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USAID IMPROVING ACCESS TO FINANCIAL SERVICES PROJECT

FINAL REPORT

APRIL 2014
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On February 19th 2014, CREDICAMPO presented the benefits of savings to members of El Jobo community in Osicala, Morazán. The USAID Improving Access to Financial Services Project worked with the CAMPO Foundation to promote and then create CREDICAMPO, a cooperative society. Now, CREDICAMPO can offer access to savings accounts in the same rural communities where the CAMPO Foundation previously offered only loans. In many communities of El Salvador like El Jobo, savings are more important than loans for household economies.

USAID IMPROVING ACCESS TO FINANCIAL SERVICES PROJECT

FINAL REPORT

DECEMBER 2011 - APRIL 2014

Marta Evelyn Arévalo de Rivera
President
Central Reserve Bank of El Salvador

Víctor Antonio Ramírez Najarro
Superintendent
Superintendency of the Financial System of El Salvador

"Financial stability will not be complete without financial inclusion. The development of a stable and competitive financial system will not be achieved until these products and services can be accessed by everyone. Access to adequate financial services for all, including low income people, is vital to improve the quality of life and economic development of a country; it is a condition to reduce poverty. The Central Bank thanks the cooperation and support received from the USAID Improving Access to Financial Services Project."

Marta Evelyn Arévalo de Rivera
President

"An important objective of the Superintendency of the Financial System for its Strategic Planning, is to broaden the scope of its supervision. This objective consists in broadening the supervisory frontier, incorporating entities which are not currently regulated but which offer services similar to those of regulated institutions and which could distort the market. The Superintendency appreciates the work of the USAID Improving Access to Financial Services Project with unregulated financial institutions to communicate to them the important advantages of an effective financial supervision, to familiarize them with the laws and norms which should be applied to ensure the prudent management of their organizations, and in this manner to help us protect the resources of unbanked families and to extend the benefits of financial inclusion to all Salvadorans."

Víctor Antonio Ramírez Najarro
Superintendent

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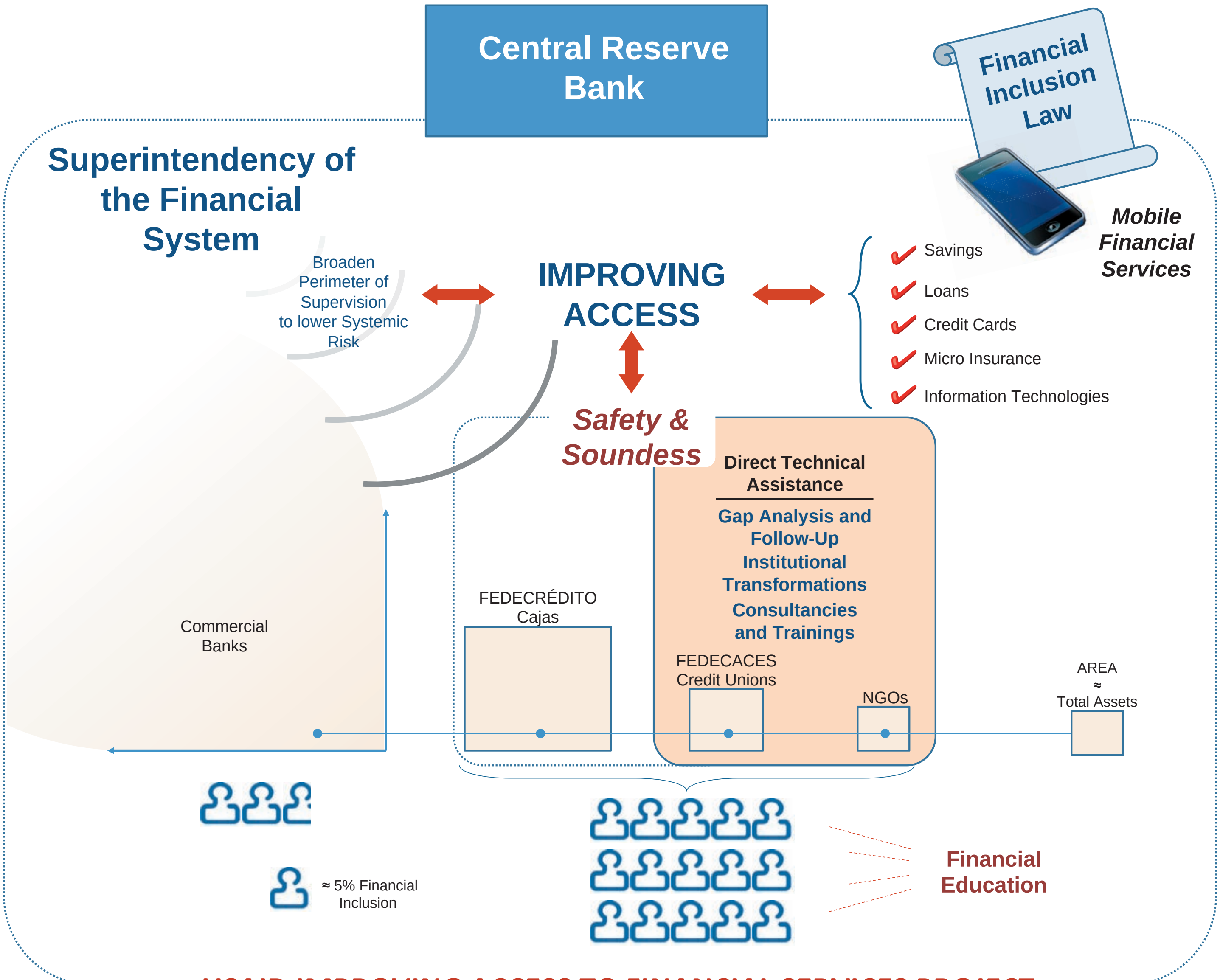
ACRONYMS

ABANSA	Salvadoran Bankers Association
ACACU	Cooperative Association and Project partner ACACU
ACACCIBA	Cooperative Association and Project partner ACACCIBA
ACACSEMERSA	Cooperative Association and Project partner ACACSEMERSA
ACACESPSA	Cooperative Association and Project partner ACACESPSA
ACACYPAC	Cooperative Association and Project partner ACACYPAC
ACCOVI	Cooperative Association ACCOVI
ACODJAR	Cooperative Association and Project partner ACODJAR
AMC	Cooperative Society and Project partner AMC
ASEI	Non-Governmental Organization and Project partner ASEI
ASOMI	Association of Microfinance Institutions of El Salvador
COOP – UNO	Cooperative Association and Project partner COOP – UNO
CREDICAMPO	New cooperative association created by Fundación Campo
ENLACE	Servicios Financieros ENLACE S.A de C.V
EQUIFAX	Private sector credit bureau
FEDECACES	Federation of Salvadoran Credit Unions.
FEDECREDITO	Federation of Credit "Cajas" and Workers Banks of El Salvador
FEP	Financial Education Program of El Salvador
FINCA	Non-Governmental Organization and Project partner FINCA
FUNDACIÓN CAMPO	Non-Governmental Organization and Project partner Fundación Campo
FUNDAMICRO	Fundación de Capacitación y Asesoría en Microfinanzas
GBSI	Global Business Solutions, Inc. – Prime Contractor
INFORED	Not-for-profit credit bureau affiliated with ASOMI
INTEGRAL	Savings and Loan Society and Project partner APOYO INTEGRAL
IT	Information technology
LOU	Letter of Understanding
MIDO	Mobile Financial Services Technology Firm
MSEs	Micro and Small Enterprises
NBFIs	Non-Bank Financial Institutions
NGO	Non-governmental organization
PEARLS	Financial monitoring system developed by WOCCU
Punto Transacciones	Mobile Financial Services Technology Firm
SEEP Network	International Network of Microfinance Institutions
SOM	Superintendency of Commercial Obligations
TIGO	Mobile Financial Services Technology Firm
UNDP	United Nations Development Program
USAID	United States Agency for International Development
Weidemann	Weidemann Associates, Inc. – Sub-Contractor
WOCCU	World Council of Credit Unions



USAID IMPROVING ACCESS TO FINANCIAL SERVICES PROJECT

EXECUTIVE SUMMARY

The USAID Improving Access to Financial Services Project ("Project") was a $2.8 million initiative implemented by Global Business Solutions International and subcontractor Weidemann Associates ("Project team") from December 2011 to April 2014. The Project design consisted of two core components:

Component 1: Improvement of the enabling regulatory and supervisory environment for MSEs; and

Component 2: Improvement of technical skills, new products and market infrastructure of the financial institutions to provide appropriate financial services to MSEs.

To accomplish the objectives of these two components, the Project employed the following strategies:

- Applied a broad interpretation of the term "financial services";
- Encouraged a regulatory framework to allow market-driven mobile financial services to develop and flourish;
- Promoted savings as a crucial financial service, which required the Project (i) to work with the Superintendency of the Financial System ("Superintendency") to broaden the perimeter of its supervision, as per its Strategic Plan; and (ii) to orient non-bank financial institutions ("NBFIs") towards offering savings and seeking external supervision; and
- Emphasized capacity building of the NBFIs through applied or "practical" training.

Regarding mobile financial services, the Project worked extensively with the Central Reserve Bank of El Salvador ("Central Bank") to generate for El Salvador a "market neutral" model for this industry which, in essence, would leave it to consumers and qualified providers to determine which model best meets the needs for mobile money and other mobile financial services. The draft regulations stemming from the Project's technical assistance succeeded in defining a neutral, open, market-led, demand-driven model which will represent a model not only for the rest of Latin America but also for developing countries worldwide. The "Financial Inclusion Law" is expected to be passed by El Salvador's Congressional Assembly in 2014 and will result in a major and sustained increase in access to financial services throughout El Salvador.

Savings is a financial service in high demand by low-income households. Yet most NBFIs are not yet authorized by the Superintendency to offer this important service. Furthermore, within El Salvador, credit unions and the "Cajas" of the FEDECRÉDITO system manage important volumes of member savings but their operations are not supervised by the Superintendency. Systemic risk (that is, the possibility that a solvency problem within the Cajas and credit unions might detrimentally affect that of the commercial banks) rises and there is an uncertain level of risk to the savings of lower-income families who comprise the membership of these institutions. To promote savings and to reduce risk, the Project focused on the Safety & Soundness of the unsupervised microfinance institutions and credit unions through the following three initiatives: (i) a Project-developed "Gap Analysis" which informed institutions about the gaps between their existing policies and procedures versus those required by the Superintendency and presented the investments required to eliminate those gaps; (ii) technical assistance for transforming the legal status of the NBFIs towards a legal structure which allows them to offer savings in the very same low-income communities where they currently offer loans; and (iii) consultancies and trainings to address specific institutional needs. The graph on the following page presents the results at one institution of the Project's training and technical assistance activities.

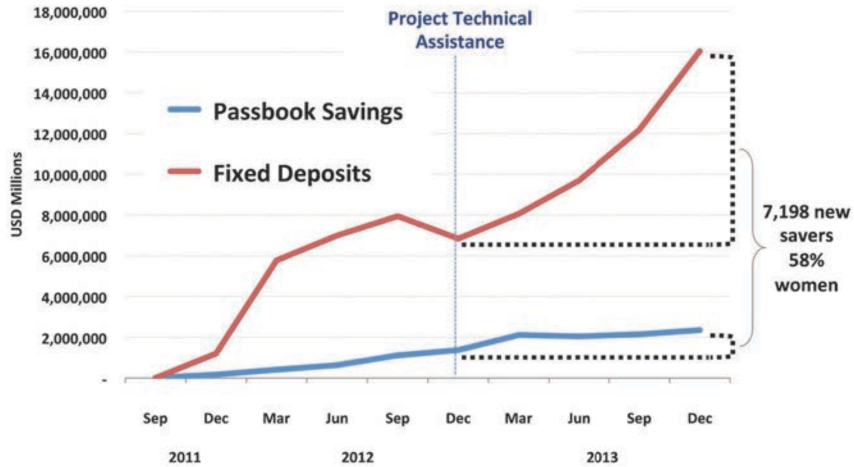


Figure 1

The Superintendency authorized the Project's development of a series of web-pages to bring together all of the laws, regulations and norms pertaining to supervised financial intermediaries. These web-pages to be housed within the existing website of the Superintendency are the only location in El Salvador where institutions interested in educating themselves about Superintendency requirements, can find all of the relevant information in one place. The combination of the efforts at the Superintendency and the NBFIs produced an unprecedented accomplishment: of the five non-bank and non-credit union financial institutions supported by the Project which were not yet supervised by the Superintendency, all but one have already changed, or by Project's end are at the point of changing their legal status.

An even greater impact, however, occurred with the credit unions: the results of the Gap Analyses conducted by the Project were communicated from credit union to credit union until their national federation FEDECACES sought Project support to transfer the Gap Analysis methodology over to its own experts who would then assume responsibility for continuing the assessments throughout the entire credit union system of El Salvador after Project end. This partnership will enhance the safety & soundness of the $300+ million in savings from low-income households currently entrusted to the credit union system and represents a significant Project accomplishment.

