



MANAGING AN UMBRELLA PROJECT: A CASE STUDY OF THE CENTRAL ASIA MICRO FINANCE ALLIANCE (CAMFA) PROJECT

Janice K. Stallard
October 2006

ABSTRACT

The Central Asia Micro Finance Alliance (CAMFA) is a USAID-funded umbrella project with the goal of building and expanding the services of sustainable microfinance institutions. CAMFA works in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan to deepen the outreach of lending organizations through the provision of technical assistance and grants coupled with access to lending capital. CAMFA works with traditional microfinance institutions as well as credit unions, credit cooperatives, MFI Associations and for-profit microlenders.

ACDI/VOCA submitted the CAMFA project concept to USAID/Almaty's regional office in early 2002 as an unsolicited proposal. CAMFA was funded for the period of October 1, 2002, through September 30, 2006. CAMFA was designed as an umbrella project with three components:

- Component I provided grants and technical assistance to microlenders (\$5 million)
- Component II supported best practice institutions (\$3.9 million)
- Component III established the first wholesale lender in Central Asia, Frontiers, LLC (\$3.4 million)

Component I was in some senses the most complex aspect of the project, requiring a large staff to manage the grant funding as well as technical staff to deliver training and hands-on assistance. Recipients of assistance passed through a rigorous screening process which included the meeting of selection criteria as well as undergoing an institutional diagnostic. Component I included a \$1 million grant component.

Component II provided direct grant funding to four best practice institutions in Central Asia. Funding was provided for the start-ups of FINCA Uzbekistan (\$1.38 million), FINCA Tajikistan (\$1.2 million), the transformation of FINCA Kyrgyzstan (\$350,000) into a deposit-taking institution, and the expansion of the Kazakhstan Loan Fund (\$976,679). ACDI/VOCA handled these funds as "pass-through," and these activities were managed fairly independently by the preselected institutions with oversight from the CAMFA chief of party.

Component III established the first wholesale lending organization in Central Asia. To implement this activity, ACDI/VOCA registered a for-profit microlending institution, Frontiers, LLC. Frontiers' mandate is twofold: to provide CAMFA partners with a new

source of lending capital to support their growth and expansion, and to provide loans to smaller microfinance organizations throughout the region that have limited access to capital. Frontiers has been a pioneer in Central Asia, serving rural and remote retail lenders with small loans and directed technical assistance.

As a complex umbrella project, CAMFA was also able to act quickly and meet needs as they arose. CAMFA's direct funding and support to the four microfinance Associations (MFAs) is an example of this flexibility. Although not part of CAMFA's original mandate, the project provided over \$240,000 in grant funding to support the operational costs and capacity building of the four country-level associations.

As a management tool, CAMFA has been a useful instrument to assist USAID to fund a wide spectrum of organizations—from small, fledging microlenders to larger, more established retailers. As USAID looks at the future of umbrella project mechanisms, the agency may find it useful to integrate many of the lessons presented here. One of the most important of these lessons has been to offer lending capital coupled with technical assistance and minigrants. This has proven to be the hallmark of the CAMFA project.

INTRODUCTION

The Central Asia Micro Finance Alliance (CAMFA) is a USAID-funded umbrella project with the goal of building and expanding the services of sustainable microfinance institutions. CAMFA works in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan to deepen the outreach of lending organizations through the provision of technical assistance and grants coupled with access to lending capital. CAMFA works with traditional microfinance institutions as well as credit unions, credit cooperatives and for-profit microlenders.

CAMFA began on October 1, 2002, as a four-year project. ACDI/VOCA designed CAMFA as an umbrella project with three components:

- Component I provided grants and technical assistance to microlenders (\$4.8 million)
- Component II supported best practice institutions (\$4.2 million)
- Component III established the first wholesale lender in Central Asia, Frontiers, LLC (\$3.4 million)

Component I was in some senses the most complex aspect of the project, requiring a large staff to manage the grant funding as well as technical staff to deliver training and hands-on assistance. Recipients of assistance passed through a rigorous screening process which included the meeting of selection criteria as well as undergoing an institutional diagnostic. Component I included a \$1 million grant component.

As CAMFA “partners,” selected groups were managed through an action plan process that was developed during the diagnostic. This diagnostic examined an organization's governance and legal structure, operations, accounting and financial management, internal control and overall organizational management. The diagnostic gave the CAMFA team first-hand insight about a lender's strengths and weaknesses and was the basis of a detailed action plan that outlined a series of timed interventions.

Over the years, the action plan became more and more detailed as the team recognized its central importance to providing a tailored package of assistance to each partner. By the end of year one, the action plan had developed into the working operational plans for each institution—summarizing areas of change, what resources were needed to address these changes, notation of the responsible persons (citing either CAMFA’s or the institution’s staff) and deadlines. The action plan also proposed grant funding that would complement CAMFA’s technical assistance. For example, if an organization’s management information system was weak, CAMFA often purchased a new MIS and/or accounting system.

Key to CAMFA’s efforts was its hands-on technical assistance delivered to each organization. This assistance was tailored to the needs of each partner, with the larger groups receiving less directed assistance (albeit, more funding to attend best practice trainings, etc.) and with the smaller groups getting monthly and quarterly technical assistance visits from CAMFA staff. An example of the types of assistance provided in the early years was the calculation of self-sufficient interest rates. In later years, more time was devoted to developing strong governing boards, incentive systems and improved decision making based on accurate and timely financial and portfolio information.

Component II provided direct grant funding to four best practice institutions in Central Asia. Funding was provided for starting up FINCA Uzbekistan (\$1.38 million) and FINCA/Tajikistan (\$1.2 million), the transformation of FINCA Kyrgyzstan (\$350,000) into a deposit-taking institution and the expansion of the Kazakhstan Loan Fund (\$976,679). ACDI/VOCA handled these funds as “pass-through,” and these activities were managed fairly independently by the preselected institutions with oversight from the CAMFA chief of party.

Component III was earmarked for the establishment of the first wholesale lending organization in Central Asia. This was a sensitive aspect of the project as USAID was unsure from the outset about the viability of wholesale lending to local microfinance organizations. With those concerns in mind, ACDI/VOCA registered a for-profit local organization in the name of Frontiers and began operations.

