FUELING SMALL AND MEDIUM ENTERPRISE GROWTH IN EL SALVADOR

USAID'S FINANCIAL SERVICES FOR SMES PROGRAM FINAL REPORT

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USAID'S FINANCIAL SERVICES FOR SMES PROGRAM
FINAL REPORT

Contract No. EEM-E-02-05-00006-00, Task Order No. 2
USAID's Financial Services for SMEs Program
San Salvador, El Salvador

CONTENTS

ACRONYMS

ABANSA	Salvadoran Banking Association
AI	Apoyo Integral
BAC	Banco de América Central
CAFTA-DR	Central American-Dominican Republic Free Trade Agreement
FOMIR	Program for Strengthening Rural Microfinance
FUNDAPYME	Foundation for Small and Medium Enterprise Sustainable Development
MFI	microfinance institution
MSME	medium, small, and micro enterprise
NBFI	non-bank financial institution
PIR	program intermediate result
SME	small and micro enterprise
SFS	Superintendency of the Financial System

EXECUTIVE SUMMARY

As of 2005, micro, small, and medium enterprises (MSMEs) accounted for 99.6 percent of El Salvador's businesses, employing 65 percent of the population. Small and medium enterprises (SMEs), in particular, were becoming recognized as drivers of economic growth. According to the Ministry of Economy, while SMEs represented only 9 percent of businesses in 2005, they employed 28 percent of the workforce and contributed 40 percent of GDP. Ratification of the Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) in 2006 created opportunities for SMEs to contribute even more to El Salvador's economy.

Despite their real and potential contributions to employment and economic growth, most SMEs lacked the access to financial services needed to respond to these opportunities. Many found themselves caught in the "missing middle:" the loans they needed were too large and the terms too sophisticated to be met by the country's microfinance institutions, yet they were too small to attract conventional commercial banks. Lacking specialized SME credit analysis and risk management systems, commercial banks viewed SMEs as too small, risky, and time-consuming to serve in significant numbers.

It was in this context that USAID's Financial Services for SMEs Program was developed to assist financial institutions in efficiently and profitably serving these businesses, thereby providing the nearly 16,000 SMEs operating in El Salvador with the financial services needed to grow, generate employment, and increase sales and income.

In just more than two and a half years, the program significantly increased SMEs' access to finance in El Salvador. With USAID support, the program's financial institution partners:

- Increased their number of SME borrowers by 5,283, or 48 percent;
- Increased the number of loans to SMEs by 9,380, or 56 percent; and
- Introduced 36 new or improved SME products.

According to a recent Central Bank study, only 18 percent, or fewer than 3,000 SMEs, had access to bank credit in 2005. Program partners' ability to reach 5,000 new borrowers in less than three years demonstrates the significant impact of the program on El Salvador's financial sector. Even more importantly, the program created capacity to serve SMEs within major financial institutions where it had not previously existed. The program helped bank partners move away from cumbersome, manual systems to more streamlined evaluation tools, significantly reducing the time and paperwork to secure SME loans. New methodologies introduced by the program also helped banks shift from decisions based solely on collateral to a focus on enterprises' true capacity to repay their loans. The program promoted a consultative approach to SME sales that emphasized individual business needs and packages of credit and non-credit products to meet those needs. And perhaps most important to the sustainability of the program, four banks created or strengthened specialized SME units, while five implemented specialized SME

credit risk management systems, institutionalizing their commitment and new approaches to SME finance.

In addition, continuing the work of previous USAID projects, the program helped one microfinance institution (MFI) to become a licensed, deposit-taking non-bank financial institution (NBFI), and helped two others apply for regulated status.

Key success factors. Many factors contributed to the program's success in institutionalizing a commitment to and best practices in SME finance, and ultimately in expanding SME lending. Three stand out as fundamental to success and serve as lessons learned for future projects in El Salvador and elsewhere:

1. The holistic approach to capacity building in SME lending, emphasizing not only appropriate financial products but credit analysis, risk management systems, and customer service.
2. Establishing a solid business case for SME lending at the outset by exposing Salvadoran bankers to successful regional programs and quantifying the potential SME market in El Salvador.
3. Careful selection of partner institutions to ensure commitment to and capacity for significant expansion of SME finance.

Challenges. While the program had a significant impact on the financial sector, it fell short of its goals of increasing the number of SME borrowers by 10 percent and increasing the net volume of loans to SMEs by 20 percent. Two key challenges affected progress: changes in bank ownership, which slowed and sometimes halted program activities with individual institutions, and the sub-prime crisis, which slowed lending activities in El Salvador and globally. Since the financial crisis began, the program has seen a decline in loans to new SME borrowers. This is understandable as banks retrench and focus on existing customers. However, it will be important that USAID continue to provide assistance to maintain the program's momentum and continue lending to SMEs during and after the crisis. The program also found superintendency review of NBFI licensing applications more onerous than expected, which led to one of the program's original two MFI partners deciding not to move forward with its application.

Lessons learned. An SME development initiative invariably involves institutional change, which is never easy. Solid commitment of bank staff is critical at all levels, and the process of securing this commitment is a continual one.

Recommendations. Ongoing USAID support to banks could build upon the successes of the program and help NBFIs expand SME finance. Banks should institutionalize permanent training programs in SME credit methodologies and create or improve staff incentive programs to reduce staff rotation. NBFIs should develop specific SME products, credit analysis skills, and marketing approaches. The Superintendency of the Financial System should work with financial institutions to finalize and introduce SME-specific regulations that complete the transition to credit risk-based supervision, and create specific SME risk units.

SECTION I. DRIVERS OF GROWTH: THE IMPORTANCE OF SMES TO ECONOMIC GROWTH IN EL SALVADOR

In the last decade, El Salvador has become one of the most stable and successful economies in Central America. During a 2005 visit, U.S. President George W. Bush called El Salvador “one of the really bright lights in Central America,” noting that years of war and devastating natural disasters had failed to squash the country's spirit.

Salvadorans are renowned for their tenacity, hard work, and entrepreneurial character. As of 2005, there were 158,574 MSMEs operating in El Salvador, representing 99.6 percent of functioning businesses. More importantly, these businesses employed 65 percent of the population. Small and medium enterprises, in particular, were becoming recognized as drivers of economic growth. According to the Ministry of Economy, though SMEs represented just 9 percent of businesses in 2005, they employed 28 percent of the country’s workforce and contributed 40 percent of GDP.

With El Salvador’s ratification of the Central American-Dominican Republic Free Trade Agreement in 2006, SMEs’ potential to realize significant growth and contribute to El Salvador’s economy increased further. Despite this great potential, however, SMEs still faced a number of challenges in reaching new markets and growing their businesses. According to a 2002 survey conducted by FUNDAPYME, the largest obstacle was lack of access to financial services. Many Salvadoran SMEs found themselves in the “missing middle:” the loans they needed were too large and the terms too sophisticated to be met by the country’s microfinance institutions, yet they were too small to be attractive to conventional commercial banks.