In addition to enhancing the safety & soundness of financial services offered to lower-income households, the Project also developed mechanisms, instruments and tools to benefit the development of microfinance in El Salvador. These products included (i) mobile financial services to extend access to financial services nation-wide, (ii) savings in terms of institutional transformations to be able to better offer this service and technical assistance to improve marketing efforts; (iii) enhanced over-indebtedness reports to provide heretofore unavailable information to NBFIs to strengthen their risk management; (iv) authorization to issue credit cards to qualified clients, enhancing significantly their cash management capabilities; (v) software investments to enhance service and lower costs; (vi) technical assistance for NBFI accounting software designed to comply fully with Superintendency requirements; and (vii) regulatory proposals to facilitate micro-insurance new product development and deployment.

With the approval of the Project-designed Law of Financial Inclusion, for the first time many Salvadorans will suddenly gain access to a range of financial services. Therefore, to complement the activities described above to improve access to financial services, the Project also participated in and supported activities designed to educate all Salvadorans about how to manage these financial services to the best advantage of their families. The Financial Education Program of El Salvador (FEP) is an inter-institutional initiative involving four important national institutions: the Central Bank, the Superintendency, the Deposit Guarantee Institute and El Salvador's Consumer Protection Agency. The Financial Education Program offered an excellent opportunity for the Project to leverage its investments aimed at providing financial education to all Salvadorans through mass media channels.

Important lessons were learned by the Project of which the following warrant highlighting:

- With the passage of the Project-designed Law of Financial Inclusion, the outreach of financial services will be greatly expanded through private investment. Non-bank financial institutions are eager to expand their market presence and range of products in hitherto underserved markets through mobile financial services;

- Significant investments in strengthening accounting policies, procedures and software are often required as non-bank financial institutions prepare for external supervision and the ability to offer new savings products to lower-income households, yet NBFIs are willing to engage in training activities and to make these investments in order to meet the norms and requirements of the Superintendency of the Financial System;

- The best way to engage a credit union federation is to demonstrate quality technical assistance at the level of individual credit union and let them convince their federation of the benefits available to the entire credit union system; and

- Requiring partner institutions to match any USAID investment in their capacity building is a strategy which ensures that each initiative represents an institutional priority and increases the probability of excellent results.

Indicator	Achievements
Regulators and Supervisors Trained	> 400% over original target
MFIs strengthened	13 versus target of 8 with an additional 25 to be strengthened by FEDECACES
MFIs in compliance with Superintendency Norms	100% of target
Increase in MFI Equity	≈ 200% over target
Number of MFI Staff Trained	≈ 400% over target
Number of New Products	≈ 250% over target
Number of New Borrowers	≈ 900% over target
Number of New Savers	≈ 600% over target

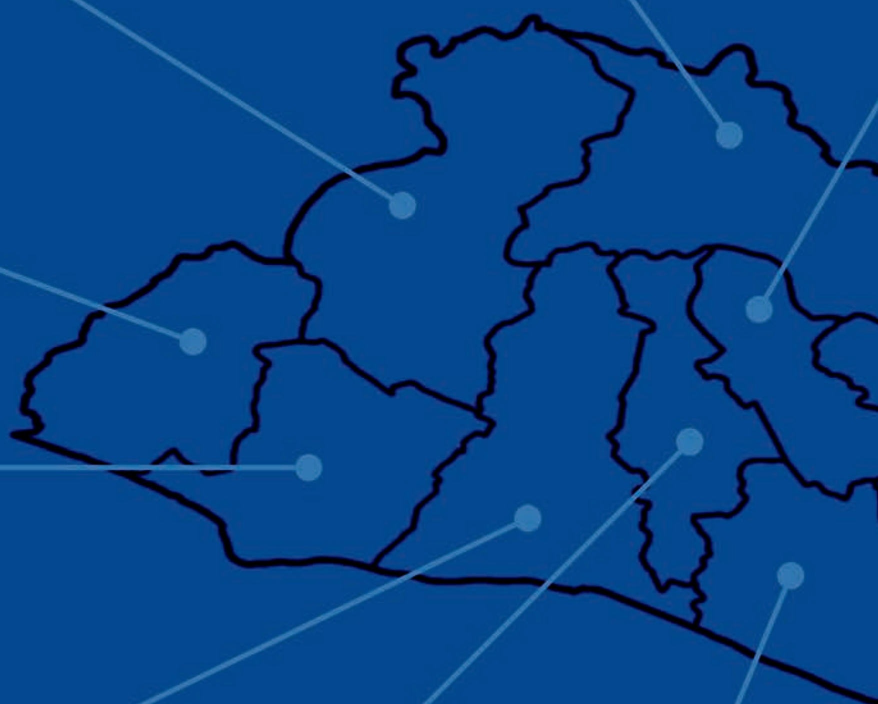
Figure 2

In conclusion, to achieve such targets involves the following elements: (i) the proper selection of interested Project partners; (ii) quality training and technical assistance which meets immediate technical needs; (iii) operational flexibility to address quickly a variety of technical demands; (iv) requiring partners to also invest in activities they propose; (v) managing the Project with a constant focus on exceeding targets; and perhaps above all else, (vi) hiring professional staff appreciative of and motivated by a dynamic and highly demanding approach to Project implementation which requires excellence in everything.

PROJECT PARTNER OUTREACH by BRANCH

SANTA ANA
ACACSEMERSA (2 branches)
AMC
ASEI
COOP1 (2 branches)
ENLACE
FINCA
INTEGRAL (2 branches)

CHALATENANGO
ACACYPAC (7 branches)
AMC
INTEGRAL



AHUACHAPÁN
ASEI
ENLACE
INTEGRAL (2 branches)

SONSONATE
AMC
ASEI
COOP1
ENLACE
FINCA
INTEGRAL (2 branches)

LA LIBERTAD
ACACSEMERSA
AMC
ASEI
ENLACE (2 branches)
FINCA
INTEGRAL (4 branches)

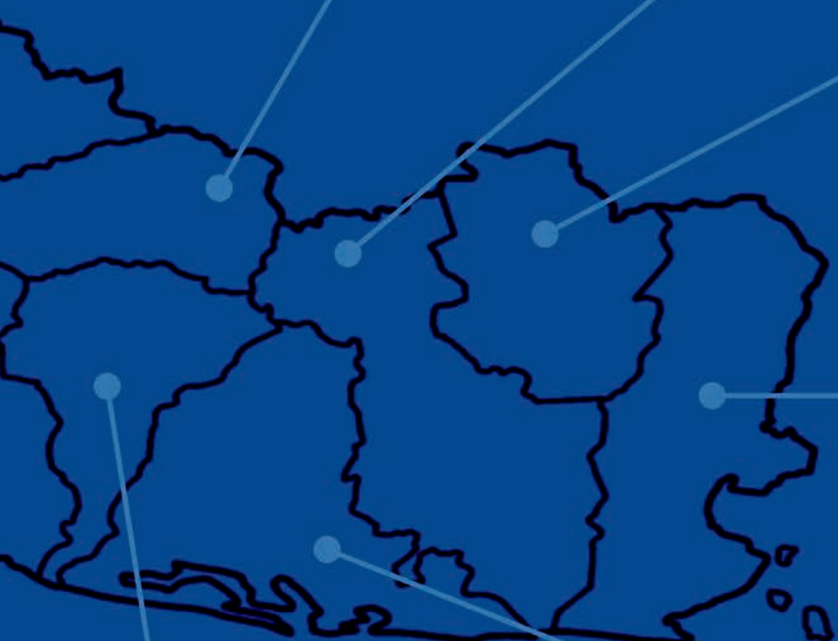
SAN SALVADOR
ACACYPAC
ACODJAR
AMC
ASEI
ENLACE (3 branches)
FINCA (3 branches)
INTEGRAL (6 branches)

LA PAZ
AMC
FINCA
INTEGRAL

CUSCATLÁN
ACODJAR
ASEI
ENLACE
FINCA
INTEGRAL

CABAÑAS
ACODJAR
AMC (2 branches)
Fundación CAMPO
INTEGRAL

SAN MIGUEL
ACACCIBA (4 branches)
ACACU
AMC
FINCA
Fundación CAMPO (2 branches)
INTEGRAL



MORAZÁN
ACACCIBA (2 branches)
ACACU
AMC
Fundación CAMPO (2 branches)
INTEGRAL

LA UNIÓN
ACACU (3 branches)
AMC (2 branches)
Fundación CAMPO (2 branches)
INTEGRAL (2 branches)

SAN VICENTE
ACODJAR (2 branches)
AMC
FINCA
INTEGRAL

USULUTÁN
ACACU (3 branches)
ACACCIBA
ENLACE
Fundación CAMPO (2 branches)
INTEGRAL (2 branches)

BACKGROUND AND PROJECT OVERVIEW

BACKGROUND

Micro and small enterprises (MSEs) need access to financial services in an environment which promotes their long-term prosperity. El Salvador's current and future competitiveness in international markets, as highlighted in the Partnership for Growth agreement between El Salvador and the United States, depends on the success of the entire private sector. MSEs in El Salvador generate over 50 percent of employment nationwide and as such represent a critical business sector that warrants dedicated policies and initiatives to enhance its competitiveness.

Over the course of many years the United States Agency for International Development (USAID) has provided significant support for the development of the micro and small enterprise (MSE) sector of El Salvador. Even with such contributions, by 2009 USAID had identified four pending challenges for the continued development of this sector:

1. An absence of legislation and regulations for the effective supervision of non-bank financial institutions (NBFIs);

2. Insufficient supervisory institutional capacity to promote and implement new regulations;

3. Limited capacity on the part of NBFIs to manage evolving risks; and

4. Inadequate financial tools to identify and manage these risks.

In December 2009 a Diagnostic of the Financial System of El Salvador[1] confirmed the need to address these four challenges, resulting in the USAID Improving Access to Financial Services Project.

PROJECT OVERVIEW

The USAID Improving Access to Financial Services Project ("Project") was a $2.8 million initiative implemented by Global Business Solutions, Inc. (GBSI) and subcontractor Weidemann Associates ("Project team") from December 2011 to April 2014. The objective of the Project was to create, promote and implement practical and innovative solutions to address the four challenges affecting the flow of financial services for MSEs. The Project consisted of two core components:

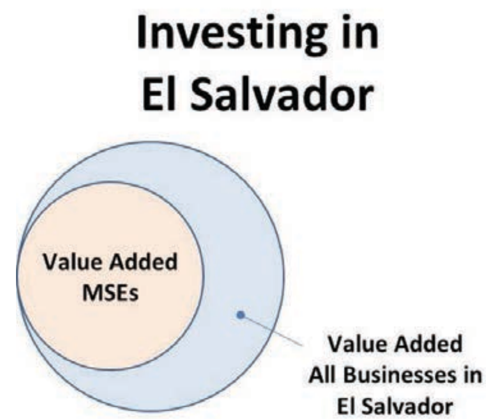
Component 1: Improvement of the enabling regulatory and supervisory environment for MSEs to address the first two of the four challenges indicated above; and

Component 2: Improvement of technical skills, new products and market infrastructure of the financial institutions to provide appropriate financial services to MSEs, and to do so in such a way that enhances their risk management capability as referenced in the final two challenges.

[1]Diagnóstico del Sistema Financiero de El Salvador, José Antonio Basagoitia, December 2009, an analysis commissioned by USAID /El Salvador to identify potential areas of assitance to support the national financial system.

A USAID directive for this Project stressed the importance of coordination between these two components to ensure integrality of actions. During Project implementation the relevance of this directive was confirmed and will prove to be a driving force for the continued strengthening of the micro and small business finance market in El Salvador well beyond the life of this Project.

The USAID Project oriented all strategies with the objectives and goals delineated in the Partnership for Growth agreement between El Salvador and the United States. In order to encourage greater investment in El Salvador in general, the Project focused on ensuring a properly functioning, well-funded micro and small business sector operating within a supportive political and legal environment.



The following paragraphs summarize the strategies employed by the Project team to accomplish the component objectives.

1. Developed a broad range of financial services

   Rather than focus solely, or even primarily on new borrowers, the Project broadened the interpretation of financial services to encompass a range of products and services which would benefit the microfinance sector. These products included savings, micro-insurance, mobile financial services and, indeed, a market-based new reporting product on the level of indebtedness of small and micro entrepreneurs. The purpose of this last product was to reduce the levels of risk within non-bank financial institutions.

2. Develop a regulatory framework to allow market-driven mobile financial services to develop and flourish

   The world-wide extent of financial inclusion, defined as "the percentage of adult individuals with an account at a formal financial institution," is approximately 50 percent. The average for Latin America and the Caribbean is 39 percent. In El Salvador, it is only 14 percent. Yet Salvadorans also have, on average, more than one cellphone. The Project saw this as an important opportunity to replicate in El Salvador the positive experiences in other countries of bringing financial services to virtually everyone via cellphones and other mobile devices.