Kyrgyzstan was selected by the project staff as the most suitable location for Frontiers. This was due to its friendly banking system, the ability to easily make cross-border wire transfers, the capacity to receive dollar-based loan repayments, a wealth of well qualified local financial experts and a low-cost environment¹.

Frontiers got off to a fairly slow start mainly due to the COP’s focus on Component I. Frontiers was legally registered in Kyrgyzstan on July 14, 2003. After the registration was completed, however, it soon became clear that a second expatriate would be needed to manage this element of the project. ACDI/VOCA made a request to USAID for a second expatriate and hired Frontiers’ general manager in January 2004².

¹ Compared to Almaty, Kazakhstan – that also had a suitable banking system for Frontiers.

² This was done at no additional expense to the project due to the cost savings during project start-up.

Frontiers' mandate is twofold: to provide CAMFA partners with a new source of lending capital to support their growth and expansion³, and to provide loans to smaller microfinance organizations throughout the region that had limited access to capital.

One of the most complex issues in getting Frontiers' first loan disbursed was the development of a strong loan contract that was enforceable in multiple countries. While a Kyrgyz law firm was hired for this task, the loan documentation had to be legally verified in Kazakhstan and Tajikistan. This process took several months, during which time local staff was hired, systems established and the marketing of Frontiers' services completed.

After its first loan disbursement in August 2004, demand for Frontiers' loans became overwhelming. Frontiers was recognized as a client-friendly lender that would lend to very small retail lenders at reasonable interest rates⁴. Frontiers' average loan size is around \$90,000.

While Frontiers has won its success based on the provision of a term loan, it has branched out to provide small loans to purchase MIS/accounting systems, computers, and to fund ratings and audits⁵. These loans, while small, have a strong impact on an organization's ability to computerize its internal systems and generate recognized financial statements.

Frontiers has been a pioneer in Central Asia, serving rural and remote retail lenders with not only small loans but directed technical assistance. Frontiers has recognized the importance of providing hands-on assistance to its clients to improve their cash-flow procedures, internal control, lending operations, credit policies and governance structures. Frontiers is the only lender in the region to provide such services to its clients.

Despite being a complex umbrella project, CAMFA was able to act quickly and meet needs as they arose. CAMFA's direct funding and support to the four microfinance associations (MFAs) is an example of this flexibility. Although not part of CAMFA's original mandate, the project provided over \$240,000 in grant funding to support the operational costs and capacity building for the four country-level associations.

As a management tool, CAMFA has been a useful instrument to assist USAID fund a wide spectrum of organizations—from small, fledging microlenders to larger, more established retailers. The project has also been a pioneer in the provision of lending capital on commercial terms to small-scale lenders throughout the region.

This article is broken into the following sections:

Component I – How the process worked; start-up challenges; lessons learned
Component III – How the process worked; start up challenges; lessons learned
Summary and Conclusions

³ For the most part, this would be the first commercial loans received by these organizations.

⁴ International lenders offered loans to larger organizations (with loan portfolios of around \$1 million) while Frontiers offered loans as small as \$5,000.

⁵ These are only provided to active clients with positive loan repayment history.

Limited attention will be given to Component II as this funding was directed by USAID and had specific goals, e.g., start new retail operations, open new branch offices for larger, successful retailers and support a transformation into a for-profit, deposit-taking microfinance institution.

COMPONENT I: INSTITUTION BUILDING

How the Process Worked

Application Process

The first step in the project was to advertise its services. Marketing and outreach was done based on a general announcement at the beginning of the project to over 500 microlenders in Central Asia. Marketing was also done through a promotional brochure, attendance at local conferences and trainings, word of mouth and ACIDI/VOCA's website.

CAMFA reviewed approximately 100 applications from microlenders across the region during its four years of operation. The application asked for basic information for each applicant, including:

General Information – name of organization, founding date, legal form of registration and founders.

Staffing – number of staff (including number of loan officers), organizational chart and branch structure

Products – complete description of the range of products and services offered, including methodology, terms, average loan size and effective interest rates charged by product

Institutional Characteristics – mission statement, accounting and MIS systems, non-financial services offered, existence of credit, personnel, risk management policies and annual external audits (copies of documents were requested when available)

Donor Funding – complete outline of all donor funding received during the institutional life, including grant funds (broken down by lending capital and operational support) and technical assistance

Governance – description of how the organization is governed, members of the board and governance challenges

Expansion/Business Plans – business plans and/or a description of the next year's activities and expansion plans

Financial Statements – for the last three years if available

Screening

In the marketing announcement of the project, CAMFA's selection criteria were provided to give applicants a clear sense of the project's expectations. Although a set of selection criteria was made at the project's outset, these conditions were updated in the course of the project's

implementation. For the most part, conditions were made more flexible to allow smaller groups to become eligible⁶. Below is a list of the project's final selection criteria:

- √ Working as a legally registered local organization or having a work plan moving towards this goal in the next 12 months
- √ Institutional mission of supporting small and micro businesses
- √ A portfolio at risk of not more than 15 percent (greater than 30 days late)
- √ A management team that provides strong leadership and has a clear vision of running the organization on sound business practices
- √ No government investment or stake in the organization
- √ A desire and ability to work with the CAMFA project
- √ A lending history of not less than six months
- √ Active credit portfolio of not less than \$30,000
- √ Current or prospective operational self-sufficiency

Once a month the TA team would meet to discuss new applications and review the status of pending applications. Upon receipt of an application, an organization was sent a standard response letter stipulating that its application was being reviewed. Monthly meetings were devoted to assessing new applicants, analyzing new information from pending clients and making determinations for diagnostic visits.

One of the biggest challenges of the screening process was getting adequate financial statements from applicants. CAMFA was surprised that for the most part applicants were not able to provide standard (CGAP- or other-formatted) balance sheet, income statements and portfolio reports. Gathering accurate financial statements became the prime mission of the screening process since without them the team could not properly assess the institution.

Diagnostic

After a thorough review of an institution's application and financial statements, the team would determine if a diagnostic field visit should be undertaken. If a diagnostic was deemed unwarranted, an applicant was given a formal rejection letter.

The diagnostic process was critical to determine CAMFA's final decision on potential clients. CAMFA's diagnostic was based on the CGAP's institutional assessment tool. The diagnostic tool included the following key areas:

Governance & Management: Governance, prudential regulation, general management, separation of activities (from representative office, charity activities, etc.) and business plans

Credit Operations: Lending, loan officers, products and services and portfolio management (included one day of field visits to clients)

⁶ For example, total active portfolio was lowered as it became clear how small some of the applicants were; portfolio at risk was increased from 5 percent at the outset of the project to 15 percent by year two.