Commercial banks saw SMEs as too small, risky, and time-consuming to serve in significant numbers. When they did try to serve this market, they found that many SMEs were ill-prepared to go through the lengthy process of applying for a business loan. Few SMEs keep regular financial statements, and those that do rarely follow Generally Accepted Accounting Principles. In speaking about the sophistication of small and medium enterprise clients, one bank’s credit manager explained that SME clients are like “larger microenterprises.” The process for reviewing loans to SMEs was often labor-intensive and costly due to applicants’ lack of financial management, planning, and statements. As a result, while some Salvadoran financial institutions offered loans to SMEs, the financial services sector as a whole did not provide the volume or types of products and services demanded by SMEs. High interest rates and collateral requirements, inadequate loan terms, and inappropriate products all posed challenges for growing SMEs. Most had to rely on personal savings or credit lines from partners, family members, and friends, limiting their ability to respond to growth opportunities created by CAFTA or otherwise. The El Salvador Exporters’ Corporation estimated that more than 40 percent of exporting businesses had difficulties gaining access to working capital. It was in this context that the USAID Financial Services for SMEs Program was developed to assist financial institutions in efficiently and profitably serving the SME sector, thereby providing Salvadoran businesses with the financial services needed to grow, generate employment, and increase sales and income.

SECTION II. THE FINANCIAL SERVICES FOR SMES PROGRAM

The Financial Services for SMEs Program was the culmination of more than 20 years of successful USAID support for greater financial inclusion. Originally, this support focused on strengthening and expanding the capacity of NBFIs to serve microenterprises and other marginalized populations, and later adding small and medium sized enterprises due to the commercial financial sector's rejection of these markets. By the mid-2000s, El Salvador had a fairly robust NBFI sector, though it primarily served micro and small enterprises. Importantly, commercial banks had begun to target MSMEs, though, as mentioned in Section I, this outreach was tentative and with inefficient credit analysis, management systems, and non-specialized products and services that limited the growth of MSME portfolios. To capitalize on this incipient awareness of and interest in the SME market, USAID established a Development Credit Authority program to help two local banks, Banco Salvadoreño and Banco Procredit, to offset risk and expand SME lending. USAID also created the Financial Services for SMEs Program to develop the capacity of local financial institutions to serve SMEs.[1] The program, implemented from 2006 to 2009 by Chemonics International with Crimson Capital, Shorebank International, Skol Associates, and the International Consulting Consortium, was designed to expand SMEs' access to credit and other financial services.

Building on USAID's successful FOMIR projects, which over seven years had helped financial institutions extend credit to microenterprises, the program also sought to assist two microfinance institutions in becoming licensed, deposit-taking NBFIs under the Superintendency of the Financial System (SFS).

In two and a half years, the program had a significant impact on SME finance in El Salvador. With program support:

- The number of SME borrowers increased by nearly 5,283, or 46 percent;
- The number of loans increased by 9,380, or 56 percent; and
- 36 new or improved SME products were introduced.

And perhaps most important to the sustainability of program interventions, four banks created or strengthened specialized SME units and implemented specialized credit risk management systems, institutionalizing their commitment and new approaches to SME finance. (Additional results can be seen in Annex A.)

[1] These two programs worked synergistically with USAID's other programs to improve the competitiveness of Salvadoran SMEs, including the Export Promotion Program.

Table 1. Summary of Program Results

Indicator	End of Project Results
Quantitative	
Active new SME borrowers	5,283
Active new SME loans	9,380
Value of active new SME loans	$183.556 million
People trained	2,630
Qualitative	
Functional and sustainable SME capacity created/consolidated	4
Dedicated SME areas functional	4
SME credit risk management systems operational	4
Appropriate SME products developed/improved and piloted	36

A. Key Success Factors

Many factors contributed to the program's success in expanding SME lending by institutionalizing a commitment to and best practices in SME finance. In addition to a strong, collaborative relationship with USAID, which allowed the program to rapidly gain access to partner institutions and build on USAID's reputation in the financial sector, three factors stand out as fundamental to success and can serve as lessons for future projects in El Salvador and elsewhere: the holistic approach to capacity building for SME lending, establishing an undeniable business case for SME lending at the outset, and careful selection of partner institutions.

Other Elements of Program Success

- High-quality assistance at a reasonable cost.
- Assistance from regional bankers.
- Cost-sharing by partner banks.
- Dedicated oversight by program financial specialists to ensure coherence, continuity, and efficiency.

The program's holistic approach to building SME lending capacity was built around the understanding that it would require more than simply appropriate financial products and services. Banks also needed specialized risk management systems and tools and customer service strategies. The program helped partner institutions develop all three competencies. Building these competencies could not have occurred in the program's short timeframe, however, without demonstrating an undeniable business case for SME lending at the outset, which garnered the commitment of partner institutions. The program did this through a national SME market survey that established the impressive financial opportunities of this market, as well as study tours to successful SME lenders in the region. (See Section III for a more detailed description of the program's holistic approach and establishment of the business case for SME finance). Finally, the program carefully selected partner institutions with the commitment and capacity to significantly expand financial access to SMEs.

Because access to finance plays such an important role in the development of SMEs and, in turn, the Salvadoran economy, choosing the right partners was crucial. The program had to reach a significant number of SMEs in a relatively short time. Therefore, financial institutions with the potential to serve large numbers of SMEs in diverse geographic zones were the priority.

From the outset, the program took a market-driven approach to expanding the capacity of El Salvador’s financial sector. Program finance specialists interviewed and screened potential financial institution partners according to four criteria:

1) **Commitment**: Was the financial institution convinced that serving SMEs made good business sense? The program did not work with those only interested in the segment for corporate social responsibility reasons. Commitment had to come from the executive level.
2) **Scale and sophistication**: Was the institution large enough to serve a significant number of SMEs in terms of size and geography? Did the institution have the potential to provide a broad range of financial products and services at the best interest rates and other terms (due to economies of scale and operational sophistication)?
3) **Stability and sustainability**: Do the bank’s records indicate that it is financially sound and sustainable, with the capacity to expand its services (return on investment, liquidity, growth rate, delinquency, etc.)?
4) **Resources**: Is the institution willing to put its money where its mouth is? It would have to contribute between 25 and 75 percent of the actual costs of technical assistance, a significant investment in growing its SME business.

Program staff met with all major commercial banks and with NBFIs, workers’ banks, and financial associations and federations. In evaluating those with the requisite commitment, scale and sophistication, stability and sustainability, and resources, the program found that regulated, commercial institutions held the greatest potential for the SME sector.

B. Implementing Partners

Based on the criteria described above, the program selected six commercial banks and secured formal commitments through memoranda of understanding. The selected banks were Banco de América Central, Banco Hipotecario, Banco Salvadoreño (now HSBC), Banco Promérica, Banco Agrícola, and Banco Cuscatlán (now Citibank).

In addition, the program identified a federation of workers’ banks and credit unions, FEDECRÉDITO, to be part of the initiative. While FEDECRÉDITO ’s individual members did not have the resources or scale to have a significant impact, its network — especially its regulated workers’ bank members — could have a significant impact.

USAID also selected two MFI partners to receive program assistance: Apoyo Integral (AI) and AMC. Both had received technical assistance under the previous FOMIR program and were assembling applications to become licensed, regulated non-bank financial institutions under the SFS. The program supported these institutions for its first two years as they sought regulated status. Apoyo Integral was ultimately successful, while AMC suspended its efforts due to the associated high costs of regulation. The program then chose two additional NBFIs, Caja de Crédito Soyapango and Caja de Crédito Sonsonate, to assist in preparing applications.