"Research shows that [mobile financial services bring] real benefits to users in their daily lives, saving three hours a week of their time and around $3 in money transfer costs -- a significant amount to people in some areas."

CNN April 18th, 2013




USAID
Eficiencia Operativa
USAID

FINCA



Jacqueline Nathaly Ramírez
"Detección de Billetes Falsos"


FEDECACES


FINCA
WATER


3. Promote savings

Beyond the income-generating promise of loans, research suggests a stronger link between savings and a family's success in emerging from a life of poverty. The Project therefore focused on two complementary strategies for increasing MSE and, in particular, women's access to savings:

a. Assisting the Superintendency of the Financial System ("Superintendency") to broaden the perimeter of its supervision.

The Superintendency requested Project support to assist with its two strategic goals of (i) extending the perimeter of its supervision to encompass a greater number of NBFIs and (ii) moving from the extant supervisory model based on compliance to a new one based on risk. The request to help broaden the perimeter of its supervision was fully consistent with the Project's emphasis on savings, particularly the prudent management of such savings by the financial intermediaries. When dealing with savings, the safety and soundness of the financial institutions capturing those savings is paramount and experience demonstrates that this is best assured through external supervision. During the course of implementation a highly productive partnership developed between the Superintendency and the Project with the project developing an on-line manual to guide NBFIs through the current regulatory complexities for becoming regulated. Furthermore, the development process for creating this manual allowed the Project and the Superintendency to identify together opportunities to supervise NBFIs using a model based on risk rather than on compliance.[2]

b. Orienting NBFIs towards offering savings and seeking external supervision

The Project was tasked with identifying eight NBFIs to receive technical assistance. During Project implementation, thirteen NBFIs requested Project assistance and as a result of a transfer of technology to local experts and an association, an additional twenty-five credit unions will benefit from Project-designed technical assistance after the Project ends. Three strategies were employed to generate these results:

[2]The Project also supported the Superintendency in terms of a norm for regulating micro-insurance. Since micro-insurance may be considered an indirect form of savings, reference is made here although a separate section below references this technical assistance in greater detail.

i. Strategic Orientation

The world of microfinance has embraced savings as a critical financial service highly demanded by low-income households and one which contributes to the long-term sustainability of the microfinance institutions themselves. Following the global financial crisis of 2008, those microfinance institutions dependent upon external lines of credit suffered from an abrupt contraction of money available to lend and run their operations, while MFIs already capturing savings were able to maintain and even expand their operations. The Project communicated this message repeatedly to its institutional partners and assisted several with their market analyses and savings product development and implementation. This was an important critical first step since in El Salvador many microfinance institutions had not yet concluded that savings were important to their institutional future wellbeing.

Many of the Project's institutional partners are affiliates of the Association of Microfinance Institutions of El Salvador (ASOMI), which had not, as of the Project's inception, focused on the importance of savings to its members´ institutional health. The Project decided to underwrite the development of ASOMI's 2014-2017 Strategic Plan in order to reorient its membership towards the SEEP Network's Success Indicators for national microfinance associations. These indicators encourage all microfinance associations to promote savings[3] among affiliated institutions and that all microfinance institutions which capture savings in the local market should be affiliated with the association.

ii. The "Gap Analysis"

The Project designed a rapid-response technical assistance product directed at those institutions interested in becoming supervised by the Superintendency. This rapid assessment identified all instances in which institutional policies and procedures differed from those required by the Superintendency. Assessment results, including the costs of full compliance, were presented during special meetings of the institution's governing body.

iii. Close the Gap

Every assessed institution realized that it was in their own as well as their clients' best interests to work towards closing the gaps identified during the Analysis. In most instances the Project provided technical assistance to assist with this work. The investments required by the NBFIs to come into full regulatory compliance can be daunting: the nine NBFIs assessed by the Project must invest an estimated $6 million dollars to address the identified gaps. Most of these resources represent mandatory increases in loan loss reserves and enhancements to accounting software. An additional investment of an estimated $10 million will be required by the credit unions to which the Gap Analysis will be applied following Project close-out. When compared to the US$2.8 million which USAID invested in this Project, each dollar invested by USAID for all technical assistance activities, generated more than three dollars in investment from participating financial institutions to bring them into closer compliance with Superintendency requirements.

[3]The SEEP Network is a Washington D.C.-based global association of microfinance associations and institutions.

4. Emphasize capacity building through applied training.

Two Project deliverables refer directly to training activities:

i. "At least 80 financial staff from regulatory and supervisory bodies trained …" At the Project's request, this deliverable was increased by 300 percent to 240 at no additional cost to USAID. The final result was 248 people, of which 95 (38%) were women, trained in technical elements pertaining to mobile financial services and the financial analysis of non-bank financial institutions.

ii. "No less than 300 staff from microfinance organizations … trained in new methodologies and products appropriate to MSEs". The Project exceeded this target by 450 percent, training 1,371 NBFI staff including 645 women (47%).

These results reflect the Project's focus on demand-driven training activities utilizing participatory methodologies designed for effective adult education. Furthermore, following the team's private-sector partnership policy, participating NBFIs had to cover a percentage of the total cost of the proposed courses. This cost-sharing policy was critical in being able to triple and quadruple Project targets without requiring any increase in USAID funding.

In conclusion, the Project applied a long-term and facilitative approach to address the significant macro-and micro-economic challenges facing El Salvador. The Project team complied with the strategic concept presented in the original GBSI technical proposal:

"[The Project] will prioritize interventions based on likelihood of success, cost effectiveness, breadth and depth of the potential impact …, and the level of support for the activity among stakeholders. We will … leverage resources and avoid duplication, as well as require counterpart contributions … from local partners, both to stretch resources and to ensure buy-in."

GBSI Technical Proposal
November 2, 2011
Page 6

Javier Urdampilleta
Vice President Mobile Financial Services
TIGO El Salvador

Marcelo Alemán
Chief Executive Officer
TIGO El Salvador

> "In developing markets with high service deficits there is more potential for service providers to disrupt the industry by providing mobile banking accounts to unbanked populations."

The Economist Intelligence Unit Industry Briefing The App Gap Index – Mobile broadband in healthcare, financial services and education Page 3

MOBILE FINANCIAL SERVICES

Shortly after initiating operations, the Project learned in January 2012 that the Central Reserve Bank ("Central Bank") had established a target of September, 2012 as the target date for authorizing mobile financial services in El Salvador. This represented an extremely tight timeline, but offered the Project an extremely important opportunity to provide access to financial services to virtually all Salvadorans.

The project identified multiple models for implementing mobile financial services, including bank-led models, mobile network-led models, hybrid models, etc. Regulations in most countries tended to favor one or another model. The Project made a critical strategic decision to promote for El Salvador a "market neutral" model which, in essence, would leave it to consumers and qualified providers to determine which model best meets the needs for mobile money and other mobile financial services.

The Project then identified four international consultants – all from Latin America - to develop the regulations for mobile financial services in El Salvador. The lead consultant was a former Superintendent of Banks experienced in regulating mobile financial services, a second was from a Central Bank responsible for supervising payments systems, which is the essence of mobile financial services as envisioned for El Salvador, and the third consultant was from another bank Superintendency but who also serves on the Mobile Financial Task Force of the global Alliance of Financial Inclusion. These three consultants provided the strategic orientation for the new regulations. The fourth consultant was a specialist in information security, a technical area critical for the success of mobile financial services.

Ernesto Olmedo Pereira
Executive Director
Midō

Gregory Hidalgo
President
Midō

The Project ensured that the work of every consultant included training activities to orient the Central Bank and Superintendency in support of a market-driven, neutral set of regulations for mobile financial services. This strategy worked extremely well. Indeed, the demand for these trainings far exceeded Project expectations, resulting in an increase in the Project deliverable from the original 80 financial staff from regulatory and supervisory bodies to be trained, to the new target of 240. The draft regulations stemming from this technical assistance succeeded in defining a neutral, open, market-led, demand-driven model which, once approved, will represent a model not only for the rest of Latin America but also for developing countries worldwide.

There followed a period of discussions within the Central Bank to address concerns about certain elements of the proposed draft regulation, with the result that the Central Bank was unable to meet its initial September 2012 target approval date for implementing the mobile financial service regulations. Following standard protocol, in November the Central Bank opened the draft set of regulations to the banking and telecommunications industries for a fifteen-day period of public consultation and comment.

"In the Central Reserve Bank we are very grateful for the support received from the USAID Improving Access to Financial Services Project, which worked with us throughout the entire gestation process for regulating mobile financial services. It is difficult to express how much the Project contributed to ensure that we have a quality regulatory proposal; it expeditiously helped us to accumulate a wealth of sound knowledge."

Otto Rodriguez
Chief of the Department of Financial System Development
Central Reserve Bank of El Salvador

A partnership involving the United Nations Development Program (UNDP), UNIDO and UN HABITAT[4], together with the Project, communicated international interest in this initiative by publishing in local newspapers an invitation to the banking and telecom industries to review and comment on the norms. This was followed by morning sessions with newspaper and television reporters to inform the public about the importance of financial inclusion and the role of mobile financial services to accomplish this. The core message, successfully published in several newspaper articles was that financial inclusion is important for a country that desires poverty reduction and economic growth for its people, that Latin America is below the global average and indeed within Latin America and the Caribbean, El Salvador is at the very bottom of the country rankings in this important indicator.

ABANSA, El Salvador's banking association, communicated concerns about the proposed regulation. Although both the Central Bank and the Superintendency concurred that mobile financial services do not involve savings, ABANSA was willing to legally challenge this point of view, arguing that only commercial banks are authorized by law to capture savings. The only alternative to avoid the risk of an uncertain judicial decision was to transform the proposed regulation into a law ("Law of Financial Inclusion"), requiring legislative approval.

[4]Programa Conjunto del Fondo España-Naciones Unidas "Vivienda y Asentamientos Urbanos Productivos y Sostenibles"
Translation: Joint Program of the United Nations-Spain fund "Housing, and Productive and Sustainable Urban Developments"

The President of the Central Bank resigned his position in January, 2013 and Martha Evelyn de Rivera was sworn in as the new President on April 12th, 2013. During her very first interview as Central Reserve Bank President, she stated that a "goal for this year is the approval of mobile financial services regulations". At the request of the new President, the Project sponsored a Central Bank event in June, 2013 to promote mobile financial services for El Salvador. Four international experts gave presentations at this watershed event designed to generate momentum for the approval of the proposed new law. In December 2013 the Central Bank submitted to the Ministry of Finance the final version of the proposed Law of Financial Inclusion, where it is under review prior to its submission to the legislature to convert into law.

Given the evolving timeline for authorizing mobile financial services, the Project adjusted its implementation strategy and accepted proposals by partner microfinance institutions ENLACE and APOYO INTEGRAL ("Integral") for support to take interim steps in anticipation of the new law. The Project complemented their investments to install and train staff in new mobile financial capabilities to enhance productivity and operational efficiencies. The software installations as configured will greatly accelerate the introduction of additional mobile financial services once the Law of Financial Inclusion is approved by El Salvador's legislature. The graph below was presented to the media at one of the meetings and indicates the potential impact for El Salvador once the Law of Financial Inclusion is approved. In addition to the tremendous growth in transactions resulting from greater levels of financial inclusion, and in addition to demonstrating the clear pent-up demand for mobile financial services, the African experience demonstrates that commercial banks too benefit significantly from this disruptive technology.

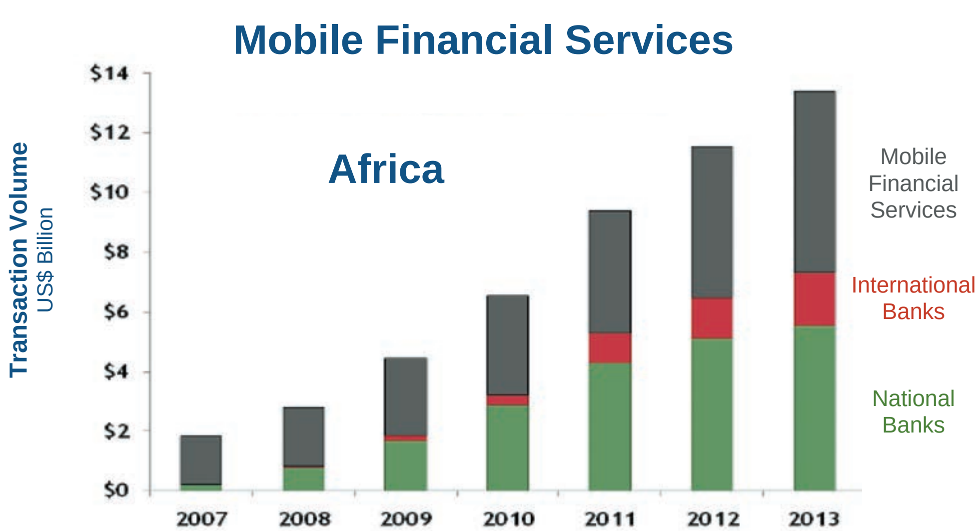


Figure 3

INSTITUTIONAL TRANSFORMATION

SAVINGS – SAFETY & SOUNDNESS – SUPERINTENDENCY

The Project's contract document states that "[m]any non-bank financial institutions have expressed interest in being supervised but also their concern regarding the obstacles in the legal framework and the lengthy and expensive process they need to face under the current circumstances."[5] To address this situation, the Project worked extensively with the Superintendency regarding its strategy and practices for supervising the NBFIs and worked directly with selected NBFIs through trainings, gap analyses and technical assistance to emphasize the benefits of external supervision for their long-term institutional future and to move them as rapidly as possible to being supervised.