Internal Systems: Accounting, MIS, internal control, personnel/HR and capacity for financial analysis

A four-to-five-person CAMFA team conducted the two-and-a-half-day assessment, dividing up into teams to focus on various aspects of the diagnostic. At the end of the first day, the team would meet in the evening and to determine if it should move forward. If a generally positive consensus was reached the team would begin drafting a bilingual action plan. The action plan summarized all of the areas that had been assessed, institutional weaknesses, outstanding issues, CAMFA's input, responsible persons, deadlines and benchmarks (the impact that was desired as a result of the proposed changes).

During the morning of the third day, the CAMFA team presented the action plan to the organization's entire staff. This meeting would usually take a half day as all of the elements of the action plan (sometimes up to 10 pages) were discussed. Agreement had to be reached on all issues before further steps were taken.

If both sides reached an agreement about the action plan, the CAMFA team would return to Tashkent and begin formalizing arrangements through a structured subagreement process. The subagreement document stipulated the organization's responsibilities to provide regular financial reports, internal documentation (audits, etc.), as well as CAMFA's obligations to provide technical assistance and grant funding; the tranching of grant funds was linked to the achievement of benchmarks outlined in the action plan.

Approach to Technical Assistance

The CAMFA team recognized that many of its issues were sensitive and would require time and patience to address. As will be discussed later (in the lessons learned section), the CAMFA staff worked hard to develop strong relationships with its partner institutions. As such, partner staff did develop a trust in and respect for the advice given by the CAMFA team.

The following is a summary of the team's approach to providing technical assistance to partner institutions:

Communications – was based on a client-friendly approach and carried out on a weekly and/or regular manner with each partner. The CAMFA staff was required to know all of its partners' staff by name and have an in-depth understanding of all key ongoing issues at the institution.

Field Visits – must be well planned and thought through; each trip to a partner had to have a technical objective; one-page written summaries were developed and approved before each field visit.

Results – every visit needed to have results that the partner could understand and appreciate. This included leaving new tools (a key indicators matrix for loan officers, annual budgets, etc.) or some practical knowledge regarding the focus of the visit.

Hands-on – CAMFA staff were trained to work with the partners side by side the first time a new activity was attempted. This included sitting with accountants to build financial projections and working with managers on business plans. After the activity had been successfully completed, the partner continued this work independently with advice and review from CAMFA.

Financial Analysis – CAMFA staff were required to understand all nuances of their partners' financials and be able to produce a quarterly assessment of financial progress (including indicators such as operational efficiency, profitability and overall growth).

TA team meetings were held once a quarter to review the progress of each partner. Key challenges and ongoing issues were discussed and addressed. This time was also devoted to jointly discuss common themes such as MIS/accounting problems, development of training activities, legal and regulatory issues, study tours for partners, brainstorming issues for the annual regional conferences, etc.

At the end of year one, CAMFA began holding an annual strategic planning session to determine priorities for the coming year and develop an operational plan to implement targeted activities (such as how to improve the project's efforts and increase impact, the timing and focus of study tours, an outline of key activities for the regional conference, and strategies for workshops on regulatory and other issues). The CAMFA operational plan became an important tool for the efficient implementation of its complex set of activities.

Start-Up Issues & Challenges

The staff learned a lot in the first year of operations; during this time CAMFA's approach became more streamlined and efficient. For others who may be undertaking an umbrella project, here are some of the organizational and developmental challenges that were addressed during the project's inaugural year:

Staffing

It became apparent from the outset that a strong team of local technical experts would be needed. However, such talent was not readily available in Tashkent. Luckily for CAMFA, it was able to draw one English-speaking staff from a well-known microfinance institution in Kazakhstan.⁷

Still, staffing was an issue that had to be managed strategically. It was decided early on that it was best to hire young professionals with finance degrees and banking or related experience for the technical assistance team. Year one was devoted to training these professionals on microfinance best practices. During this first year the chief of party was involved in every aspect of the project start-up, diagnostic processes and the provision of technical assistance.

⁷ CAMFA negotiated with the Kazakhstan Loan Fund to hire one of their trainers for the duration of the project.

It also became clear early on that the TA team needed to include an IT specialist. This was due to the extremely weak state of MIS and accounting systems of most applicants.

The fact that so much attention was given to ensuring high-quality technical assistance helped the project staff as it worked through difficult and sensitive issues with partners such as setting sustainable interest rates, developing internal control systems and creating transparent staff hiring and evaluation practices. Devoted and competent staff became the trademark of the project.

Conflict of Interest

As an implementer of microfinance programs in Central Asia, ACDI/VOCA had to face the issue that there would be perceptions of conflict of interest in running CAMFA. To some degree it was an issue of perceptions, since ACDI/VOCA-founded microfinance organizations were ineligible for grant funding or technical assistance under CAMFA.

Still, the project staff considered it important from the outset to preclude any concerns about conflict of interest. This was done in the following manner. First, it was plainly stated to all applicants that CAMFA was being implemented by ACDI/VOCA, and that their documents would be kept in the strictest confidence. Second, clear selection criteria were provided to applicants and were used as the basis for objective decisions.

In the end, the conflict of interest issue was negligible. In all four of the countries, ACDI/VOCA provided grant and lending capital to its competitor institutions. The fact that the CAMFA team was devoted to helping its partner institutions achieve better results was apparent, and no complaints were ever made about the issue.

Confidentiality

Hand in hand with the issue of conflict of interest was that of confidentiality. Applicant organizations needed to be assured that their information (financial statements, business plans and financial projections) would be kept secure.

This issue was also tackled in a straightforward manner. The application form itself stipulated that all documentation would be kept strictly confidential. In addition, all CAMFA staff signed an internal confidentiality statement. This issue was also raised during staff meetings to ensure that firewalls were maintained between the applicants, in particular when they were from the same country and/or region.

Data Gathering and Analysis

Early on in the project's implementation, it became clear that each organization's financial statements and portfolio report would be the main source of information for the project to track progress. During the first few months of project start-up, the team worked hard to develop templates for a balance sheet, income statement and financial indicators⁸.