SECTION III. A WINNING APPROACH TO CREATING BANK CAPACITY TO SERVE SMES

From the beginning, program staff stressed a holistic approach to strengthening banks' capacity to serve SMEs. New products were not enough: if a bank did not have appropriate risk management systems or customer service to support the new product, it would never be able to introduce the product to its customers. The program implemented a series of phases with each bank partner to ensure that a holistic platform was developed before rolling out SME products and services.

For a bank to truly engage the SME segment in a committed, competitive fashion and as a strategic business priority, the following elements are critical:

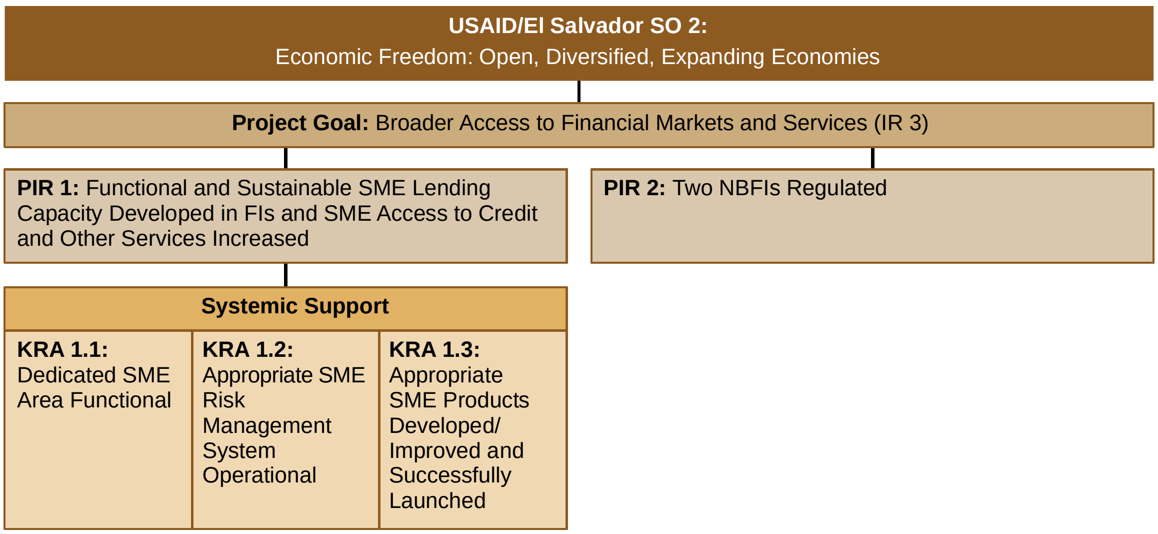
A specialized, formal SME unit or area. This area requires dedicated leadership, human and budget resources, infrastructure, systems, and incentives. The unit should foster teamwork between SME client and risk management. It is critically important that these two areas coordinate well and clearly understand each others' goals and parameters. SME initiatives have foundered on adversarial and unconstructive relations between these two key areas. The unit should have automated transaction processing and management information systems, which are critical for efficiently and profitably handling a large volume of SME clients.

A functional SME culture. The SME unit should be staffed by individuals who are sensitive and responsive to SME clients as they are, not as they "should" be. Staff should take a consultative or "financial solutions"-based approach to SME client relationship management. This approach seeks to assess and understand a client's financial condition and broader business and risk characteristics, then applies credit or other (non-credit) products as financial solutions. In dealing with this segment, a bank should avoid an approach focused on meeting sales or volume quotas, as is often the approach to retail and consumer banking. A quota-driven approach is inappropriate and can even be harmful in an SME or enterprise banking context.

A credit risk management methodology appropriate to SMEs. This methodology should factor qualitative as well as quantitative elements into a comprehensive risk classification for each client. The methodology must include common SME characteristics, such as informality, lack of transparency, and financial illiteracy. Despite these limitations, potential SME clients may still be viable and creditworthy. The risk management methodology should help the bank to make that determination.

An SME-tailored menu of products. SMEs need a variety of financial products to meet their needs, such as financing options like short-term working capital, trade finance, medium-term investment credit, and non-credit services such as cash management, electronic banking, and payroll services. It is important that financial institutions provide a one-stop shop for SMEs if they want to capture and retain these important clients. To receive high business priority, the SME segment must represent multi-product potential to a financial institution. Fee income from non-credit products is just as important as net interest income from credit products in justifying an SME business platform at a large financial institution.

The program structured its methods and systems for measuring results around these critical elements. The graphic below outlines how the key results areas for Program Intermediate Result (PIR) 1 line up with the elements of success and feed into USAID's larger goal of creating a more open, diversified, and expanding economy in El Salvador. (The methodology for achieving PIR 2 is described in Section IV.)



To ensure that bank partners' SME operations were grounded in the critical elements described above, the program developed a six-phase process for building and testing capacity to serve SMEs within its financial institution partners:

1. Build awareness of and consensus on the importance of SMEs to the business model and portfolio diversification.
2. Create specialized business units (areas) with dedicated staff and appropriate customer service approaches.
3. Build appropriate risk management processes and procedures to efficiently and effectively serve SMEs.
4. Design products that meet the specific financial needs of SMEs.
5. Pilot systems and products to test and refine service approaches.
6. Roll out SME services on a massive scale.

Each of these phases and the program's successes are detailed in the remainder of this report.

A. Changing Paradigms: Convincing Banks of the SME Market's Potential

While all of the program's bank partners were committed to serving the SME market, few understood the segment's potential impact on their business. The first step in securing buy-in was convincing the banks that investing in the SME segment could generate significant returns. The best way to make the case for SME lending was to expose Salvadoran bankers to peer institutions that were successfully making SMEs a cornerstone of their business.

As a first step, the program hosted a study tour to Colombia for executives from partner banks. During the tour, Salvadoran bankers visited three banks successfully serving SMEs. They also participated in the Colombian Banking Association's annual small business banking conference.

The program also sponsored a study by a local market research firm to raise bank awareness of the size of the SME market and its potential as a growth segment. Using secondary research, the study concluded that there were approximately 16,000 SMEs in the market, only 22 percent of which were being served with financial products and services.

The study estimated that the market demand for SME finance could be $1 billion, a figure that quickly captured the interest of the banks. The study also surveyed SMEs and conducted focus groups with SMEs to understand their financing wants and needs, how they were currently financing their businesses, and what types of financial products they would like to access. The study also found:

- SME credit constitutes a low percentage (20 percent) of the overall portfolio of the Salvadoran financial sector.
- The SME segment therefore represents a considerable business opportunity for the local financial sector, with as much as $1 billion in potential credit demand.
- A substantial amount of SME credit takes the form of consumer credit — up to 10 percent of the total credit portfolio. This poses considerable risk for financial authorities and players, not to mention SMEs themselves.
- The complexity, rigidity, and excessive bureaucracy of credit application requirements at local banks are a major deterrent to SME-specific credit growth.
- Lengthy delays in response, excessive documentary requirements, and inflexible interest rates and maturity schedules are other impediments to SME access to credit.
- Client-friendly SME service culture is noticeably absent at local banks.
- There is excessive reliance on physical collateral and an absence of effective public- or private-sector credit enhancement or guarantee capability.
- SMEs' lack of transparent, reliable financial statements exacerbates their already-problematic access to finance.