The Project was tasked with working with at least 8 non-bank financial institutions, of which two were to be prepared by the Project for supervision by the Superintendency. In the end, the Project worked with a total of thirteen institutions. Of these, all but one[6] received Project support to bring them into closer alignment with the requirements of the Superintendency. Of the institutions receiving this type of support, all decided to follow the Project's orientation and seek the supervision of the Superintendency.[7]

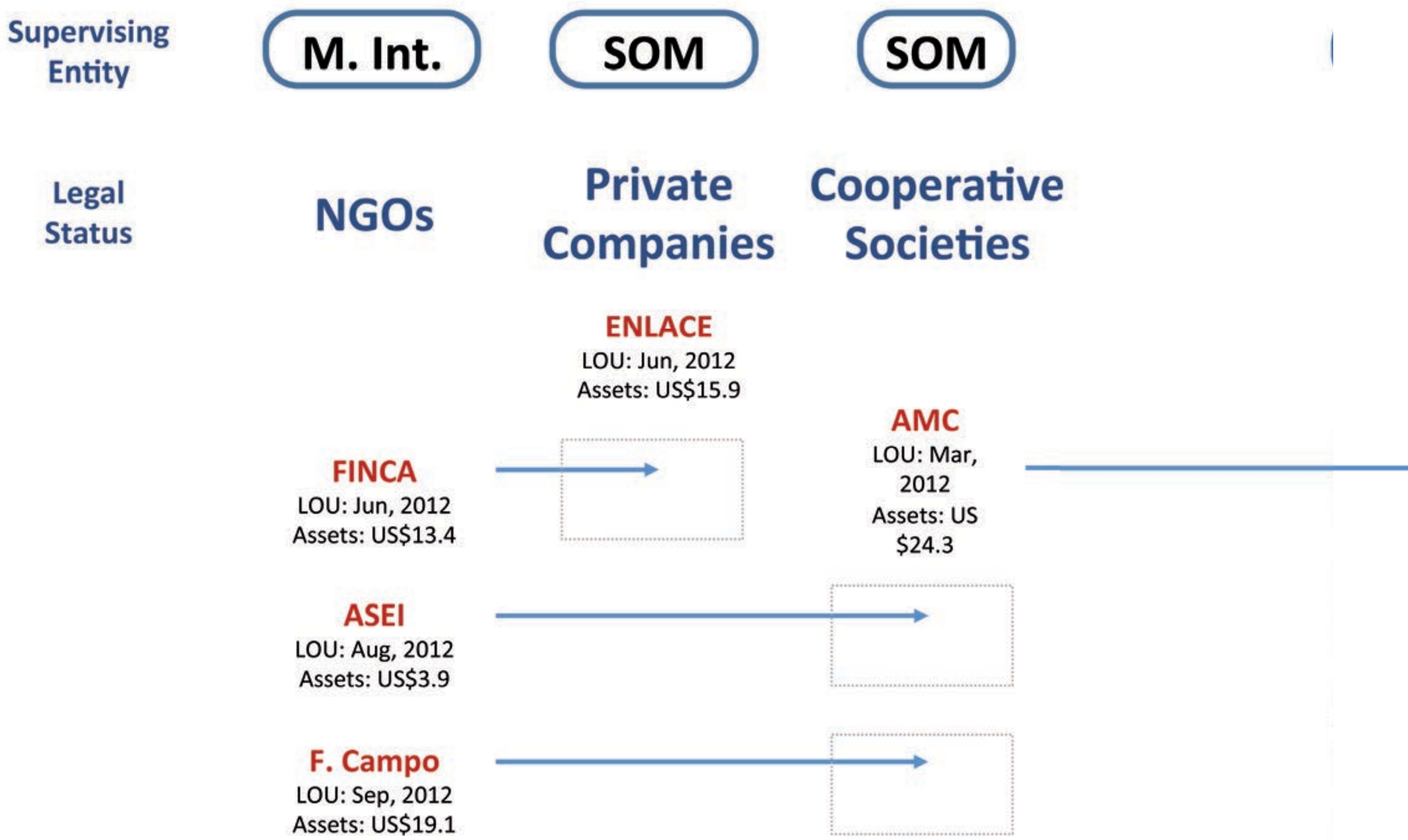
Of the five non-bank and non-credit union financial institutions supported by the Project which were not yet supervised by the Superintendency (ENLACE, FINCA, ASEI, Fundación Campo and AMC), all but ENLACE have already changed, or by Project's end are at the point of changing their legal status. This is an unprecedented accomplishment considering that none of these institutions had modified their legal status since their inception fifteen to twenty plus years ago. Clearly, Project arguments in favor of offering savings, both for their clients and to strengthen the operations and financial performance of their institutions, had a very significant impact on their strategic thinking.

"When we first were accepted to be one of the institutions participating, our situation was dire. Although our long-term goal was to become a regulated financial institution, we were still struggling to break even. With the support of the USAID Improving Access to Financial Services Project, we began a stable transition to our long-term goal. Although by project end we are not yet regulated, we are much closer to where we need to be. Importantly, as of the 3rd quarter of 2013, we are a profitable business. With different training and other support provided by the Project, our mid-management and top management have improved substantially. Competitively we are now one of the fastest growing MFI's in El Salvador. We are on a clear path to regulation and continued sustainability. We could not have done it without the support of this USAID Project."

Jov O'Brien
Executive Director
FINCA/El Salvador

[5] GLOBAL BUSINESS SOLUTIONS, INC., AID-519-C-12-00001, Page 8 of 50 pages, footnote 1.
[6] The one institution was already supervised by the Superintendency.
[7] One institution – ENLACE – agreed with the need to adopt the technical norms and regulations of the Superintendency, but chose to delay beyond the scope of the Project, the investments required to address the gaps identified in the institutional analysis.

INSTITUTIONAL



LEGEND

M. Int.	Interior Ministry
SOM	Superintendency of Merchant Obligations
INSAFOCOOP	Salvadoran Institute of Cooperative Development
SFS	Superintendency of the Financial System

F. Campo	Name of Project NBFI Partner
LOU: Sep, 2012	Letter of Understanding date of signing
Assets: US$	Total Assets as of Sep 2013, in millions

Project-motivated institutional transformation from one legal status to another

Project technical assistance resulting in full compliance with SFS requirements

Project technical assistance approaching full compliance with SFS requirements

Private Companies and Cooperative Societies operate under the Commercial Code and are supervised by SOM. Cooperative Societies may capture savings only from members. Cooperative Associations operate under the Cooperative Law and are supervised by INSAFOCOOP. They may capture savings from associates and from the public for up to one year, after which they must become an associate by purchasing shares. The Savings and Loan Societies and Cooperative Banks are supervised by the SFS and may capture savings from the public.

TRANSFORMATIONS

SFS

Savings and Loan Societies

INTEGRAL
LOU: May, 2012
Assets: US$76.9

INSAFOCOOP

Cooperative Associations

ACACU
LOU: Aug, 2012
Assets: US$54.9

ACACSEMERSA
LOU: Nov, 2012
Assets: US$15.9

ACACCIBA
LOU: Jul, 2013
Assets: US$26.2

COOP - 1
LOU: Oct, 2013
Assets: US$21.9

ACODJAR
LOU: Oct, 2013
Assets: US$40.8

ACACESPSA
LOU: Oct, 2013
Assets: US$33.4

ACACYPAC
LOU: Oct, 2013
Assets: US$40.1

FEDECACES
LOU: Oct, 2013

Total Assets

US$386.7M

Total Clients

149,369

Institutional transformations are important because they either allow non-bank financial institutions to seek authorization to capture public savings or they ensure that savings already captured are well protected and are managed prudently.

All three Project partner NGOs have already changed or are in the process of changing their legal status towards one which allows them to capture savings. AMC, a cooperative society, is requesting external supervision by the Superintendency, allowing it to extend its savings product to the public at large.

In terms of the safety and prudential management of savings, all credit unions of the FEDECACES system will move towards closer compliance with the policies and norms used by the Superintendency to monitor commercial banks.

Low income households demand savings products at least as much as loans.

As part of the Project´s strategy to broaden its definition of financial services, the Project proposed and USAID approved "new savers" as a new contract deliverable. The approved target for this deliverable was 800 new savers and the final Project result was 900% over that figure: 7,198 new savers, of whom 58% were women. It is useful to note that this figure does not include the savers expected in CREDICAMPO, a new deposit-taking institution created with Project assistance, which opened its doors on January 1st, 2014. The following sections describe how these results were accomplished.

THE GOALS COURSE

NBFI Staff Trained

		Male	Female	Total	% Women
ASOMI	Mar. 2012	17	13	30	43%
FINCA, ENLACE, AMC	Aug. 2012	31	35	66	53%
INTEGRAL, ASEI	Sep. 2012	20	23	43	53%
F. CAMPO	Jan. 2013	15	4	19	21%
		83	75	158	47%

Regulators Trained

		Male	Female	Total	% Women
Central Bank	May 2012	33	33	66	50%
Superintendency	Sep. 2012	13	10	23	43%
		46	43	89	48%

Figure 4

STRATEGIC TRAININGS

The Project team took advantage of the GOALS course to promote interest among NBFIs to participate in and contribute to the Project's objectives. (See text box description of this course.) Within eight weeks of Project start-up, the Project coordinated with the microfinance association ASOMI to present the first GOALS course to senior executives of multiple non-bank financial institutions.

The course content included an analysis of the latest trends of the microfinance industry world-wide and one topic in particular – savings – was highlighted for special treatment. The initial course motivated six microfinance institutions to become Project partners and all six requested repeat courses for their senior managers and staff.[8] The GOALS course for senior managers and Board members in March 2012 represented the point of departure for motivating major strategic changes on the part of the Project partner NBFIs towards offering savings. The subsequent courses offered to the NBFIs' staff in August and September 2012 and in January 2013 reinforced that message.

[8]The Project did not offer this course to credit unions to avoid undermining the PEARLS financial monitoring system designed by the World Council of Credit Unions and promoted by FEDECACES.

The GOALS Course

This course has been given to bank regulators, board members and senior managers of commercial banks and NBFIs, auditors and development professionals in 28 countries. It has been a part of the Boulder Institute of Microfinance's course content practically since its inception. The course covers risk management of financial intermediaries and represents an opportunity for leaders and staff of microfinance institutions and the corresponding regulatory authorities to enhance their understanding of the risks and performance of these institutions.

The Project provided the GOALS course a total of six times to a total of 247 people, 158 from non-bank financial institutions and 89 from the Central Bank and the Superintendency. 47% of the participants from NBFIs and 48% of the Central Bank and Superintendency participants respectively were women. The Project provided the instructor (the Chief of Party) and the Project partners assumed responsibility for all course logistics and costs.

With an enhanced focus on savings, the course offered as part of this Project proved instrumental in motivating Project partners towards changing their legal status to be able to improve access to this important financial service in the very same lower-income communities where they currently offer loans.

TRAINING ACTIVITIES FOR INSTITUTIONAL TRANSFORMATIONS

The Project complemented those two major training activities with events designed to educate senior managers and board members of Project partners FINCA, ASEI and Fundación Campo in the legal issues involved in changing the legal status of their institutions, as well as the norms and requirements of the Superintendency. The results of that training were that the Boards of all four institutions elected to change the legal form of the institution into one that would allow them to collect savings and eventually become regulated.