While it was difficult at the beginning to get partners to complete these templates accurately, it was a useful process as most groups had previously no experience developing simple financial statements. As a result of this work, CAMFA partners had a standard set of financials to present to lenders and donors and became comfortable with analyzing their own financial statements.

⁸ This was a linked Excel spreadsheet that presented information in local currency and dollars using a CGAP style format.

The team recognized that this information needed to go into some kind of database that would allow for analysis of consolidated trends. Pulling from ACIDI/VOCA's existing Lotus Notes database, CAMFA designed a user-friendly system to capture all of the financial data generated from partner institutions. By the end of the project, CAMFA had three years of historical data that can be shown in quarterly or annualized trends.

Graphic Analysis

The CAMFA team decided it was important to not only gather key financial information but to provide feedback to their partners on this information. By the end of the first year, the CAMFA staff was trained on how to analyze the financial data and make graphical presentations to each organization. Quarterly graphical presentations were made to each partner, in trends over time, on the following issues:

- √ Growth in portfolio
- √ Growth in client numbers (total and female)
- √ Changes in loan size (for various loan types)
- √ Changes in the portfolio (by loan type)
- √ Growth in disbursements (by value and number)
- √ Changes in asset productivity
- √ Changes in ROE and ROA (comparative graph)
- √ Operational expenses and financial income (comparative graph)
- √ Comparative graph on: effective interest rate, portfolio yield and nominal interest rate
- √ Graph on operational and financial self-sufficiency
- √ Line graph comparing operational efficiency and portfolio yield
- √ Graph on changes in loan officer efficiency

In a text box next to these graphs, the CAMFA staff explained the reasons for the changes and indicated areas of concern and optimism. These became useful tools for the partner organizations and were fully integrated into their ongoing organizational analysis.

How to Monitor CAMFA Partners

One of the issues faced during the first year was how to monitor partner progress while providing technical assistance. Given the various backgrounds of the CAMFA team (some had auditing and accounting skills, others had microfinance training backgrounds) one approach to client monitoring considered was to have the technical specialists work with all of the partner organizations. Doing so, each team member would work with all of the partners on designated technical tasks or topics.

However, the approach to managing the partners ultimately developed into a more individualized approach. This was related to the need to develop trust and respect between the organization and CAMFA—something that would be hard to do if partners were constantly working with different team members.

In addition to this need, there were also fairly significant administrative aspects of overseeing a partner's subagreement (including reviewing cost proposals before equipment was

purchased, modifying subagreement budgets and ensuring compliance with action plan targets) that were best managed by one person knowledgeable about an organization's ongoing activities. The result was that CAMFA assigned staff members to specified partner organizations⁹.

After four years of implementation, it appears that this approach was successful. CAMFA partners developed a close working relationship with their respective team member. CAMFA staff knew most of their partner's staff by name and understood all details relevant to the organization's development. At the close of the project, several partners offered long-term consulting jobs to CAMFA staff, which demonstrates the positive aspects of these relationships.

Scouting Visits

At the end of the first year, the CAMFA team had learned a great deal about the microfinance organizations throughout the region. Almost 40 applications had been received and 15 diagnostics had been conducted; twelve partners were accepted in the first year. The team made an internal assessment of its application and screening process and examined opportunities to streamline it.

One change that was made at the end of the first year was to add another step to the screening process: a scouting mission. This was done to eliminate the time-consuming effort to conduct a field diagnostic on an institution that was eventually rejected. CAMFA wanted to ensure that by the time it conducted a diagnostic it had a complete picture of the organization.

What was learned during the first year was that visiting the staff and meeting the managers was critical to making a conclusion about an organization's willingness to work with CAMFA. After having difficulties with several partners that were resistant to change, CAMFA realized the importance of having a strong leader coupled with a desire on the part of the staff to improve. Conducting a one-day scouting mission was helpful in making this determination.

The CAMFA team developed a scouting tool that included a one-day site visit by one team member. The visit included meetings with key management and data verification (if possible). The scouting visit later became an integral part of the selection process and saved CAMFA time and resources.

SETTING STANDARDS

Over the years, the CAMFA team developed a wide range of tools to implement its technical assistance to partner institutions. These tools ranged from staff evaluation systems to financial projections templates.

⁹ In general, each TA team member had three to four partner institutions to manage.

By the end of year three, the CAMFA team recognized that it needed to consolidate these tools and develop a set of standards for all of the partners. This focus helped the team to streamline its activities in the final year.

By the end of the project, all partners were using the following set of standard tools:

- √ International-format balance sheet, income statement and portfolio report
- √ Local currency budget template (including projected versus actual numbers)
- √ Financial projections template
- √ Loan officer's indicators report
- √ Monthly trends analysis reports for managers
- √ Standard set of loan application information (to allow for the tracking of key indicators and impact information)
- √ board of directors bylaws
- √ Template charter document (used for MFIs that were reregistering)
- √ External audit scope of work
- √ Strategic plan template (accompanied by annual training and support)
- √ Standardized manuals (accounting, personnel and credit)
- √ Staff evaluation procedures and self-evaluation forms
- √ Risk management procedures

These tools ensured that all partner MFIs were using a set of standards that could be easily understood by internal and external audiences.

Lessons Learned

Carrot and Stick

The changes that CAMFA recommended often took significant resources on the part of the partner institution. Enforcing these changes was enabled through the availability of grant funding along with the technical assistance and training. CAMFA tranced its grant funding to correspond with the completion of certain tasks, such as formalizing institutional changes or achieving stated ratios. Grants thereby became the carrot that helped ease the pain of the stick.

Respect & Trust

Hiring and training the CAMFA staff was critical to ensure the effective implementation of Component I. This was important at several levels. First, the staff needed a well-grounded understanding of all aspects of retail lending to command respect from their partner institutions.

In addition—and equally important—a relationship needed to be built with partner staff. As some of the ideas introduced by CAMFA were new and sometimes considered risky, it was only through mutual trust that these suggestions were coaxed into reality.

Training Programs

Finding the “gaps” and designing training programs to bridge them was an important part of project success.

When CAMFA first started, it was assumed that most of the training delivered to the partner institutions would come from recognized sources. However, after the first year of operation it became clear that there were critical issues that did not have existing training courses available in Russian.

The CAMFA team developed several tailored training programs for its partners. Examples of these trainings included good governance, fraud prevention and risk management, strategic planning, vision exercises and human resource management.