The program presented the study's findings at a high-profile SME sensitization workshop co-sponsored with the Salvadoran Banking Association (ABANSA) in August 2006. The event demonstrated the importance of SMEs to the Salvadoran economy and to banks' future growth. The study also introduced and sensitized the program's bank partners to the unique characteristics and needs of SMEs. Immediately afterwards, the program received requests from all of its bank partners to begin helping them develop or expand their SME business. With the banks now fully on board, the program provided each with thorough diagnostics of its existing business model for reaching SMEs, identifying gaps in their SME service culture and areas for improvement. The diagnostics included evaluations of each bank's strengths, weaknesses, opportunities, and threats with respect to SME customer service, brand/image, and product offerings. The results of these diagnostics were discussed with partners in individual workshops, during which roadmaps for an SME service platform were developed in a participatory manner.

Developing and Implementing Roadmaps for SME Success

Diagnostics were discussed in individual workshops with each bank's executive team. The workshops also laid out clear strategies for building integrated SME service platforms, including integrated customer service approaches, customer and risk management systems, processes, and products to successfully roll out to SMEs. The bank's marketing, risk, human resources, and other departments must all work hand-in-hand to develop and implement a successful SME strategy. The roadmaps established key target market niches (by size, sector, or geographical location), determined steps to establish functioning SME units or areas, identified gaps in risk management systems and product offerings, and defined the resources to achieve key goals.

The workshops trained 165 executives at various levels within the six banks. Many participants felt the exercises provided a clearer picture of their institutions' culture and approach to serving SMEs and identified steps for expanding products and services. While each institution's roadmap contained some common elements, each plan and technical team was customized to the needs, shortcomings, and priorities of each institution. Individual work plans were developed and overseen by full-time program finance specialists, who liaised with the institutions over the life of the program.

The individual roadmaps were seen as living documents that must incorporate the inevitable unforeseen contingencies during implementation. Due to bank acquisitions, restructurings, and financial crises, virtually all bank roadmaps were revised during the program. The program's annual work-planning sessions and interim adjustments were used to revise partners' roadmaps as implementation moved forward.

SUCCESS STORY

A Fresh Perspective on SME Lending

Leveraging lessons learned in Colombia inspire bankers in El Salvador

PHOTO: CHRISTEN GAIR

Study tour participants at Bancolombia's credit processing center.

Lending to SMEs is perceived as risky and costly, yet there is enormous demand among SMEs for financial services. Exposing Salvadoran bankers to new products, risk management tools, and client relations strategies provided a new perspective on the opportunities in SME finance in El Salvador.

In June 2006, USAID's Financial Services for SMEs Program sponsored 13 bankers on an intensive study tour to Colombia. The tour exposed bankers to the potential of the SME segment and introduced them to SME banking best practices. With support from USAID's Colombian Enterprise Development program, Colombia's banks are leaders in SME finance, designing innovative sector-specific lending products, improving loan terms, and championing client service.

Salvadoran bankers visited three of Colombia's largest banks, as well as a regional SME guarantee fund and the Banking Superintendency. Participants learned best practices in reaching SME clients, evaluating SME lending risk, developing appropriate financial products, utilizing specialized guarantees, and incentivizing employees. Bancolombia, one of the most successful Colombian banks in the sector, stressed, "The bank must adapt to the needs of the client to be successful." Participants finished their trip by participating in the two-day International Congress on SME Banking in Cartagena.

The exchange of tools and innovative approaches, and the relationships created between Salvadorans and Colombians, left a lasting mark. Salvadoran bankers brought back lessons learned, recommendations, and resources and are eager to put them to work in their own institutions. Ana Marina de Carazo of El Salvador's largest bank, Banco Agrícola, commented, "The study tour left us with many lessons learned and, more than anything, the challenge to serve SMEs in a more aggressive and profitable way."

B. Establishing SME Areas

In building successful SME service platforms, bank partners needed to ensure that adequate resources and staff would be available to support the new initiatives. This required each bank to assign an adequate budget and leadership to achieve the objectives of the SME roadmap.

At the beginning of the program, of the original six bank partners, only Banco Agrícola had a specialized unit or profit center to serve SMEs. The others did not yet have a structure or dedicated staff to support the new initiatives. Program staff and consultants worked to secure commitments from bank executives to dedicate leadership and human and budget resources and to put in place the necessary infrastructure, systems, and incentives to support SME services. In building or expanding their SME business, bank partners needed to recognize that SMEs are very different than corporate clients and require different approaches and customer service. Even the partner bank that had an established SME unit had not yet developed customer relationship management strategies and systems tailored to the SME market. Onerous paperwork, inflexible procedures, and unaccommodating staff had turned many SMEs off from banks.

The program took a multifaceted approach to help banks develop a functional SME culture. First, at the August 2006 SME sensitization workshop mentioned above, SME experts stressed the unique characteristics of SMEs and the importance of incorporating specialized customer service approaches to serve them. Many bank executives received similar counsel from their peers at the Colombian institutions visited on the study tour. With this foundation, the program helped bank partners develop appropriate job descriptions for SME executives and personnel.

Finally, based on the results of the gap analysis of banks' SME business models, the program team helped implement a culture of consultative sales at the executive and branch levels through coaching, hands-on training, and mentoring. As several bank partners underwent acquisitions and restructuring over the course of the project, this process of training and mentoring became a continuous part of each bank's technical assistance program. Program consultants also helped bank partners update staff incentives to align with the consultative sales approach.

Building Effective Customer Relationship Management Systems

Systems should be easily accessible and user-friendly to all departments within the bank as well as to branch staff. They should include up-to-date information on SME client accounts, outstanding balances, histories of product usage, and the SME's financial condition, credit grading, and visit write-ups. Automated processing for credit approvals and transactions was needed to enable the institution to handle the highest possible volume of client activity (credit and non-credit) at the lowest feasible cost.

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CASE STUDY

Betting on SMEs

Banco de América Central takes ownership of SMEs


PHOTO: BANCO DE AMÉRICA CENTRAL

Banco de América Central's work with Salvadoran SMEs can serve as a template for the rest of Central America.

CHALLENGE Banco de América Central (BAC) is a young Salvadoran bank with an established presence in the local financial sector. It has been a leader in the retail credit card business and an important player with large regional corporations. Small and medium enterprises were not part of its mission or strategic business focus until 2006. According to Rodrigo Menendez, head of BAC enterprise banking, the reason was simple: "We simply lacked awareness of the SME market segment."

INITIATIVE Previously, SMEs arose only in the context of corporate social responsibility initiatives, and there was no plan or a strategy for dealing with the segment. In June 2006, BAC signed an agreement with the USAID Financial Services for SME Program for a joint initiative geared toward improving the bank's penetration and coverage of SMEs in areas such as products, risk evaluation, client management, and transaction processing. The joint work plan was endorsed at the bank's highest levels after recognizing that the segment represented serious potential for new business. For example, the bank realized that the point-of-sale network for its credit card activity, which consisted largely of small enterprises, was a potential SME client in itself. "USAID assistance was the key element in swaying the bank to give this segment top priority, and the SME segment is now the bank's major bet," stated Menendez.