THE INTEGRAL SAVINGS COURSE

Training played an even larger role in the case of INTEGRAL, the only microfinance institution which was already supervised by the Superintendency when it became a Project partner. At the request of INTEGRAL, the Project provided a consultant to evaluate its strategies and activities aimed at capturing savings from the public and to then provide training to a core group of executives in implementing the recommendations. This consultancy not only resulted in the development of a new savings product and the launch of a new marketing campaign throughout El Salvador (see example below) but also the recommendation that INTEGRAL move away from an institutional culture focused primarily on loans to one focused on the full range of financial products. INTEGRAL agreed and decided to include in the subsequent training representatives from all institutional levels, from the institutional Business Manager down to branch cashiers, as opposed to focusing solely on the institution's sales agents as was the original plan. The numeric result was a doubling of trained staff, from 120 to a total of 235 people (37% women) but more importantly, the strategic result was a new alignment within INTEGRAL with respect to how best to secure and manage savings. The impact of the Project's technical assistance and training is portrayed in the graph below:

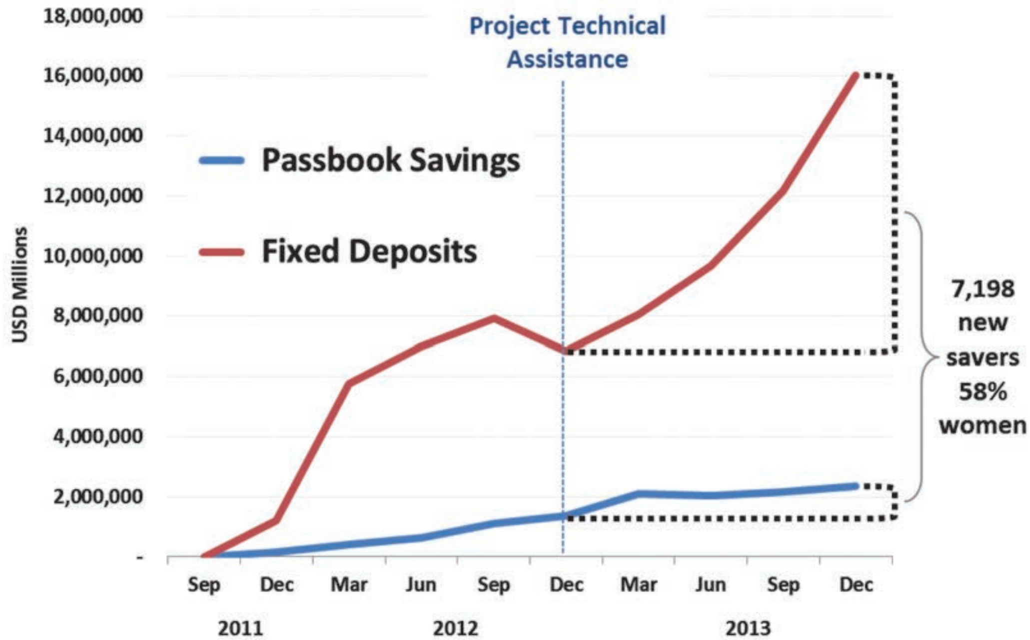


Figure 5

The Project also offered specialized training regarding the promotion and management of small savings for the staff of CREDICAMPO, the new cooperative society created with Project assistance by the Fundación Campo and which initiated operations on January 1st, 2014.

"APOYO INTEGRAL is especially grateful to the USAID Improving Access to Financial Services Project for the technical support which it provided to us and which influenced positively the achievement of substantial increases in the level of public savings captured by our institution.

We send our sincerest thanks and our desire to continue working together to benefit thousands of Salvadorans who still need greater access to financial services."

Juan Pablo Meza
General Manager
APOYO INTEGRAL

The General Managers of the Project's Partner Institutions

Marlon Torres
COOP UNO

Brígido García
CREDICAMPO

Wilson Salmeron
AMC

Roxana Durán
ASOMI with
ASOMI President
José Luis González

The General Managers of the Project's Partner Institutions


Juan Pablo Meza
APOYO INTEGRAL


Ricardo Segovia
ASEI


Juan Carlos Flores
ENLACE

Jov O'Brien
FINCA

TECHNICAL ASSISTANCE

Once the NBFIs had been reoriented by the GOALS training course, the single most important technical assistance activity offered by the Project was the "Gap Analysis". This highly specialized methodology was directly responsible for bringing seven credit unions managing assets in excess of US$230 million into closer alignment with the norms and regulations of the Superintendency. The following section describes the Project's activities in promoting the Gap Analysis throughout the credit union system.

Project partner ENLACE was the only non-credit union Project partner which received the Gap Analysis. Similar to the case with the credit unions, the cost of addressing its gaps approached US$750,000, with loan loss provisions (the most expensive on average) and deficiencies in its accounting software representing the primary deficiencies identified. Although ENLACE's Board of Directors agreed that all gaps needed to be addressed, it approved a timeline for doing so which fell significantly beyond the length of this Project.

The ENLACE findings, particularly with respect to its accounting system specifically and information technology ("IT") in general, were mirrored in every Project partner except Superintendency-supervised INTEGRAL: required IT investments inevitably exceeded US$100,000. In every case among assessed financial intermediaries, the top three most costly investments required by the institutions to bring them into compliance with Superintendency requirements were (i) increasing loan loss provisions; (ii) IT investments; and (iii) physically refurbishing branch offices.

"The Gap Analysis carried out by the USAID Improving Access to Financial Services Project, clarified for us what is COOP UNO now and what it would be if we were to follow all the laws and norms of the Superintendency. This has proven to be an important tool to strengthen our institution."

Marlon Roberto Torres
General Manager
COOP-UNO

Less comprehensive than the Gap Analysis but similarly revealing was the Project's attempts to embed a branch-level financial monitoring system ("Performance System") in all partner institutions which were not credit unions.[9] In most instances, the accounting and statistical data generated by the NBFI IT departments produced results which could not be independently validated. In general, NBFIs in El Salvador were found to need significant investments in their back office operations before they could qualify for external supervision by the Superintendency and before they could fully take advantage of the Performance System.

The Project provided extensive technical assistance to institutional partners ACACU and AMC to bring them into full compliance with Superintendency requirements within the Project's time frame. Of greater impact, however, was the movement of almost all Project partners towards both the legal authorization to capture savings and the benefits of being externally supervised. In FINCA, the Fundación CAMPO, ASEI and ACACCIBA, the Project oriented senior managers and board members, and worked with technical staff to develop policy and procedure manuals in topics specific to each institution. Finally, the Project provided to every Project partner a generic set of manuals governing every element required in the norms and regulations covering regulated financial institutions. This CD-based e-library representing more than 2,500 pages of technical material was designed to facilitate and lower the cost of instituting required capabilities and structures as they continue to comply with Superintendency requirements following the Project's close-out.

SUPERINTENDENCY OF THE FINANCIAL SYSTEM

The technical assistance provided to NBFIs was complemented by the highly productive working relationship with the Superintendency which facilitated opportunities to explore strategies to lower the cost of supervising a larger number of smaller financial institutions as well as the cost, on the part of those NBFIs, of being supervised.

The Superintendency authorized the Project's development of a series of web-pages to bring together all of the laws, regulations and norms pertaining to supervised financial intermediaries. These web-pages are the only location in El Salvador where institutions interested in educating themselves about Superintendency requirements, can find all of the relevant information in one place. Furthermore, the proposal included the preparation of summaries of every legal reference document and links to the respective source material.[10]

[9]As indicated elsewhere, the credit unions in El Salvador use the PEARLS financial monitoring system developed by the World Council of Credit Unions. Due to the natural rotation of credit union governing bodies, training materials must be developed to ensure that board members understand their responsibilities and are capable of protecting the financial health of their credit union. The Project did not attempt to install the Performance System in any credit union to avoid the possibility of confusion, particularly given that the PEARLS system was already working well.

[10]The visit of the Peruvian representative occurred in March, 2014

Each of the forty-three norms summarized required Superintendency approval before it could be included in the web-site. This offered the Project an opportunity to discuss with the Superintendency possible adjustments or interpretations to these norms which were consistent with the Superintendency's strategic plan of moving from supervision by compliance towards supervision by risk analysis. Furthermore, the Project and the Superintendency secured the presence in El Salvador of a representative of the Peruvian Bank Superintendency to orient the Superintendency of El Salvador regarding how best to supervise microfinance institutions.

Perhaps the single most important reconsideration pertaining to existing norms and regulations was the threshold for institutional equity above which external supervision became mandatory. The issue was that the minimum capital threshold established by law was US$91 million, a value far in excess of an amount at which point household savings become sufficiently vulnerable to warrant external supervision. At an event sponsored by FEDECACES, the Superintendency communicated its interest in lowering this minimum total equity threshold to $25 million, a message which sent an alert to all credit unions and other non-bank financial intermediaries to address, and to address rapidly, any deficiencies in their operations in anticipation of this new policy. This message by the Superintendency coincided perfectly with the implementation of the Project's Gap Analysis methodology and resulted in the sea change in thinking on the part of virtually every non-bank financial institution with which the Project worked, vis-à-vis its appreciation of the benefits of being externally supervised in terms of enhanced market presence and new opportunities for improving their target population's[11] access to a full range of financial services.

Types of Norms	# of Norms
Non-bank accounting norms	7
Bank accounting norms	4
Non-bank prudential norms	7
Bank prudential norms	25
Total	43

Figure 6

[11] In general the target populations of the NBFIs that the Project worked with are people who do not have access to formal financial services, which is also the target population of the Project.

"The efforts of the Adjunct Superintendency of Banks, Insurers and Other Financial Entities, preserve the stability, efficiency and transparency of the financial system and the protection of savers. The USAID Improving Access to Financial Services Project contributed to these efforts by bringing microfinance institutions closer to the laws and norms applicable to supervised entities, and also for its efforts concerning the study of microinsurance."

William Durán
Adjunct Superintendent – Banks, Insurers and Other Financial Entities

Héctor Córdova
Corporate Manager
FEDECACES

Misael Eduardo Barahona
Supervision and Internal Audit Manager
FEDECACES

"This initiative with the USAID Improving Access to Financial Services Project is destined for success, because FEDECACES is going to apply the Gap Analysis to all of its affiliated credit unions, within the context of a possible state supervision".

Héctor Cordova
Corporate Manager - FEDECACES

INSTITUTIONAL CAPACITY BUILDING

THE GAP ANALYSIS

In December 2011 the Superintendency completed its Institutional Strategic Plan for the years 2012-2015. The Superintendency presented this plan to the Project in January, 2012 and requested Project support for its Objective 6: Promote an Increase in the Supervisory Perimeter. That is, bring more non-bank financial institutions under its supervisory authority.

Within El Salvador, the credit unions of the FEDECACES network and the "Cajas"[12] of the FEDECRÉDITO network together manage assets of more than US$300 million and US$1 billion respectively. As of January 2012, only one credit union – ACCOVI - was supervised by the Superintendency and although the Superintendency supervised FEDECRÉDITO itself, its access to information did not reach down to the individual Cajas. In summary, more than US$1.3 billion in assets, primarily the savings of lower-income households in El Salvador, were outside the supervisory protection of the Superintendency.[13] Its 2012-2015 five-year Strategic Plan sought to change this situation and the Project was in full agreement.

In February 2012 the Project met with both FEDECACES and FEDECRÉDITO to seek their support in helping the Superintendency extend its supervisory outreach to include both credit unions and Cajas. The Project, however, was unable to convince either federation to participate in this initiative. Indeed, in previous years both federations had lobbied effectively to avoid such supervision and indeed, since they already possessed the legal authorization to capture savings from members, were concerned about the additional costs such supervision might entail.

> "The [Project] shall promote and implement among the beneficiary organizations an ambiance of self-regulation where institutions, supervised or not, try to comply with the requirements of the [Superintendency] towards that objective."
>
> GBSI Contract AID-519-C-12-00001
> Page 11 of 50 pages

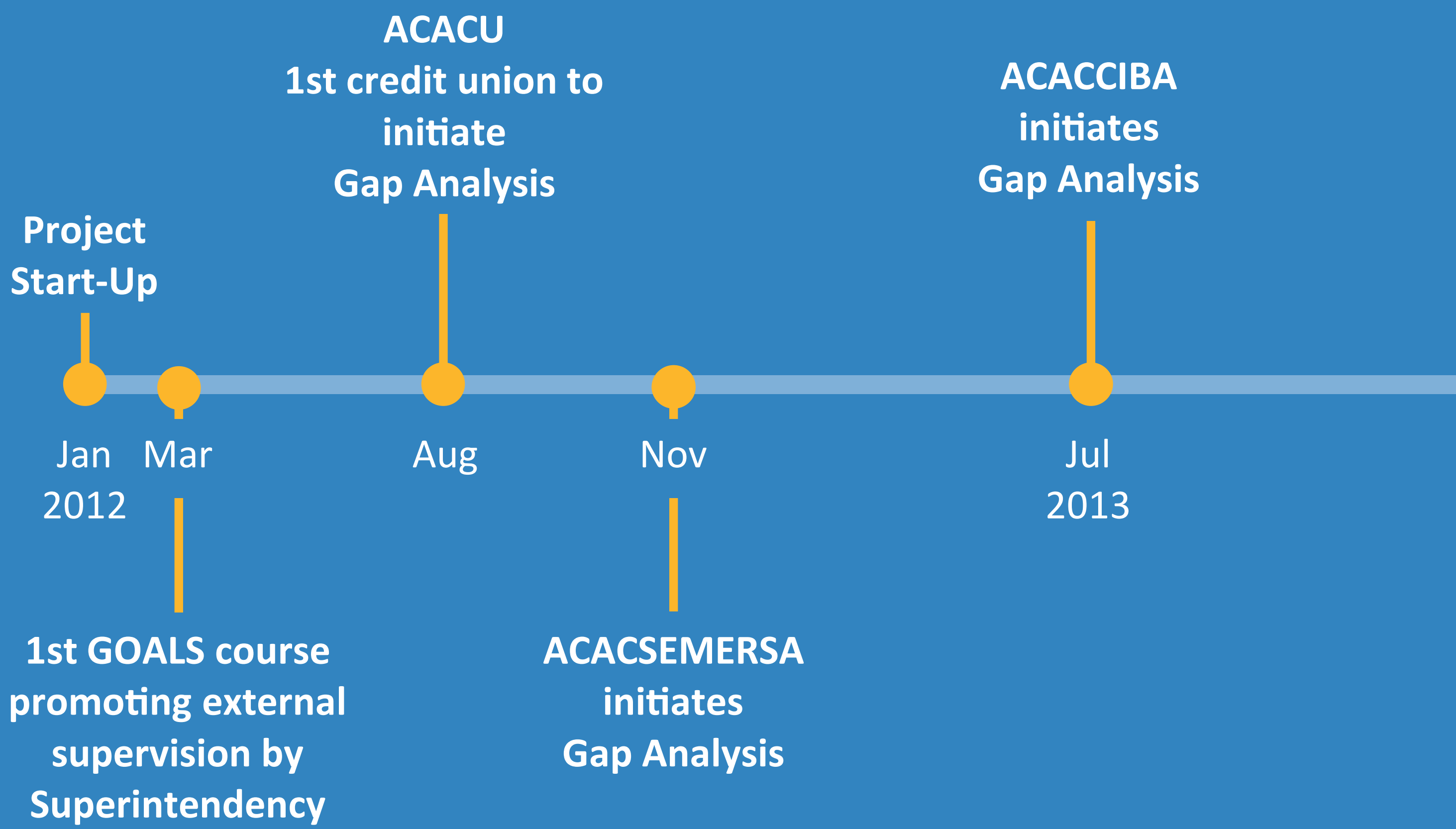
[12] The term "Cajas" refers to cooperative societies whose principal objective is to provide savings and loan services to its members. The FEDECRÉDITO network consists of 48 "Cajas" and 7 Workers Banks.