CAMFA often delivered these trainings as part of a preconference session at its regional conferences. After the conference, individualized training sessions were held at each partner to allow the CAMFA staff to apply institution-specific issues to the training.

Accounting and MIS

Even with all the advancements made in the area of accounting and MIS for microfinance institutions, project staff was surprised by the limited choices for Russian language integrated accounting/loan tracking programs. The availability of something suitable was assumed at project design; however, it became apparent during the first year that low-cost alternatives did not exist.¹⁰

In the first year, CAMFA bought a few partners a stand-alone MIS (not integrated into their accounting systems)¹¹. However, this was eventually determined cost-ineffective and by year 2 the staff's IT specialist began a long-term collaboration with an Uzbek 1-C programmer to design a low-cost, integrated accounting/loan tracking program for CAMFA partners.¹² On average, CAMFA paid \$8,000 for the software, training, configuration and one year of technical support to have this integrated packed installed at a partner institution.

CAMFA allowed partners to choose which accounting software to purchase; however, most found the CAMFA supported 1-C design highly desirable.¹³ This specialized 1-C software became the centerpiece of software installations in the final project years, and CAMFA hired its own 1-C specialist to assist with installations and use. The 1-C platform also allowed CAMFA to fully integrate its standardized balance sheet, income statement, portfolio report

¹⁰ Given that some of CAMFA's partners had only 200-300 clients and a portfolio of \$150,000, it was not considered cost-effective to purchase state-of-the-art systems.

¹¹ These ranged in cost from \$10,000 - \$20,000.

¹² 1-C is a Russian-based accounting software widely used throughout the former Soviet Union. It is highly flexible and fairly sophisticated, and is used by large MFIs such as the Kazakhstan Loan Fund.

¹³ For example, several packages had very strong MIS elements but weak accounting. One program offered an accounting package that could only perform cash-based transactions. Therefore, CAMFA encouraged groups to purchase systems that could perform accrual-based accounting and could comply with IAS.

and budgets into the program; therefore, partners that used the CAMFA 1-C software were able to automatically generate all major financial reports.

Receptivity to CAMFA's Advice

CAMFA staff took on an informal slogan during the program's life: "The more you give the more you get." This was taken to mean that organizations that were resistant to advice would get less attention, time, and resources. Organizations that proactively solicited recommendations, tried hard to make changes and were constantly trying to improve got more time and effort from the CAMFA team.

This may seem natural and perhaps not even a lesson learned; however, it did become a mantra when CAMFA staff had to allocate its limited resources. For example, one organization from Tajikistan personally called CAMFA after a regional conference and asked the staff to give a hands-on training to their staff on business ethics. How can you say "no" to a group that is soliciting advice? CAMFA never did.

Working with Small or Large Institutions

One of the strategic decisions donors often face is whether to plow considerable resources into supporting smaller microfinance organizations (perhaps working in rural or isolated areas) or to fund the larger, successful institutions and help them expand. Throughout the project's implementation, CAMFA staff was faced with this dilemma and searched for the correct approach.

The staff openly discussed these issues and tried to develop a balanced approach that would benefit the greatest number of beneficiaries. Key to the team's decision making became not the size of an organization—but its willingness and capacity to improve and develop.

CAMFA's approach was that every institution—no matter how big or successful—had room for improvement. Fundamentally, the project's belief was that the most successful organizations were the ones that were constantly seeking to improve and innovate. Institutions that did not recognize that success was not always marked by numbers—but by capacity and vision—were often left unsatisfied by CAMFA's approach.

The result of this strategy was that CAMFA had both small and large partners in its portfolio:

Larger institutions that may have received previous technical assistance or grant funding were given grant funds for technical trainings, ratings and purchasing servers and accounting/MIS software. Technical assistance for larger partners focused on strategic planning, product diversification and budgeting exercises (for example, to restructure internal budgeting to allow branches to operate as cost centers). Attention was given to the provision of working capital loans from Frontiers.

Smaller institutions received more intensive technical assistance and less grant funding. Examples include working with partners to establish sustainable interest rates, refine credit methodologies and develop risk management systems. Grant

funding included the purchase of computers, integrated accounting/loan tracking programs and localized trainings.

By taking this multidimensional approach, CAMFA directly supported a wide range of organizations to deepen outreach, expand services and achieve greater efficiencies.

Flexibility: Work with Associations

As an umbrella project, CAMFA was able to take on new tasks as the needs arose. One of the most important of these developments was CAMFA's work with the up-and-coming microfinance associations (MFAs) in the region.

Supporting the four associations became a central aspect of the project in its final year. At the same time, implementing this component was initially very challenging. None of CAMFA's existing internal tools was suited for providing basic institutional support or to control the use of operational funds. In many respects, the team had to develop a new approach to implement its work with associations.

An internal association working group was developed that was responsible for reviewing literature on association development, discussing critical issues relevant to the project and developing a policy manual on how to work with the associations¹⁴. The working group also reviewed CAMFA's own human resource requirements in order to successfully implement its support to the associations.

A range of new tools was developed to oversee the daily operations of the associations and to work with the founding MFIs to formalize operations. CAMFA also hired a new staff person to oversee its association support, sat on hiring committees for new association directors and staff, and played a key role in the physical set-up of these organizations.

CAMFA also made a determination to sit on each of the association's boards of directors. This allowed the project to have input on the development of the boards as well as give direction at the governance level.

While there was strong grassroots support for the four associations, their institutional sustainability would not have been possible without the USAID funding and CAMFA support.

Transparency and Accountability

Mistakes were made early on in the project in terms of selecting MFIs. In particular, one partner was dropped due to lack of transparency. The lessons learned is to pay close attention to accounting details during the diagnostic as well as to thoroughly interview staff involved in transactions.

¹⁴ Much of this was based on the excellent tools produced by the SEEP network.

While it is always difficult to identify issues of theft and/or corruption, every effort must be made at the outset to openly discuss these issues and for partners to understand the importance placed on these concerns.

After CAMFA became aware of the situation with this partner, more open and direct questions were added to the diagnostic tool to discuss issues regarding: (1) the hiring of friends and family members and the hiring process; (2) examination of accounting transactions; and (3) the emphasis CAMFA would place on issues of transparency throughout the life of the partnership.