RESULTS The result of the USAID-BAC joint initiative has been a fundamental realignment of the bank's strategy toward the SME segment to the point where the segment has now become the bank's core business. The institution's regional holding company, as well as its key foreign shareholder, General Electric Capital Corporation, are monitoring developments with the SME initiative in El Salvador with avid interest and seeking possible replication in the region and beyond. BAC has now developed an integrated platform for SME business, which incorporates SME products, credit risk management, systems/procedures, specialized personnel, and designated branches.

C. Building Sound SME Credit Risk Management Systems

At the inception of the program, bank partners relied overwhelmingly on traditional credit practices that involved manually processing SME credit proposals via bureaucratic credit committees. Most decisions were made based on the value of collateral, requiring at least 100 to 150 percent of the loan value. Banks rarely accepted collateral other than real estate, which a large majority of SMEs were unable or unwilling to put up. Cash flow and project or enterprise risk were very low priority if they were considered at all. The concept of “lending to the business” versus “against the guarantee” was rarely seen.

As a first step in introducing more appropriate and efficient SME risk management to its partners, the program hosted “Risk Management in SME Financing,” a one-day workshop in March 2007. The workshop covered what a proper SME risk management process should encompass and provided a basic SME evaluation model to participants. The workshop discussed the client advisory role that credit officers and executives would need to adopt to help potential clients develop financial statements and cash flow projections. For these executives, who bear a dual responsibility for credit quality and business development, the maxim “know your client” is indispensable. The workshop also highlighted important themes in SME risk management:

- *SME clients are unique and require specialized risk management schemes*. Risk management methodologies for other segments, such as large corporate, consumer, or microcredit clientele, are not often appropriate.
- *Qualitative as well as quantitative factors must be considered and given appropriate relative weights in SME risk classification.* Credit scoring models must incorporate or be coupled with tools to evaluate the qualitative aspects of a firm, such as reputation, owner’s knowledge of the business, and relationships with buyers and suppliers. Some examples of these qualitative and quantitative elements are provided in the text box on the following page.
- *Risk management systems should incorporate the broadest possible universe of risks to which an SME clientele might be exposed*. SME risk models should be predictive versus reactive, per Basel II principles, so the bank can anticipate and adequately provide for all contingencies that could result in non-performance and loan losses.
- *SME risk management models should reflect actual risk profiles and credit performance*. The bank should develop and regularly update a database of its SME clients to enable proper weighting and analysis of sector, geographic, demographic, and other factors.
- *Enterprise repayment capacity and commitment must be overriding considerations*. Both are functions of firm economic performance and future commercial viability.
- *Guarantees should be taken, but should not factor into credit approvals.* Guarantees should be used as secondary protection at the very best.

Following the risk workshop, program staff and consultants worked with bank partners to develop or improve methodologies and models for evaluating SME credit risk. Program consultants conducted comprehensive diagnostics of the banks' credit processes to identify shortcomings and recommend changes to make them more appropriate to SMEs. Program experts stressed minimizing and, in many cases, automating the steps, paperwork, and information required for processing credit applications to reduce the burden on SMEs and banks.

Elements of a Successful SME Credit Risk Model

Quantitative:

- Enterprise cash-flow analysis to establish repayment capacity.
- Financial statement breakdown to understand financial structure, degree of solvency and liquidity, debt capacity, capital adequacy, and other conditions.
- Financial and operational ratio analysis tailored to specific activities (for manufacturing, current ratio, inventory turnover, receivable collection periods, debt/equity, and capacity utilization would be relevant; for commerce and services, greater emphasis would be on short-term solvency/liquidity and cash flow).

Qualitative:

- Owner's knowledge of business and market.
- Support and commitment from owner and other key partners.
- Character and moral orientation of the firm principles.
- Family and enterprise culture.
- Market image of the firm and its principles among clients, suppliers, competitors, and within the broader community.

Incorporating the themes addressed in the workshop, program consultants then helped the banks develop SME-specific policies and models with basic parameters for evaluating the credit risk of new clients and determining the growth potential of existing ones. These parametric credit risk models, which included many elements of credit scoring, drew from the banks' existing SME client data as well as market studies to establish quantitative and qualitative criteria with varied, flexible weights. While in some cases these models used basic Microsoft Excel scoresheets, the program also fostered bank investments in new software and infrastructure to support the models and to encourage more efficient credit processing and quicker turnaround.

D. Designing and Marketing Specialized SME Product Portfolios

With the appropriate organizational structures and management systems in place, the program began working with bank partners in 2007 to develop or improve product offerings for SMEs. Program staff emphasized the need for the banks to become one-stop shops for SMEs' financial services needs, providing the broadest possible range of credit and non-credit products and services. The banks would also need to apply the consultative sales or financial solutions-based approach mentioned in previous sections.

With assistance from program consultants, bank SME personnel created strategic business and marketing plans for their business. These plans defined the banks' target SME segments based on in-depth market analysis that incorporated existing and prospective customers. The plan included a financial needs assessment of existing and potential clients and identified SME needs for developing or adjusting financial products. This assessment drew on surveys, focus groups, and other tools to determine client "wallet" or business potential and product priorities. Using this information, program experts helped bank partners develop a portfolio of basic SME credit products and complementary credit and non-credit products.

Examples of Financial Products and Services Required by SMEs

Credit:
- Short-term working capital (including factoring)
- Trade finance
- Medium- to long-term investment credit (including leasing)

Non-credit:
- Current/checking account (including payment and balance monitoring services)
- Cash management (including automatic investment facilities)
- Collection services
- Electronic banking
- Payroll services

Program experts also worked with bank SME executives to develop marketing and publicity campaigns for product rollout. To reach SMEs, these campaigns utilized multiple channels, including multimedia advertising, press, brochures, and special events in addition to face-to-face marketing by SME credit officers and executives at the branch level. All marketing efforts were supported by intensive staff training in consultative or financial solutions-based sales to ensure that personnel could assess and understand a client's financial condition, evaluate broader business and risk characteristics, and identify appropriate credit and non-credit products to meet each customer's needs. This approach was different from the bank's traditional sales approaches in retail and consumer banking, which is often geared toward meeting sales or volume quotas, and therefore required additional coaching, mentoring, and training at all staff levels.

In addition, the financial solutions-based approach required new or adjusted incentive schemes to promote SME sales and ensure high portfolio quality.

SECTION IV. NON-BANK FINANCIAL INSTITUTION TRANSFORMATION

The program's second intermediate result involved helping two microfinance institutions, Apoyo Integral and AMC, become licensed, regulated NBFIs under the Superintendency of the Financial System. Prior to the start of the program, these institutions were selected by USAID based on successful participation in USAID's FOMIR program. USAID saw both institutions as having great potential to expand financial services to micro and small enterprises. To significantly expand their portfolios, however, they needed more capital to on-lend. The most effective way to secure steady streams of capital is to capture deposits from the public. Under Salvadoran law, NGOs are prohibited from taking deposits, so AMC and AI needed to become regulated NBFIs under SFS supervision.