[13] According to FINDEX of the World Bank, only 14% of Salvadorans over the age of 16 have access to an account at a commercial bank. According to the national bankers' association ABANSA, more than 80% of Salvadorans have access to savings accounts if credit unions and Cajas are included. These two numbers emphasize the importance of savings within the credit unions.

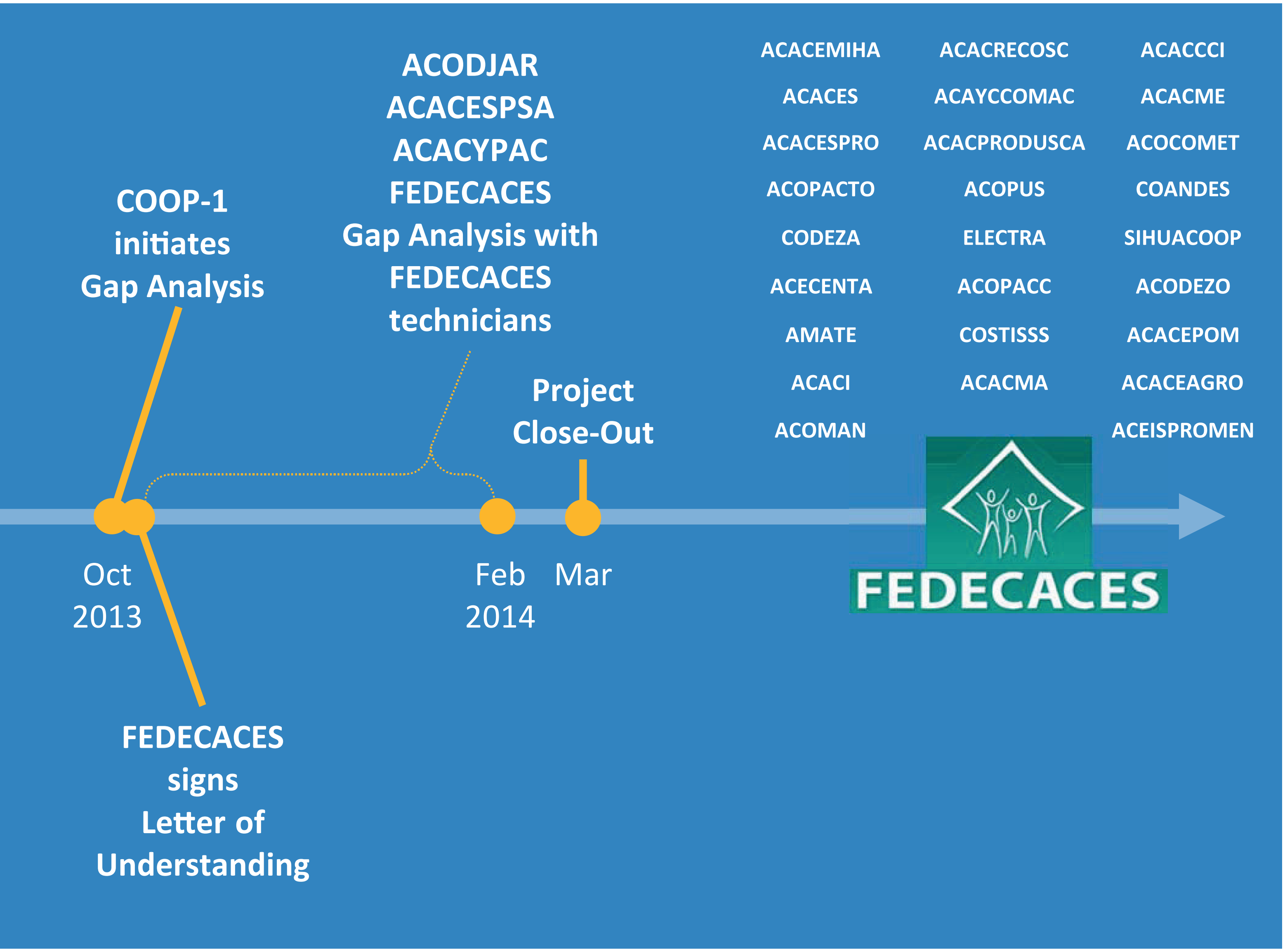

FEDECACES

"*GAP ANALYSIS*" IN CREDIT UNIONS

$300+ MILLION IN ASSETS UNDER MANAGEMENT



In early March 2012 the Project gave its first GOALS course to senior executives of non-bank financial institutions, including credit unions. During this event credit union representatives mentioned that individual credit unions could benefit directly from Project technical assistance and that the involvement of their Federation was not a requirement. With this guidance the Project began visiting credit unions to discuss their possible participation in the Project and in August 2012 signed a Letter of Understanding (LOU) with the first credit union, ACACU, located in La Unión. The primary Project activity involved working with ACACU to bring it into compliance with Superintendency norms and regulations.



The Project developed the "GAP Analysis" methodology to identify differences between an institution's existing set of internal policies and procedures and those required by the Superintendency for regulated financial intermediaries. The operating assumption of the Gap Analysis was that all institutions should comply with Superintendency requirements independent of whether or not they are currently supervised. Particularly in the case of deposit-taking credit unions, there is no reason why their operations and structure should be any less prudent than externally-supervised commercial banks. Indeed, given that lower-income households frequently dominate credit union membership, the imperative for prudence is even greater.

ACACU was the first credit union to receive this technical assistance. The Gap Analysis findings were presented at a special meeting of ACACU's full governing body, including relevant board committees, along with an estimate of the investments required to bring the institution into full compliance with Superintendency norms and regulations. Following this presentation, the Board formally decided to eliminate all gaps and requested Project assistance to assist with this.

The Gap Analysis includes the preparation and delivery of a CD containing the results of the analyzed institution. This 1,000+ page CD includes the summary Gap Analysis results plus a complete library of all laws and norms applicable to financial intermediaries with links to facilitate references by executives. One by one, all 50+ norms are addressed and all policy and procedural gaps eliminated during the technical assistance. In September 2013 and at a cost in excess of US$500,000 of its own resources, ACACU became the first Project-assisted institution to satisfy all Superintendency requirements.

In every case, the cost of closing gaps identified in the six other credit unions which eventually received this technical assistance, exceeded US$500,000 and in one instance, exceeded US$1 million. The primary culprit was the loan loss reserves policy applied throughout the credit union system as per FEDECACES training; this policy generated reserves which in almost all cases were significantly below those required by Superintendency policies.

FEDECACES developed its loan loss reserves policy many years previously with the orientation of the World Council of Credit Unions (WOCCU). At the time, WOCCU's advice was an important step forward for the credit union system in that in many instances, credit unions at the time discovered that they needed to increase their loan loss reserves, occasionally to levels above those required by the Superintendency. In the intervening years, the Superintendency tightened its policies by specifying in greater detail the levels of reserves required by each type of loan product. The result is that over time, the WOCCU model no longer satisfied the updated requirements of the Superintendency.

When a credit union learns that it must augment its loan loss provisions, in most instances the reaction is to increase collection efforts, often to very good effect. In the case of ACACU, the deficit in its loan loss reserves, as determined by the Gap Analysis, was reduced by more than US$100,000 by the time the credit union complied fully with Superintendency requirements.

Word of the Project's work with ACACU spread from ACACU to other credit unions. In November 2012, ACACSEMERSA became the second credit union to sign an LOU with the Project requesting a Gap Analysis. In July 2013, ACACCIBA became the third and in October of that same year COOP-1 became the fourth credit union to request a Gap Analysis from the Project. Providentially, a board member of ACACU was also the President of the Board of FEDECACES, so the national federation was kept well aware of the Project's activities as it signed LOUs with its affiliated credit unions and identified gaps between their policies and procedures, including those promoted by FEDECACES, and those required by the Superintendency. And the costs associated with eliminating these gaps.

The credit unions themselves convinced FEDECACES to engage with the Project to spread the Gap Analysis methodology to all thirty-one affiliated credit unions. On October 23rd, 2013 the Project and FEDECACES signed an important LOU in the presence of USAID: the Project agreed to transfer the Gap Analysis to FEDECACES by conducting four additional analyses with federation technicians. Gratifyingly, in addition to three large credit unions selected for this activity – ACODJAR, ACACYPAC and ACACESPSA – FEDECACES proposed itself as the fourth cooperative institution to be analyzed, situating itself in a strong leadership position as it prepared to spread this analysis throughout its network of affiliated credit unions.

With the methodology transferred to FEDECACES, the Project will generate a beneficial impact on more than $300 million of assets, thus, contributing, in effect, to achievement of Objective 6 in the Superintendency's strategic plan, increasing the perimeter of supervision.


CREDITOS
AHORROS
DEPOSITOS
SEGUROS
REMESAS FAMILIARES
PBX:

NEW PRODUCTS

The Project developed mechanisms, instruments and tools to benefit the development of microfinance in El Salvador. These products included (i) mobile financial services to extend access to financial services nation-wide, (ii) savings in terms of institutional transformations to be able to better offer this service and technical assistance to improve marketing efforts; (iii) enhanced over-indebtedness reports to provide heretofore unavailable information to NBFIs to strengthen their risk management; (iv) authorization to issue credit cards to qualified clients, enhancing significantly their cash management capabilities; (v) software investments to enhance service and lower costs; (vi) technical assistance for NBFI accounting software designed to comply fully with Superintendency requirements; and (vii) regulatory proposals to facilitate micro-insurance new product development and deployment.

MOBILE FINANCIAL SERVICES

The Project-designed Law of Financial Inclusion is expected to be signed into law during 2014. This Law will represent a sea-change in the level of financial inclusion in El Salvador and as such, represents the most significant new product of this Project. The Project was tasked with designing and implementing initiatives, the impact of which would extend beyond the twenty-seven month timeframe of this Project. When the Project initiated its activities in January 2012, only fourteen percent of Salvadorans over the age of sixteen had access to any type of account from a commercial bank.[14] Following the approval of this Law, all Salvadorans will, over time, have access to important financial services which they need to manage household funds and reduce risks. The Law of Financial Inclusion, which addresses mobile money regulation, represents the Project's most significant legacy to El Salvador. When it passes, it will set a precedent that could reach very far beyond the country of El Salvador.

[14]Source: FINDEX of the World Bank

SAVINGS

A separate section of this report informs about the Project's success in promoting savings within Project partner INTEGRAL. Indeed, the number of new savers during the last year of the Project practically matches the number of new borrowers over its lifetime, demonstrating the importance of this financial service. The Project worked extensively with partner Fundación CAMPO, resulting in the creation of a brand new institution – CREDICAMPO – which initiated operations on January 1st, 2014. Extending savings for the first time into rural communities, which has already begun as the Project concludes its operations in April, 2014, will gain momentum for many years into the future and represents a second very important legacy of this Project.

A third legacy, of equal if not greater importance to offering this new service, were the Project's efforts to ensure the safety and soundness of all savings deposited in non-bank financial institutions. The Project's successful coordination with the credit union federation FEDECACES, including its commitment to submit a number of its largest affiliated credit unions to the Superintendency for the first time in its fifty-year history, will provide enhanced protection of the savings of lower-income households throughout El Salvador for the foreseeable future.