Branding and Name Recognition

After four years of operating throughout the region, it became apparent that lending institutions got satisfaction from being a CAMFA partner. Since becoming a partner was a selective process, it was prestigious to be noted as a CAMFA client. Partners were known to announce their affiliation with CAMFA on loan and grant applications. But perhaps most importantly, there became a recognized standard in Central Asia that to be a CAMFA partner required a certain level of institutional viability and capacity.

For future umbrella projects, it may be useful to take time to develop a “branding” typology so that organizations can clearly say: “I am affiliated with this activity which affirms my organization’s achievement of high standards.”

COMPONENT III: WHOLESALE LENDING OPERATIONS

While much of this article has focused on the complications of implementing Component I, it was the availability of lending capital through Frontiers which made CAMFA so unique. The project’s goal was to expand the outreach of microlenders throughout Central Asia. Creating a mechanism for smaller groups to take their first commercial loan was central to CAMFA’s significant impact throughout the region.

Frontiers supports an underserved market of retail lenders in Central Asia—and ultimately the underserved rural poor. Frontiers has an average loan size of \$90,000, which meets the needs of a diverse range of small-scale lenders. Frontiers’ typical borrower is lending in rural areas with 500 clients and a portfolio of \$450,000.

Frontiers serves a market of MFIs with significant capital needs but limited access to formal financial facilities such as banks, international lenders, management funds or equity investors. For example, EBRD’s average loan size in Central Asia is \$1 million, a level which is unobtainable for the majority of lenders. It has been through Frontiers’ loans that many of the smaller microlenders have been able to leverage their existing resources and increase outreach to the rural poor.

Frontiers’ flexibility and consulting support are also trademarks of its unique approach and quick success. Loans are tailored to each client’s repayment capacity, which takes into account their subborrowers’ business cycles.

Frontiers has also been able to work with a variety of very small retail lenders (credit unions, for-profit lenders and nongovernmental organizations) by providing them with limited technical assistance. Frontiers' staff assists potential clients to develop cash-flow statements, revise accounting systems and create strategies to reduce risks, i.e., through product diversification and client monitoring. This hands-on assistance has been central to Frontiers' ability to reach down to the very small retail lenders to help them deepen their outreach and expand operations.

Frontiers is a landmark institution in Central Asia, lending in Kazakhstan, Kyrgyzstan and Tajikistan. As a for-profit subsidiary of ACDI/VOCA, Frontiers is governed by a board composed of ACDI/VOCA current and former staff as well as one Kyrgyz representative. Frontiers is managed by a team of nine local professionals. As of September 2006, Frontiers has disbursed \$5.8 million through 64 loans with approximately 52,000 active subborrowers.

The Process

Frontiers uses a fairly standard lending process. A marketing effort was made in the initial months of operation, although most first-time borrowers came to Frontiers through word of mouth. The CAMFA team also informed its partners about Frontiers and encouraged qualified clients to apply.

Below is a detailed summary of the loan application-through-disbursement process.

Loan Application

A fairly rigorous application form is used that requests a range of basic institutional history and portfolio data as well as 3 years of audited financial statements. Specific information includes:

- √ Name, legal status and date founded
- √ A list of all founders, stockholders and partners (ownership distribution, etc)
- √ Description of organization, including organizational chart, list of branches and lending operations
- √ Loan portfolio information, including PAR greater than 30 days and an aging-of-portfolio report
- √ List of bank accounts and their numbers and individuals with the authority to sign on the accounts
- √ List of all active debt obligations, including copies of contracts
- √ List of all loans and/or guarantees made by the institutions to its officers (e.g., board members or founders)
- √ Short summary of the loan request, including size, term, installment options and purpose
- √ Two-year cash-flow
- √ Business plan
- √ List of authorized persons to sign on loan agreements

In addition to the above, the loan application includes questions regarding: (1) affiliation with CAMFA; (2) historical or ongoing litigation; (3) historical or ongoing government

investigations; (4) government funding that had been loaned and/or granted to the institutions; and (5) current tax liabilities.

The loan application is signed as an official document and as such holds the institution accountable for the information provided.

Loan Review

Once the loan application is received, the Frontiers team meets to discuss outstanding issues. The inability to provide basic financial information could sometimes lead to rejection; however, the Frontiers team takes a very flexible approach and often helps organizations reformat financial statements for its internal analysis.

Once all of the appropriate information is gathered, the responsible loan portfolio manager (i.e., loan officer) develops an internal “fact sheet” on the client. The fact sheet summarizes all relevant data and provides a set of key ratios in trends over time¹⁵.

In order to objectively assess each applicant, the Frontiers team developed a set of lending criteria to facilitate analysis of each loan application:

1. The client must be a legal, registered local entity.
2. It must have a minimum of six months of lending experience.
3. A forward-looking business plan must be developed, which describes how the institution plans to maintain or achieve operational self sufficiency.
4. A positive cash flow for a minimum of three months must exist with a positive cash flow for the next annual planning period, as well as a net operating funds flow sufficient for debt servicing capacity of the Frontiers loan.
5. Must be operationally self-sufficient or be able to demonstrate that it will achieve self-sufficiency within 12 months (on a cash-based method of accounting).
6. The client must follow national accounting standards and internal controls must be in place.
7. A board of directors (or the equivalent) must be in place and hold regular meetings according to the institution’s charter.
8. A portfolio at risk (greater than 30 days) of not more than 8 percent must be verifiable for the most recent six-month period.
9. If applicable, the client must have a history of complying with lending agreements.
10. The client must have clear ownership of its equity; in cases where the MFI does not own its lending capital a guarantee from its owner will be required.
11. The client must have ownership of its fixed assets.
12. The client must be running its operations independently from any local government entity or structure.

¹⁵ The Frontiers fact sheet has become increasingly sophisticated over time, with linked spreadsheets that provide CGAP-formatted income statements and balance sheets for three years, cash-flow projections, ratios, aging portfolio statements and summary information on each client.

FRONTIERS CASE STUDIES

Rais Karaibragimov started the Farmers and Entrepreneurs Support Fund of South Kazakhstan (FSF) in Shymkent, Kazakhstan, in 1997. Founded by a TACIS grant and the International Building project, the Fund provides individual loans to farmers and small and medium-sized enterprises. In addition to lending, the Fund also conducts training and consultations on business planning and agribusiness development.