The program began working with both institutions almost immediately, conducting gap analyses to determine which aspects of their systems and operations they needed to update or implement in order to submit their applications to and pass SFS inspection. As a first step, the program helped them complete or update the feasibility study that was part of the application process.

To prepare AI, the program helped upgrade its management information systems and develop modules to enable deposit-taking. In addition, program subcontractor ACCION International assisted in analyzing client retention and developing a strategy for building client loyalty and improving retention in El Salvador's highly competitive microfinance market. The program also trained AI staff and executives in risk management using Basel II principles and in reporting and compliance as a regulated NBFI. As a result, Apoyo Integral submitted its application in July 2007. After a series of inspections by the SFS, Apoyo Integral secured NBFI status in December 2008.

After two years, AMC decided not to apply for regulated status due to the stringent capital and reporting requirements for NBFIs. In mid-2008, the program identified two credit union members of FEDECRÉDITO which were eager and committed to becoming regulated NBFIs. The program helped the Cajas de Crédito de Soyapango and Sonsonate to complete the required feasibility study and assemble their applications.

USAID
FROM THE AMERICAN PEOPLE

SUCCESS STORY

Small Loans Build Family Businesses

Access to credit gives micro and small businesses the opportunity to start or expand.

PHOTO: KELLY MILLER

Gloria Benavides, a fruit vendor in the Central Market in Santa Tecla and a client of the first credit and savings society in the Salvadoran financial system, Apoyo Integral.

"When I come up against [financial] difficulties, I go to Apoyo Integral. They have always been there for me."

Gloria Benavides is a true entrepreneurial success in El Salvador. For years, Gloria worked as a secretary, earning minimum wage — less than $50 per month. As a single mother of three, she supplemented her salary by selling fruit, mostly oranges and pineapple, to provide for her family. From this, Gloria was able to save a little.

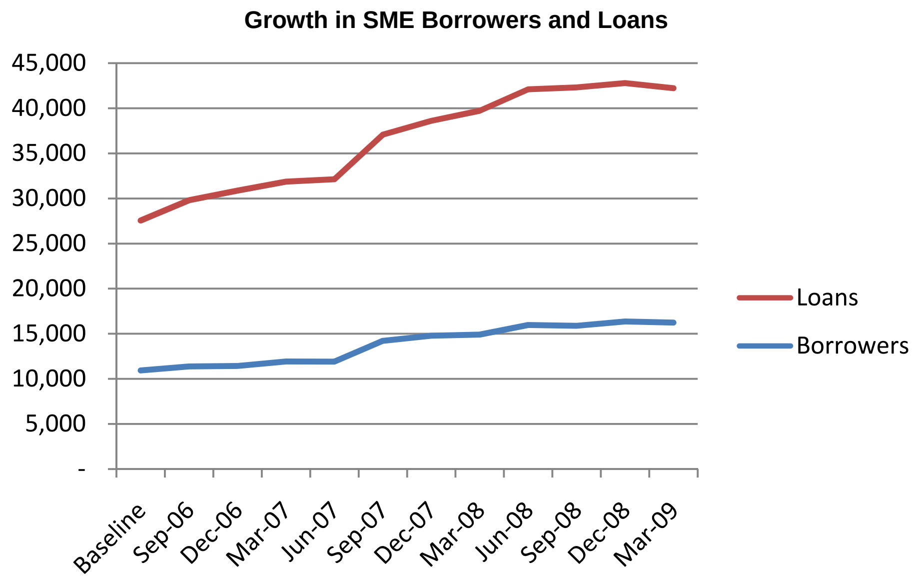
With her savings, she began to expand her fruit business until it began to bring in more money than her salary as a secretary. Taking a leap of faith, Gloria left her secretarial job to focus on her fruit business. In early 1999, she approached Apoyo Integral about a business loan.

Apoyo Integral is a non-banking financial institution that has received technical assistance from USAID's Financial Services for SMEs Program to better serve micro and small entrepreneurs. Through group and individual loans, Gloria built her credit, expanded her business, and invested in her and her children's future. In June 1999, Gloria received her first loan of $285. Through USAID and Apoyo Integral's services and support, Gloria used the loan to expand her fruit selection.

Since then, Gloria has received and paid back more than 20 loans. With help from her family and Apoyo Integral, she now owns two fruit stands, with monthly profits of nearly $1,000. She sells to individuals and to a five-star hotel in San Salvador. Since Gloria gained access to credit, she has become a home-owner, purchased a truck to transport fruit to the market, and has put all of her children through college. As of February 2009, Gloria remained a well-standing client at Apoyo Integral. Because of USAID's support and investment in microenterprise, Gloria built a thriving business and created a better life for her and her children.

SECTION V. PROGRAM ACHIEVEMENTS AND IMPACT

Over the course of the Financial Services for SMEs Program, staff and consultants helped partner banks build sustainable platforms to serve SMEs. These platforms integrated all aspects of the banks' business, from strategy to risk management to sales and marketing of SME products. Branch staff — from the president to the loan officer — were educated and trained on successful approaches to attracting, serving, and retaining SME clients. In line with the program's key results areas, all original bank partners established or enhanced specialized units to oversee the growth of their SME business. In addition, all bank partners developed and implemented specialized SME credit risk evaluation models and systems. And the large majority of partners developed tailored product portfolios to serve SMEs' credit and non-credit financial services needs. Together, in just two years, these developments helped increase the number of SME borrowers by 5,283, or 46 percent; the number of loans by 9,380, or 56 percent; and the volume of loans to SMEs by $183.6 million, or 25 percent.



A. Strategies and Units Dedicated to Serving SMEs Created

As mentioned in Section II, only one of the program's bank partners had units or profit centers dedicated to small business finance. By demonstrating the potential of the SME segment for their business, the program spurred all of the banks to create, restructure, or invest additional resources in specialized units. Even more importantly, the program helped these banks develop viable strategies for growing their SME business. Due to internal restructurings, Banco Cuscatlán and Banco Promérica's SME units are currently in limbo, but Banco HSBC, Banco Hipotecario, Banco de América Central, and Banco Agrícola all continue to have strong, functioning SME areas that are leading new initiatives in the sector.

Banco de América Central's transformation was particularly dramatic. When program staff met with bank executives for the first time in March 2006, the bank was largely a consumer credit provider that was interested in evaluating the potential for small business credit cards. Thanks to program relationships with bank executives and technical assistance from short-term program advisors, by 2007, BAC had redirected its strategy and repositioned itself as an SME financial services provider. The bank invested heavily in a new strategy and systems for serving SMEs, including hiring a developer to design and implement a tailored credit risk scoring software package. The bank also developed a portfolio of nearly 40 financial products to create a one-stop shop for its SME clients and their growing businesses.

Well into the process of developing a program to pilot SME services, BAC announced that it was taking things even further: the bank would make a multimillion-dollar investment to acquire a well-established MSME finance NGO called PROPEMI. This entity, with a $56 million portfolio and 1,700 SME clients, represented a quantum leap forward and an even stronger commitment to developing an SME business portfolio.