OVER-INDEBTEDNESS REPORTS

During November 2012 the Project brought to El Salvador an international consultant tasked with assessing the risks of over-indebtedness of MSE borrowers within the local microfinance market. A recommendation from his report was to engage with EQUIFAX, a private credit bureau, to discuss the possibility of reports which could reflect better light on the state of indebtedness among microfinance borrowers.

In close coordination with ASOMI, the Project successfully negotiated an agreement with EQUIFAX to develop a product for all microfinance institutions, credit unions, Cajas and also all companies offering loans to consumers. The result is a cost-effective, sustainable, periodic report on the status of indebtedness among lower income borrowers throughout the country. This information allows users to detect sources of over-indebtedness as they arise. On January 24th, 2013 the Program organized a meeting for all stakeholders in order to provide EQUIFAX with an opportunity to generate feedback and recommendations for its concept for the Report. The demand to attend this event so far exceeded expectations that a larger venue had to be arranged at the last minute.

On June 20, 2013 the Project co-sponsored an international event with the Superintendency to raise market awareness of the dangers of over-indebtedness. The Superintendent opened the event with a speech emphasizing his institution's support of efforts to control the risks of over-indebtedness and the international speakers provided examples of the significant risks associated with over-indebtedness, including the risk of institutional collapse.

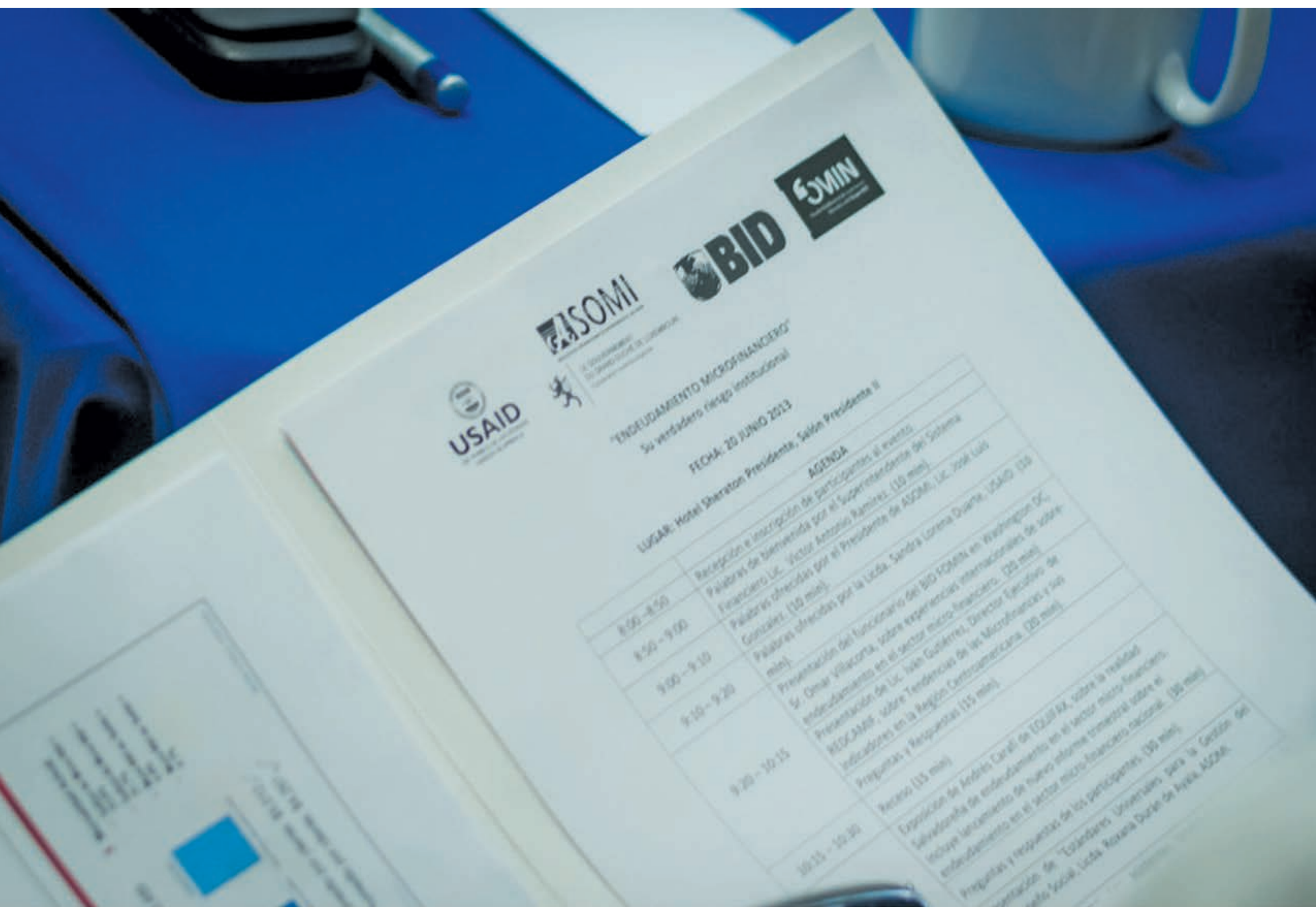
EQUIFAX continued to meet with ASOMI members and credit union representatives and developed a report design involving three levels of information:

Level I: One report presenting data covering credit unions, cooperatives and microfinance institutions

Level II: Three reports with data corresponding to members of FEDECACES (credit unions only), FEDECRÉDITO (Cajas only) and ASOMI (microfinance institutions only)

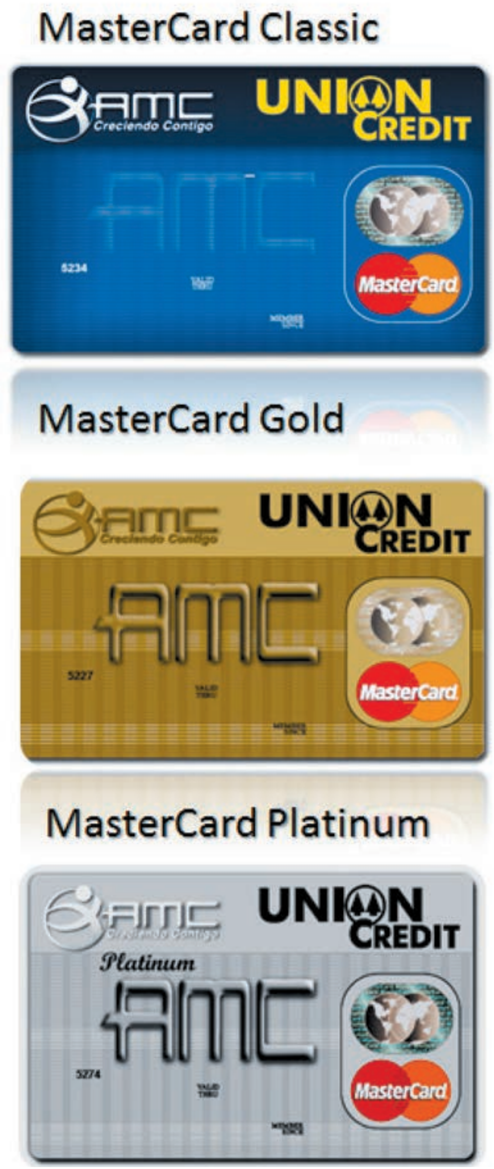
Level III: A report which presents data corresponding to a single institution.

As of the preparation of this report, EQUIFAX is continuing with its marketing efforts to find the best balance between the level of information and analysis in the reports and their cost.



CREDIT CARDS

The Project provided extensive technical support to partner institution AMC to secure authorization to issue credit cards to its best clients. Technical assistance included working with AMC to define all policies and procedures and writing the corresponding manuals which would govern implementation. The Project supported the preparation of all documentation required for the formal submission to the Superintendency of Merchant Obligations seeking authorization to issue credit cards. Upon receipt of the comments of this Superintendency, the Project worked with AMC and its lawyers to address every issue raised by the comments. Final authorization from the Superintendency was obtained on September 27th, 2013. With this authorization, AMC clients are eligible to use credit cards with different suppliers of goods and services, facilitating transactions, allowing a faster means of payment, reducing the risk of carrying cash, and availing themselves of financial resources in emergency situations.



"For the first time, AMC is going to be able to facilitate the disbursement of productive resources to thousands of micro and small business in the eastern part of El Salvador through the distribution of new credit cards. We thank the USAID Improving Access to Financial Services Project for contributing so much during the regulatory process, as well as its efforts to help us obtain authorization for this new product which will benefit our members and clients."

Wilson Salmeron
Executive Director
AMC

MOBILE SOFTWARE

MIDO is an international technology company interested in investing in El Salvador to enhance the capability of microfinance institutions to take advantage of mobile platforms to provide financial services to remote clients at less cost. Following meetings with MIDO in 2012, the Project organized a presentation by MIDO to its institutional partners so that they could learn more about MIDO's products. Multiple Project partners subsequently organized separate meetings with MIDO to explore opportunities designed expressly for their institutions.

Project partner ENLACE was the first institution to enter into a formal agreement with MIDO. The objective of ENLACE's proposed investment was to install the technology required to enable credit agents to input client data into tablets which would automatically update the institution's database, thereby eliminating a duplicative process in which the field agent manually captured the data which would then have to be manually entered a second time into ENLACE's database. ENLACE's board of directors approved the investment once it saw a financial gain just in terms of time savings attending current clients (excluding the possibility of new clients) and in processing loan applications.

Since ENLACE was the first institution to sign an agreement, MIDO chose to install at no additional cost to ENLACE, the capability to implement mobile financial services for its customers rapidly once the Law of Financial Inclusion authorizing such services is approved by Congress.

Similarly, the Project supported the interest of APOYO INTEGRAL to enhance its competitiveness by investing in mobile platforms so that customers could access, query and manage their accounts via cell phones. Punto Transacciones was selected by INTEGRAL for this investment. For both investments, the Project required that the counterpart investment of ENLACE and INTEGRAL exceed that of the Project.

ACCOUNTING SOFTWARE

Attempts to implement the Performance System within Project partners, combined with the results emanating from the Project's Gap Analysis described previously, brought to light the very real deficiencies of the back-office accounting systems and procedures in a very high percentage of participating institutions. Indeed, of the five institutions for which the Gap Analysis was conducted during Fiscal Year II, the average investment required to strengthen existing accounting system exceeded $100,000.

During its work with AMC to bring it into full compliance with Superintendency requirements, AMC's board of directors concluded that rather than continue to "patch" its existing accounting system to comply with regulatory requirements, a better strategy was to purchase a new accounting system which would fulfill its current and future needs. Following its exhaustive review of products available in the market, AMC selected the microfinance accounting system SIM.NET developed by FUNDAMICRO. During this process with AMC the Project familiarized itself deeply with the SIM.NET system and guided FUNDAMICRO's efforts to enhance its capabilities to meet the needs of the Superintendency. In December 2013 the Project hired an expert to validate SIM.NET and to identify remaining issues requiring final adjustment to bring the software into full compliance with Superintendency requirements. Once this final process is completed in early 2014, microfinance institutions will have access to an accounting system with a robust database designed to carry out all calculations and to generate every report in complete and timely compliance with Superintendency norms and regulations.

In September 2013 Project partner ASEI, one of the institutions which had attempted unsuccessfully to implement the Performance System due to deficiencies of its existing accounting system, purchased the SIM.NET software with its own resources. This represents an investment in the neighborhood of $100,000 and is a direct result of Project technical assistance provided to ASEI, oriented towards strengthening its internal operations while urging it to modify its legal structure to allow for the eventual offer of savings products in the same communities in which it currently provides loans.

MICRO-INSURANCE

Together with access to loans and savings accounts, micro-insurance represents the third core financial service needed by all families, particularly lower-income households. Micro-insurance reduces the vulnerability and uncertainties of poor households, makes incomes and expenses less exposed to crises which indirectly increases investments and productivity, and promotes savings.

The Project secured an international consultant to conduct a detailed assessment of the micro-insurance market in El Salvador, to propose a strategy involving the entire value chain for micro-insurance products and to formulate recommendations to the Superintendency regarding how best to regulate this emerging market.

In coordination with the Superintendency the Project sponsored an international micro-insurance conference, with speakers from Washington, D.C. representing the Interamerican Development Bank, a corporate representative of Swiss Re, a representative from the Association of Insurance Providers of Colombia and the Project's international consultant from London. As a follow-up to this activity and at the request of the Superintendency, the Project coordinated the return of the International consultant to provide additional guidance.

Unlike credit or savings, insurance is a product which must be "sold" in the sense that the market requires more orientation and guidance with this product than with others. As such, the introduction of this new product has a longer gestation period than with other products. The Project, however, has succeeded in motivating regulators and private sector providers to think more creatively about this potentially very large untapped market.