As a CAMFA partner since December 2003, the Fund received technical assistance to strengthen its internal operations and establish an integrated loan tracking and accounting system. CAMFA encouraged the Fund's management to apply for a loan from Frontiers in late 2004, and in January 2005 the Fund received its first commercial loan, from Frontiers, LLC, in the amount of \$100,000. Later in February 2006, the Fund borrowed another \$100,000 from Frontiers as a parallel loan. Below is a snapshot of the Fund's growth from 2004 – 2006.

INDICATOR	2004	2005	2006 ¹⁶
ROA	7.87%	12.90%	19.27%
ROE	9.30%	18.87%	38.13%
Operational Self Sufficiency	134.83%	136.40%	186.01%
Financial Self Sufficiency	112.15%	121%	169.91%
PAR (greater than 30 days)	1.48%	.86%	.33%
Operating Cost Ratio	28.36%	7.30%	4.50%

The Fund's borrowing has directly contributed to improved financial performance, efficiency and portfolio growth. The Fund's dynamic growth has made it attractive to other donors and lenders, and in 2006 FSF received a loan from PlaNet Finance.



Signing the Frontiers Loan, January 2005

¹⁶ These numbers are annualized for 2006.

Once this information is gathered, Frontiers' staff lawyer makes a preliminary legal assessment of the institution's charter and basic legal documents. Simultaneously, the credit staff prepares an internal fact sheet which summarizes all key data and present ratios and financials in annual trends. Once the legal assessment and fact sheet are finalized, a preliminary credit committee meeting is held to assess the fact sheet and schedule, if appropriate, a due diligence visit.

Due Diligence

Once the credit committee has made a positive recommendation to conduct a due diligence visit, the loan portfolio manager requests the borrower to provide (ideally in advance of the visit): (1) an operational and credit policy manual (including how the organization does its loan loss provisioning and write-offs and provides consumer loans to employees or its officers); (2) an approved operational budget; and (3) a description of all changes in accounting methods or principles made during the last year (included with a copy of the accounting policy manual).

The due diligence team initially consisted of the expatriate general manager, an accountant and one loan officer. The team splits up its activities and meets with key members of the organization's management team including the director, an accountant, loan officers and board members. At least a half day is devoted to visiting clients.

If at the conclusion of the visit, the team makes a preliminary, positive determination, the client is requested to provide a list of notarized legal documents (charter, bylaws, etc.). In addition, the due diligence team uses the opportunity to discuss with the client the timing of the disbursements (in tranches or all at once) and a repayment schedule. Frontiers has worked hard with clients to disburse loans in a manner that fits their cash-flow needs which can be very sensitive in smaller retail lenders¹⁷.

In addition, the loan portfolio manager informs the potential borrower that the following will be inspected during the due diligence visit: (1) minutes from the last two years of board meetings; (2) copies of tax reports for the last three years; (3) list of key personnel, board of directors and functions; and (4) client files and business sites.

Loan Disbursal

The legal and accounting team works closely with the credit staff to disburse each loan. One of the most complicated elements of loan disbursal is the notarization and legalization of loan documents as well as the registration of collateral or pledge agreements. At the outset, the Frontier team spent a great deal of time learning how these procedures were handled in each country. For the first loan, for example, one Frontiers staff stayed in Dushanbe for two days pushing the proper documentation through the various government offices.

After two years of operation, these procedures have been streamlined and in-country visits for loan disbursement have become shorter. The goal over the coming months is to establish

¹⁷ In later years, Frontiers was approached for bridge financing of 1-3 months. This has developed into another product that it offers clients who have urgent liquidity needs.

local offices in Tajikistan and Kazakhstan to facilitate loan disbursement and eventually support local currency lending.

Monitoring and Technical Assistance

Each loan officer is responsible for about 14 clients. Clients are required to undergo a physical monitoring visit at least twice a year. Monitoring visits are often dovetailed with due diligence visits to new clients to lower overall operational expenses. In addition to physical visits, each client is required to provide Frontiers with a quarterly set of financial statements and portfolio report.

A monitoring visit generally takes a half day, which may be extended if there are technical assistance activities involved. Frontiers staff provides hands-on technical assistance to clients in order to strengthen their operational and financial position. A few examples include:

- Loan officers work side by side with a client's chief accountant to design vital cash-flow projections.
- Staff members work directly with a client's management team to determine and establish sustainable interest rates.
- Frontiers' management team provides recommendations regarding good governance and transparency, which promotes long-term creditworthiness.
- The accounting department assists the borrower's transition from a cash-based accounting system to an accrual-based system, which is more closely aligned with sound financial management and international accounting standards.
- Loan officers also offer guidance regarding increased operational efficiency and portfolio diversification contributing to the client's stability and outreach.

While very directed and limited in scope, Frontiers technical assistance to its clients provides vital support and advice to sometimes isolated organizations that have extremely limited opportunities to learn new methods.

Start up Issues & Challenges

Legal, Political, Economic Environment

One of the key challenges faced by Frontiers was working in a precarious legal, political and economic environment. During its second year of operation, Kyrgyzstan went through a political coup leaving investors and borrowers unsure about the country's future.

In addition to these various extraneous issues, Frontiers was faced with developing a loan contract that could hold up in a court of law in countries that have limited experience in disputes regarding credit issues.

To address these issues, Frontiers hired a Kyrgyz lawyer as part of its full-time staff. Frontiers' lawyer played a key role in ensuring that the final loan contract was legally binding in all three countries.

Once the loan contract was drafted in Kyrgyzstan, it had to be reviewed and adjusted for each country. Local law firms were hired in Kazakhstan and Tajikistan to undertake these reviews. The Frontiers lawyer made the final adjustments before the first loan was disbursed.

Having a legally binding loan contract that responded to the many nuances (and sometimes conflicts) among the civil code, banking laws and microfinance laws was critical to ensuring the security of Frontiers' future assets.

Staffing

As discussed in the introduction, one key issue faced by Frontiers was staffing. After the legal registration was finalized, it became clear that Frontiers would need more than a part time manager from Tashkent (i.e., the COP) to kick the operations into a full start and manage day-to-day operations. ACDI/VOCA was able to obtain USAID approval to hire a second expatriate who arrived in Bishkek in January 2004.

The second expatriate was legally given the authority as Frontiers' general manager and was responsible for hiring the majority of the local team. Kyrgyzstan has an active microfinance community, and Frontiers was able to readily secure well-trained staff. Most of the staff has investment and finance experience and played a central role in getting Frontiers to the point of disbursing its first loan.