This shift in strategic thinking, and the bank's decision to invest so heavily in a new SME profit center, was the direct result of program assistance. Having developed a firm belief in the need to develop SME business, BAC saw the PROPEMI acquisition as a chance to realize major synergies by combining PROPEMI's client base and staff with BAC's geographic network, technological platform, and product portfolio.

Program staff worked closely with BAC executives throughout 2008 on integrating PROPEMI's portfolio and staff. BAC officially launched co-branded PROPEMI/BAC services in all of the bank's branches in October 2008. The acquisition is highlighted in a video success story that can be viewed online at http://blip.tv/file/1556782.

Leveraging PROPEMI's Capacity to Broaden the Range of SME Financial Services

A major challenge in Banco de América Central's acquisition of PROPEMI was grounding PROPEMI's client executives in BAC's powerful, diverse product portfolio so that they could craft more tailored, effective financial solutions for their SME clientele. The in-depth client knowledge of PROPEMI personnel was a significant competitive advantage. The program worked closely with the bank to train both PROPEMI and BAC staff and to re-brand PROPEMI/BAC services.

B. More Efficient Systems to Measure the True Risk of Serving SMEs Implemented

A major program accomplishment involved helping virtually all of its bank partners move away from cumbersome, manual systems, with decisions based largely on guarantees, to streamlined evaluation tools that more accurately measure the repayment capacity and true risk of SME clients. At the outset of the program, evaluating SMEs was time-consuming, costly, and heavily dependent on collateral guarantees. The time and paperwork involved in this process discouraged more banks from lending to SMEs and ensured that only sophisticated SMEs with financial records and real estate could secure business loans.

In the case of HSBC, for example, the program helped identify shortcomings in its risk management systems, with particular attention to SME processes. As was common to all bank partners, HSBC's systems involved manual, cumbersome, and time-consuming credit approval procedures, which required onerous efforts by client executives and others and exaggerated the importance of collateral. Program consultants and finance specialists helped the bank overhaul and redesign its SME credit process to:

Yolanda Aguirre started out selling clothes in informal markets. With the help of HSBC, she now owns five boutiques in El Salvador and imports clothing from New York, Los Angeles, and Panama.

- Permit profitable credit growth in the SME segment;
- Increase the origination of new SME credits;
- Streamline and accelerate credit evaluation and approval; and
- Maintain acceptable levels of credit risk.

The new system aimed to increase SME business in an environment of growing competition from other financial institutions. It incorporated a parametric SME risk scoring system utilizing qualitative and quantitative elements with varied and flexible risk weights tailored to HSBC. With program assistance, the bank also developed a specialized software program for administering the new system and a database to feed continuously updated information into the scoring system. This system also facilitated more automated processing using specialized financial and credit analysts in an innovative "credit factory"-type operation.[2] To support the new processes, administrative and support functions (including the credit and legal departments) were made more accountable to SME client and commercial executives. HSBC also made substantial investments in personnel, tripling the number of business executives and new performance incentive schemes to support the focus on consultative sales and approach to SME risk management.

All of this had a transformational effect on the institution and contributed significantly to the successful launch of its pilot program in six branches in May 2008. The new risk systems and procedures greatly simplified, expedited, and improved the quality of the credit approval process. The time for processing a credit was reduced from 15-30 days to 2-3 days. And by fall 2008, the bank had nearly doubled its active SME loans and had increased its SME clients by 45 percent. In December 2008, CEO Gerardo Simán Siri reiterated HSBC's commitment to the sector by announcing publicly that one of the bank's principal goals for 2009 was to better serve SMEs in El Salvador.

[2] Such a "factory" was demonstrated at Banco de Bogotá during a study tour to Colombia.

C. More Appropriate Products Developed for SMEs

Another critical program accomplishment was broadening the range of services available to SMEs in El Salvador. This followed the program's strategy of promoting a consultative approach to SME sales that emphasized loan officers and credit executives evaluating individual SME needs and designing packages of credit and non-credit products to meet those needs. Prior to the introduction of this sales approach, banks offered a limited number of products with standardized terms that were established without regard to an SME's characteristics. Perhaps even more important than the introduction of new products was the introduction of product bundling, which, as illustrated below, facilitated credit approval and the delivery of a range of flexible financial products.

The program's consultative approach required educating bank partners about SME needs and opportunities for balancing loan interest revenue with fees from non-credit services. Program consultants and staff demonstrated that such fee income could be just as important as income from credit products in justifying SME business platforms. In this vein, the program helped its partners create menus of SME-specific products, ranging from short-term working capital, trade finance, and medium-term investment credit to non-credit services such as cash management, electronic banking/payments, and business checking accounts. Program staff and consultants heavily involved the banks' risk departments in product development to ensure that new products were within the bank's risk tolerance levels.

For Banco Hipotecario, El Salvador's only bank focused solely on SME clients, the program walked bank executives through an analysis of client characteristics and needs as compared to the bank's product offerings. This analysis, conducted with the help of surveys, interviews, and focus groups, found that Hipotecario's SME clients were primarily family businesses with concentrated authority and decision-making, weak administrative capacities, substandard operational and financial management, and high levels of informality and volatility. These businesses often needed cash-flow management and short-term working capital solutions. They also needed fast and flexible service, products tailored to their specific needs, and transparent, competitive, market-driven pricing. Clients also had a strong desire for technical assistance and advice on financing and credit alternatives.

The analysis found Banco Hipotecario's products to be responsive to its clients' needs in many respects. The bank provided cash-flow-based working capital solutions that were flexible and tailored to client needs, with clear and transparent product pricing. The bank was also in a position to provide assistance and advice to SME clients. However, the bank was slow in turning around individual credit proposals and relatively inflexible when it came to packaging credit to allow different financing alternatives under a single umbrella facility.

Shorebank International expert Manuel Alegre recommended that the bank leverage its pre-existing strengths, including its SME focus, tradition of personalized service, and staff's consultative capacity to help clients build sound credit applications to address these two weaknesses in its product offerings. He also suggested introducing bundled credit and non-credit products for SME customers under the brand “SME-BH.” The illustrative mix of products included current accounts, payment and collection, and electronic banking services (e-payments for suppliers, credit installments, payroll, taxes, etc.) coupled with a global facility that incorporated ceilings for different types of financing requirements, including overdrafts, revolving working capital, and installment-based investment credit facilities. For the SME customer, this type of multi-product, multi-facility approach sped up the approval process and improved flexibility and responsiveness to business needs. Clients could be pre-approved for a variety of products at once. For the bank, it freed up credit committees, delegating credit decisions to business executives.

PHOTO & CAPTION

Small Loans, Big Impact

PHOTO: KELLY MILLER

Joaquin distributes medicine to supermarkets and pharmacies throughout El Salvador. He manages his distribution business from his home.

Joaquin Humberto Chicas is the proud owner of a small but rapidly growing medicine distribution business serving pharmacies, wholesalers, and supermarkets nationwide. Only a few years ago, however, Joaquin was selling medicine to individual consumers in San Salvador's Central Market. Thanks to assistance in 2007 from Promérica Bank, a partner of USAID's Financial Services for SMEs Program, Joaquin received a loan that enabled him to expand his business' focus and scale.