"The Project will promote inclusive financial services and activities that continue after Project end."
Project Objective

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Values Week at the Superintendency
August 17, 2013

From Left to Right

Adjunct Superintendent of the Pension System
Omar Iván Salvador Martínez Bonilla

Superintendent of the Financial System
Víctor Antonio Ramírez Najarro

United States Ambassador
Mari Carmen Aponte

Adjunct Superintendent of Public Financial Institutions
Sigfredo Gómez

Adjunct Superintendent of Banks, Insurers and Other Financial Institutions
William Ernesto Duran Tobar

Adjunct Superintendent of Values and Conduct
William Efraín Calderón Molina

"Ambassador Aponte's speech left us strengthened, mainly the women who work in the Superintendency, to remain much more responsible and achieve positive results for the financial system and the country in general."

Lorena Dueñas Pacheco
Director Studies and Methodology
Superintendency of the Financial System of El Salvador

PROGRAMA EDUCACIÓN FINANCIERA EL SALVADOR

BCR Banco Central de Reserva de El Salvador

IGD

Defensoría del Consumidor

"We are grateful for the support of the USAID Improving Access to Financial Services Project for providing us with a tool which will allow us to expand Financial Education to all Salvadorans."

Central Reserve Bank
Superintendency of the Financial System
Consumer Protection Agency
Deposit Guarantee Institute

FINANCIAL EDUCATION PROGRAM OF EL SALVADOR

With the approval of the Project-designed Law of Financial Inclusion, for the first time many Salvadorans will suddenly gain access to a range of financial services. Therefore, to complement its activities to improve access to financial services, the Project also participated in and supported activities designed to educate all Salvadorans about how to manage these financial services to the best advantage of their families.

The Financial Education Program of El Salvador (FEP) is an inter-institutional initiative involving four important national institutions: the Central Bank, the Superintendency, the Deposit Guarantee Institute and El Salvador's Consumer Protection Agency. This group of institutions developed two products for achieving their objective of educating the national market: twelve mass media audios covering topics important particularly to lower-income households and workshops covering the same material but using teaching methodologies with groups of participants. The Project assisted with both products.

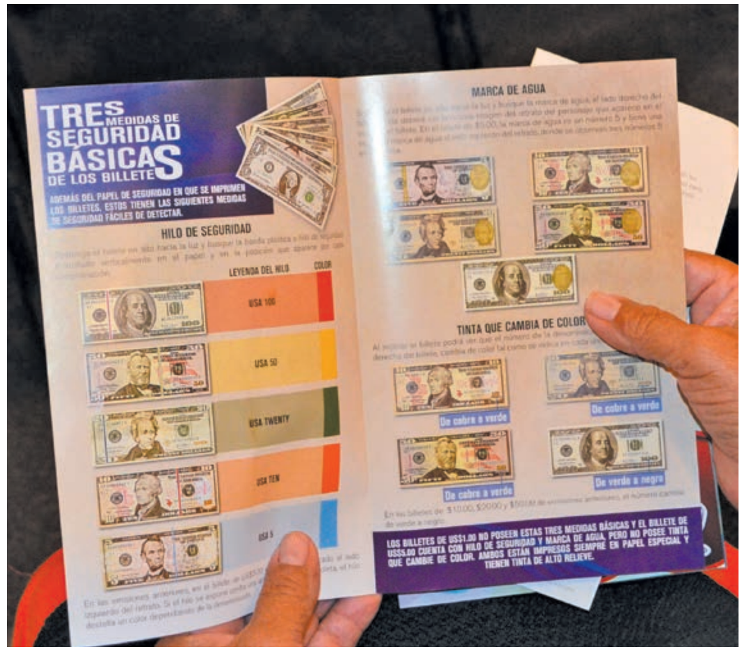
The list at right represents the twelve audio topics for which, at the request of the FEP, videos were developed in order to broadcast these messages nation-wide via television as well as during radio programs. The expectation of the FEP is that more people will see and comprehend better the messages as a result of the Project-sponsored videos.

To support direct training activities, the Project coordinated with the FEP to promote and implement the following financial education events:

The 722 people who participated in these financial education events, heads of household and micro-entrepreneurs, were outside the Project's formal targets, and this number does not count the approximately 35,000 viewers of the ACACU TV programs nor the two radio stations in San Miguel through which these financial education materials were broadcast.

City	Date	# Participants	% Women
La Unión	Aug. 9, 2013	29	45%
Santa Ana	Sep 20, 2013	106	57%
San Salvador	Nov. 26, 2013	442	62%
San Miguel	Jan. 21 -22, 2014	145	38%
TOTALS		722	55%

Figure 7



Nonetheless, these efforts represent an important initial contribution to the long-term financial health of El Salvador as people learn how best to manage their improved access to a wider range of financial services.

Videos Created

1. How does money circulate?
2. Financial Services
3. Recognizing Counterfeit Money
4. Savings and Family Budget
5. Deposit Guarantee Insurance
6. Withdrawing Savings
7. Saving in a Financial Institution
8. Contributions to Equity
9. Loans for your Business
10. Buying with Monthly Payments
11. Credit Cards
12. Insurance

LESSONS LEARNED

MOBILE FINANCIAL SERVICES

1. Bank regulators and supervisors readily support the concept of rules for mobile financial services which leave it to the market to decide which service providers will ultimately succeed with consumers.

2. Concerns about protecting the assets of consumers against loss and the threat of misusing mobile financial services for illicit behavior, can inhibit the timely authorization and implementation of this product. However, adequate payment systems regulations for mobile financial services can address these concerns.

3. Private national and international technology companies are eager to invest in promoting mobile financial services in El Salvador once legislation is approved. Therefore, financial outreach can be greatly expanded without donor investment and with minimal government investment.

4. Non-bank financial institutions are eager to expand their market presence and range of products in hitherto underserved markets through mobile financial services.

NON-BANK FINANCIAL INSTITUTIONS (NBFIs)

5. NBFI buyers must be educated in how best to benefit from detailed reports on over-indebtedness. A profitable balance will need to be found between the amount of report content and the corresponding price.

6. Demand for access to savings products among lower-income households is at least similar to and probably greater than demand for loans.

7. Significant investments in strengthening accounting policies, procedures and software are often required as non-bank financial institutions prepare for external supervision. The benefits of those improvements include allowing greatly improved performance monitoring and more stability across the financial system.

8. NBFIs are willing to engage in training activities and to make investments which meet the norms and requirements of the Superintendency of the Financial System.

9. The best way to engage a credit union federation is to demonstrate quality technical assistance at the level of individual credit unions and let them convince their federation of the benefits available to the entire credit union system.

10. Requiring partner institutions to match any USAID investment in their capacity building is a strategy which ensures that each initiative represents an institutional priority and increases the probability of excellent results.

Erick de la Paz Ramírez
Farmer in Usulután
Client of Fundación CAMPO and CREDICAMPO

- Loans to rent land, purchase seeds and fertilizers, rent machinery and pay laborers to produce corn;
- Loan to finance part of the construction costs of his home;
- Financial education training: family budget, rational management of loans, savings, and more;
- Technical assistance: proper use of insecticides; new varieties of corn, and more;
- Personal development: leadership, citizenship, working in teams, developing work plans, and more;
- As member of the credit committee of his local organization, an annual scholarship of $500 so his daughter could finish high school.

RECOMMENDATIONS

The Project has achieved significant results which in several instances far surpass USAID expectations. This is a true measure of the market need and desire for the activities implemented during the past twenty-seven months. To ensure that El Salvador builds on the progress achieved over the past two years, USAID should continue to support activities which will increase substantially the level of financial inclusion within El Salvador. The following are the Project's recommendations for accomplishing this:

- Include in an updated Partnership for Growth agreement, an explicit reference to financial services. 97% of businesses in El Salvador are small and micro enterprises, generating more than 50% of the country's jobs. With only 14% of adults having access to a formal bank account, efforts to strengthen and broaden the financial sector will surely contribute to elevating private sector productivity and competitiveness, incomes and therefore decreasing insecurity.

- Support the implementation of mobile financial services. The Project-developed Law of Financial Inclusion clarifies the rules under which mobile financial services will operate in El Salvador. As of the writing of this Report, approval of this Law is imminent. Several Project partners and commercial banks are already preparing themselves to take advantage of this new Law to expand their operations to communities – primarily rural communities – heretofore un-serviced by any financial institution. Future USAID investments should encourage and accelerate this expansion by providing training and technical support to all non-bank financial institutions eager to offer this important new service to existing and new clients.

- Support the efforts of FEDECACES to prepare its credit union affiliates for supervision by the Superintendency of the Financial System. Prior to close-out, the Project successfully transferred its highly effective "Gap Analysis" methodology to FEDECACES financial technicians. This analysis identifies the efforts and investments required to bring a financial institution up to full compliance with Superintendency norms and regulations. Often, following the "Gaps" presentation to a credit union´s governing body, support is required to strengthen and update internal policies and procedures. The credit union system manages approximately $350 million in savings of lower-income households. At present, at least a significant portion if not all of its member financial institutions have loan loss reserves less than what by regulation and prudent management dictate they should be. Therefore, USAID should support the efforts of FEDECACES to strengthen the prudent management of these resources.

- Bring the Cajas of the FEDECRÉDITO system under direct supervision by the Superintendency of the Financial System. The FEDECRÉDITO system surpassed US$1 billion in total assets during the past two years. Most of these assets are funded by the savings of lower-income households. Yet although the Superintendency of the Financial System supervises FEDECRÉDITO, this does not extend down to the individual Cajas. Although there are reasons to indicate excellent management of resources on the part of the Cajas, the need for monthly verification by the Superintendency remains. Future USAID initiatives should support the Superintendency´s operations to allow it to incorporate all 48 Cajas and all 7 Workers Banks of the FEDECRÉDITO system into its monthly monitoring and supervision.

- Continue to promote Micro Insurance. Along with access to credit and savings, micro insurance represents a critical risk management tool for low-income households and as such represents the third vital pillar of a comprehensive strategy for financial inclusion. In the absence of effective mechanisms to reduce, mitigate and manage risks, the vicious circle between poverty and vulnerability will remain. USAID should continue to support the interest of the Superintendency to promote micro insurance within El Salvador.

- Invest in the Financial Education Program of El Salvador "PEF". With the imminent authorization of the Law of Financial Inclusion by El Salvador's legislature, more financial services will be made available to more households than ever before throughout El Salvador. This highlights the importance of continuing the Project's efforts with the PEF to educate consumers about how best to manage household resources. The PEF consists of a coordinated effort of the Central Reserve Bank, the Superintendency of the Financial System, the Guarantee Deposit Institute and the Consumer Protection Agency.

- Support efforts to avoid over-indebtedness through better information management. The Superintendency manages a database of borrowers among supervised institutions, yet does not have the capability to analyze this information for the benefit of lending institutions. FEDECACES has a database of borrowers of its affiliated credit unions, which lacks important data from lenders outside its system. A member of the micro-finance association ASOMI – INFORED – provides credit bureau information, but solely from the microfinance organizations, credit unions and Cajas willing to provide it with information. EQUIFAX is a private sector international credit bureau which, with Project support, has developed a microfinance indebtedness report, but has yet to identify a successful price for its reports. Over-indebtedness is a serious risk; USAID should solidify the progress generated by this Project to reduce the risk of over-indebtedness in El Salvador, particularly in light of the imminent approval of the Law of Financial Inclusion.

- Continue to prepare micro-finance institutions for external supervision. The Project's emphasis on "formalizing" micro-finance institutions into supervised intermediaries capable of managing savings accounts should be continued. The Project has succeeded in focusing the strategic thinking of micro-finance institutions and their federation ASOMI towards the importance of savings in terms of their own future institutional viability and USAID should invest in future efforts to bring this to fruition. Specifically, USAID should support Gap Analyses for NBFIs whose governing bodies have formally committed to becoming supervised by the Superintendency within a certain timeframe and then fund a maximum of 50% of the subsequent technical assistance required to work with the institutions to eliminate all identified gaps.

- Strengthen the capacity of the Superintendency of the Financial System to supervise more financial institutions. The recommendations above demand a greater level of effort for the Superintendency. USAID should continue to support its on-going transition towards risk-based supervision and support its efforts to develop sufficient capacity to adequately supervise credit unions, Cajas and micro-finance institutions. This support could concentrate on building staff capacity through greater exposure to international best practices and techniques for identifying and reacting to risks. USAID should also support the efforts of the inter-institutional committee of the Superintendency and the Central Reserve Bank to ensure a regulatory environment which supports the growth of financial services for the country's poor households.

RESULTS COMPARED TO PROJECT GOALS

Indicator	Original Goal	Modified / New Goal at Project Request	Result	No. and % Women
Regulatory and supervisory staff trained	80	240	248	95 38%
Non-bank financial institutions (NBFIs) strengthened	8		13	
NBFIs ready to comply with requirements necessary for licensing and oversight	2		2	
NBFI staff trained in improved/new methodologies and products	300		1,371	645 47%
Number of new or improved financial products	2		5	
Number of new borrowers	800	3,200	7,343	68% *
Increase in NBFI equity	6%		11.5%	
Number of new savers		800	7,198	4,144 58%

Additional Indicator:

Associations strengthened	1		2	

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