In September 2006, the expatriate general manager was elected as a Frontiers board member, and a Frontiers staff member was promoted to general manager.

Donor Pressure

To add to the complication of launching Frontiers' operations, hiring staff and developing a legally binding loan contract, the CAMFA team was faced with mounting pressure from USAID to disburse. While this pressure was warranted—as Frontiers was late in getting started—it added to the level of complexity in managing activities in early 2004.

While it is understandable for donors to want their money to be actively engaged in the project activity, this desire could lead to precipitous decision making. In the case of Frontiers, the expatriate staff was able to keep USAID well informed as to the reasons of its late start and assure the agency of progress.

Lesson Learned

Funding Levels, Exit Strategies and Leveraging Funds

Donors interested in starting wholesale lending efforts should budget enough start-up lending capital and operational funds. Frontiers had \$3 million in lending capital, which is a minimum. Grant funding for operational support for not less than three years is also recommended.¹⁸

¹⁸ ACDI/VOCA had \$400,000 in operational grant funding for three years to launch Frontiers activities.

Donors must launch wholesale lending activities with a clear exit strategy. That is, they must detail how assets will be disposed of and how institutional sustainability will be ensured.

In the case of Frontiers, ACDI/VOCA chose a for-profit firm (LLC) to allow for future equity investments and ownership diversification. Many donors are cautious, however, about the disposition of financial assets to a for-profit institution. As the microfinance market matures, the trends to launch for-profit institutions and/or to transform non-profits into for-profits will force donors to revise this strategy.

While donors justifiably push implementers to leverage their investments, this must come with a recognition that borrowing commercial funds is impossible without ownership of the lending capital. All international lenders will want, as a minimum, their loan secured by an organization's portfolio. If the wholesale lending organization does not own its lending capital, then this will be difficult if not impossible.

Leverage equity funds is an approach that is in the experimental stage. While there are hundreds of debt financing mechanisms, few of these funds offer equity financing. Equity financing usually begins through a long-term debt relationship, which again must be predicated on the ownership of lending capital.

Legal Environment

As discussed in the start-up section, a thorough knowledge of the legal environments of a country is critical before lending occurs. This issue was made more complex for CAMFA due to the regional nature of the project.

For others developing wholesale lending efforts, particular attention should be given to this point and to hiring a full-time local lawyer from program outset. Care must also be given to having thorough legal reviews conducted by experienced, local law firms before utilizing loan documentation.

Lending in Local Currency & Foreign Exchange Risk

USAID was quite concerned about the high level of Frontiers' lending in Kyrgyzstan during CAMFA's implementation. This was understandable as the project was designed as a regional program. However, future wholesale efforts should take note that one of the great advantages of localized programs (vis-à-vis international lenders) is local currency lending.

Frontiers lends in local currency to Kyrgyz organizations. However, cross-border lending must be done in dollars. This means that Frontiers has to compete with the interest rates of international lenders in Tajikistan and Kazakhstan. As a result, a high percentage of lending has taken place in Kyrgyzstan due to Frontiers' ability to provide local currency loans.

All of Frontiers' clients have requested local currency loans since most have suffered losses due to local currency devaluation. This is a challenge for Frontiers and is something that will be addressed in the coming years.

For future regional efforts, establishing small local offices in each country is recommended to allow for the legalization of loan documentation, registration of loan contracts and local currency lending. Frontiers is in the process of establishing an office in Tajikistan.

**PARTNER FINANCIAL
DEVELOPMENT**

Below is a snapshot of the growth of CAMFA's partners from 2004 – 2006.

INDICATOR	2004	2005	2006 (Projected)
<i>GENERAL</i>			
Active Portfolio	4 593 978	7 942 273	12 514 462
Active Clients	14 658	22 620	30 710
<i>QUALITY & EFFICIENCY</i>			
PAR > 1 day	6%	2%	2%
Clients per Loan Officer	136	169	207
Operating Cost Ratio	33%	32%	27%
Value of Loans Written Off	1 076	1 143	416
<i>PROFITABILITY</i>			
Operational Self Sufficiency	126%	166%	193%
Financial Self Sufficiency	92%	128%	149%
ROA	6%	14%	14%
ROE	10%	21%	25%
<i>INSTITUTIONAL</i>			
Number of Branches	7	8	8
Number of Staff	278	337	363
Number of Loan Officers	108	134	149

Give the Clients What They Want

Frontiers' staff spends a great deal of time talking to clients about what they need to do to improve their operations and expand their businesses. This feedback has been central to Frontiers' design of new loan products and retooling its existing services.

In Frontiers' third year of operations, it has begun to offer small loans (for its existing clients) to purchase equipment and to pay for audit services and ratings. For the very small, and often isolated, rural microlenders this financing is critical to help them gain access to basic services such as internet connections.

Frontiers' clients are also faced with short-term liquidity crunches. To address this, Frontiers now offers a short-term (higher interest) loan to meet the needs of its existing clients during busy seasons.

Offering client-friendly services that constantly strive to meet client demand will ensure future wholesale lending organizations' successful operations.

SUMMARY

At the end of four years, CAMFA can consider itself a successful project. Direct technical assistance and \$1 million in grant funding was provided to 27 microlending institutions (including the 4 MFAs) that have shown an increase in efficiencies and profits. CAMFA's lending arm, Frontiers, is now an independent and self-sufficient distributor of wholesale loans. KLF now has six branch offices and has begun a process of transforming into the first commercial microfinance bank in Kazakhstan. Finally, the 3 FINCAs continue to expand their respective activities across the region.

As USAID looks at the future of umbrella project mechanisms, it may be useful to integrate many of the lessons summarized here. One of the most important of these lessons has been to offer lending capital hand-in-hand with technical assistance and minigrants. While the lending capital component (i.e., Frontiers) was always considered controversial by the USAID mission, in the end it was the project's greatest strength.

The author of this article hopes that as new projects are designed donors do not shun from risk but embrace funding activities that address important but unserved commercial market segments. While efforts may sometimes fail, these lessons will enrich future activities. However, when they do succeed donors will have the satisfaction of a pioneering and sustainable project.

Janice K. Stallard was ACDI/VOCA's Chief of Party for the Central Asia Micro Finance Alliance (CAMFA) from 2002 – 2006. She can be reached at: jstallard@acdivoca.org