Institution

The long run future of WRM/CB centers on turning the program into a Mozambican institution that can be run by local staff, without continued dependence on WRC either for funds or for management.

The internal challenges needed to make this transformation possible are discussed throughout this report. It is only necessary to add here that the program should begin to separate its operations from those of WRM's other programs. A great deal of separation already exists. The main focus of additional action would be in the accounting and administration departments. Accounting staff should be separated at the headquarters and branch level, and the actual accounts should also be separated, so that financial statements for the community banking program itself are produced regularly. This process would fit naturally with the hiring of a financial manager for WRM/CB. Overhead support services and costs will also need to be separated. Any remaining services supplied by WRM should be charged to the program.

In order to begin creating the new local institution WRM/CB should develop a planning process, so that issues can be addressed systematically and so that longer range planning and daily operations will interfere with each other as little as possible. WRM/CB will need to draw together a team of people to assist in the transition. These people could form a planning or advisory committee, with members drawn from a variety of sources, including banking and private sector, church, and prominent local people. It may also be valuable to include donor and government people, in their personal capacity, not as representatives of their institutions. World Relief should also be represented on the committee. The idea would be for this group of people to form the nucleus for the new board of directors. World Relief will also need to obtain professional advice from a lawyer and an accountant. A new name for the program should be sought as soon as possible, to signal the intent of the program to become a Mozambican institution.

The first major hurdle is to decide what kind of organization the program should become. Two choices exist in Mozambique: a non-profit association, which gives loans but cannot accept deposits, or a for-profit credit cooperative which can accept deposits from members. It is somewhat more difficult to qualify to become a credit cooperative; however, because of deposit-taking ability, the credit cooperative is a more sustainable form. In either case, the program must find a group of at least 10 people and/or institutions to serve as founding members (to include WRC). The governing board would be a subset of these members. WRM/CB will also need to examine the tax implications of choosing to become an association or cooperative. Taxes may involve a substantial amount of money. For a credit cooperative, the founding members provide or own the initial share capital. The appropriate initial structure for ownership of capital will be one of the most important questions to be resolved during the planning process. A variety of arrangements should be possible. The amount of capital is not a problem: the requirement is minimal and WRM/CB already exceeds it. If the program becomes a cooperative, World Relief should remain an owner, as perhaps should some other international organization (such as a socially responsible investor bank). This is particularly important given the relatively weak supervision likely to come from the central bank. To become a cooperative, there will also need to be some work on accounting systems, internal controls, etc. in order to meet appropriate standards for accepting deposits and being supervised by the central bank.

In planning the transition, two issues of sequence will appear. First, the relationship between turning the program over to local management and creating the local institution. If done sequentially, the learning and experience process needed for local staff would place the creation of a new entity on hold for two to three years. However, it should be possible to create a local institution before the management transition is completed, using some arrangements whereby WRC serves as management under contract to the new entity. Second, if the program becomes a cooperative, it must decide when to begin offering deposit services. The important concern in this area is to ensure that the program is profitable and has excellent portfolio quality control systems before offering deposit services.

Annex. Suggestions for a System for Measuring Delinquency

System Requirements:

1. Simple to compute and interpret.
2. Must give relevant information at each level: member, bank, promoter, branch, and program.
3. Should distinguish between within-cycle delinquency and post-cycle delinquency.
4. Must provide a basis for action to control delinquency. Thus, the system includes both the indicator and acceptable ranges for the indicator.

Basic Principle:

It is suggested that delinquency measures be based on a comparison of amounts received versus amounts due. This will require that individual and bank forms be revised to show payments due, on a week by week and cumulative basis.

Indicators:

Individual Level: The basic measure would be payments (interest and principal) received divided by payments due, cumulative through the cycle. If it were thought that clients would have trouble interpreting this percentage, the simplest of all measures would be number of payments late.

Bank Level, within cycle: Again, payments received divided by payments due, cumulative through the cycle. An easy supplemental measure could be number of members with late payments divided by total members.

Bank Level, post cycle: Delinquency among banks that have completed their cycles would be reported separately from delinquency within cycle. The raw data would be: number of banks and portfolio outstanding, placed in categories of numbers of days since expected date of closure.

Promoter, branch and program level: Each of these levels would use the same measures – differing only by which banks are included:

When aggregating across banks, the cumulative payment received over payment due measure runs into the problem that banks are in different weeks within cycles, so that the period of measurement would differ for different banks. The measure could thus be reported in either of two ways: (1) on a current cycle basis – which would conform to the measure being suggested at the individual and bank level, but would ignore differences in period measured; or (2) on a specific period basis (e.g. one month), which would not conform to the individual and bank level measures, and would therefore be difficult for promoters to interpret. The current cycle basis seems better.

At the promoter level and above it becomes important to think in terms of the portfolio at risk, not just current collections, and to find a way to provide an overall measure, inclusive of within-cycle and post-cycle risk. The following indicators might be used:

Portfolio-at-risk within cycle	Portfolio at risk post cycle 0-30 days	Portfolio at risk post cycle 31-90 days	Portfolio at risk post cycle over 90 days
Portfolio outstanding in "banks at risk" divided by total portfolio	Portfolio outstanding in banks that have not closed on time divided by total portfolio	Similar to previous box, with time difference	Similar to previous box, with time difference

"Banks at risk" within cycle would be defined by some target level of performance on the payments received versus payments due indicator – e.g. banks with less than 90 percent on that measure would be defined as "at risk". It would be assumed that banks below that level are still safe. This target could be set at whatever level the program finds reflects safe bank operation, as long as the definition were made clear.

Portfolio yield would also be tracked to give a sense of the effect of delinquency on revenues.