With his first loan, Joaquin expanded his inventory and began supplying retail outlets instead of selling small quantities directly to consumers. Building on his existing business ties, Joaquin's business took off. In fact, it grew so quickly that he had to rent two houses — one to live in and the other as a supply depository. This proved to be too expensive, however, so Joaquin returned to Promérica. With a second loan, Joaquin converted underutilized space in his home into large storage space. With this increased capacity, Joaquin now stores larger quantities of generic drugs and vitamins, which he distributes to his former competitors in the Central Market. Moreover, his clientele has expanded to include supermarkets and pharmacies.

Since his first loan in 2007, Joaquin has seen 100 percent growth in sales. He now employs three people and proudly states that he operates his business with no middlemen, no promoters, and no vendors. He receives new orders weekly and has fostered good working relationships with 10 pharmaceutical laboratories across El Salvador.

D. Enabling Environment for SME Finance Improved

While the scope of the program did not initially anticipate working to improve the enabling environment for SME finance, it quickly became apparent that certain constraints in the legal and regulatory environment and in the financial sector would limit SMEs' access to credit. These constraints included lack of awareness of the importance of SMEs in the economy and their unique characteristics; lack of SME-appropriate regulatory and supervisory approaches, which inhibited the adoption of best practices in SME risk management; and the absence of an institutionalized vehicle to promote SME finance best practices and to advocate for the sector. To minimize these constraints, the program sought targeted interventions to improve the environment for SME finance through sector-wide activities and those targeting financial authorities.

D1. Awareness Raised about the Market Potential of SMEs and their Unique Characteristics

The program held events to highlight the prominence and importance of SMEs in the Salvadoran economy, their unique characteristics (which require specialized approaches), and the need for all actors and stakeholders, particularly banks and financial authorities, to support the sector. As a result of these events and individualized training and technical assistance, banks now compete for SME clients and, as described in the following section, the regulatory authorities are adjusting their regulatory framework to better support SME lending.

The first event, the previously mentioned August 2006 workshop on SMEs in the financial sector, convinced banks of the business case for SME finance. Presentations on the magnitude of unmet demand — estimated at up to $1 billion—and the highly successful experiences of Colombian financial institutions galvanized the six leading Salvadoran banks to develop specialized SME areas. The second, a December 2006 event titled "Free Trade Agreements, SMEs, and the Financial Sector: Interlocking Challenges," reinforced these messages in the context of current and future free-trade regimes relevant to El Salvador (such as CAFTA-DR). The forum stressed the importance of an effective, coordinated, systemic effort to support Salvadoran SME development, particularly at the financial sector regulatory level.

The program also held an SME risk management seminar for the financial sector. The event generated interest among banks for assistance in developing specialized SME risk management systems. They also spurred the SFS to contract a consultant to revise El Salvador's regulatory framework to include SME loan-specific regulations.

Finally, the program organized two events on the sub-prime financial crisis and the importance of continuing to serve SMEs. While bank partners have adopted more conservative credit policies for all market segments, all remain committed to this market.

D2. Regulatory and Supervisory Framework for SME Finance Improved

The program's enabling environment efforts were aimed at improving SME regulatory norms as well as SFS examiners' approaches to supervising SME lending. The former — normative activities — were geared toward convincing the SFS to allow banks sufficient flexibility in developing their own risk management systems for SME business, while the latter — supervisory activities — were geared toward facilitating the adoption of a more analytical, risk-oriented supervisory style in keeping with Basel II principles. Though these were ancillary activities with limited budgets, the program provided meaningful assistance, including workshops, study tours, and direct technical assistance to the SFS.

The program sponsored a study tour in May 2007 for five senior officials from the SFS to visit Colombia's Banco de Bogotá and the Financial Superintendence. The tour exposed SFS staff to best practices in SME risk management and supervision at the institutional and regulatory levels. Participant feedback was highly positive, and there was a strong consensus that El Salvador should adopt similar practices. Moreover, participants developed a stronger awareness of SMEs as a distinct and critical segment of Salvadoran enterprises, one that requires specialized, high-priority treatment and tailored risk management.


The superintendent of the SFS and his staff discuss the unique characteristics of SMEs and SME finance at a program seminar.

In March 2008, a program consultant conducted an in-depth assessment of the SME banking regulatory regime and made a presentation to Superintendent Luis Armando Montenegro and to a separate group of senior SFS officials. The presentation stressed the importance of transitioning from the current "norms compliance"-based supervisory regime to a "risk supervision"-based one recommended by Basel II. It also stressed the need to make SFS norms more realistic and tailored to SMEs. The program recommended intensified dialogue among the SFS, ABANSA, and member banks to improve SME norms. Superintendent Montenegro concurred with the recommendations and agreed to coordinate working sessions between the SFS and ABANSA. In November 2008, convinced of the need to revise its regulations, the SFS hired well-known regulatory expert Jacques Trigo to develop new regulations that address SMEs' unique characteristics and risk profile.

D3. Private-Sector Advocate for SME Finance Created

In early 2007, following several program-sponsored workshops and events, ABANSA and its member banks established an SME committee to focus on issues of interest to SME-oriented banks. The committee has met periodically to discuss topics such as tax approvals related to SME credit proposals, SFS norms and supervision, SME guarantee funds, and best practices in SME banking. The program provided guest speakers for committee meetings to discuss SME guarantee funds, client management, and norms and supervision.

The program presented the ABANSA committee with its analysis of the current regulatory regime for SME lending in El Salvador. The presentation, similar to that given to the SFS, stressed the importance of transitioning to “supervision by risk” per Basel II principles as opposed to simply maintaining a traditional “norms-compliance”-oriented supervisory regime. It also stressed that SFS personnel are still not sufficiently aware of the SME segment and its importance to the economy. The program recommended intensified dialogue on SME activity between the SFS, ABANSA, and member banks. ABANSA’s executive management agreed to follow up on this suggestion in coordination with SFS officials. The program drafted a work plan for ABANSA to use as roadmap.

In July 2007, a program consultant conducted an in-depth assessment of the SME credit guarantee capacity in El Salvador. The program concluded that there is no guarantee fund operating optimally and that the current guarantee schemes are limited and lack the multiplier potential of a guarantee fund. It made detailed recommendations on how a new fund might be created using existing guarantee programs as a foundation, and presented these conclusions to USAID and the ABANSA SME committee. While program staff followed up with Banco Centroamericano de Integración Económica and USAID’s Development Credit Authority to investigate options for creating the fund, the program did not have the time or resources to establish such a fund during the project.

E. NBFIs Newly Regulated

As noted elsewhere in this report, Apoyo Integral successfully completed a three-year battle to become a regulated, deposit-taking institution in December 2008. Achieving this status means that AI can capture deposits from the public. This steady stream of capital will enable AI to make loans to significantly more microentrepreneurs at lower interest rates. It can now attract new customers looking for a safe place to save and provide an additional service to existing borrowers. Program assistance also ensured that Apoyo Integral can better retain existing customers. Two other NBFIs — Cajas Soyapango and Sosonate — have completed applications to the SFS.

SUCCESS STORY

Introducing the First Regulated Savings and Credit Society

With USAID support, Apoyo Integral is now the first credit and savings society in the Salvadoran financial system.

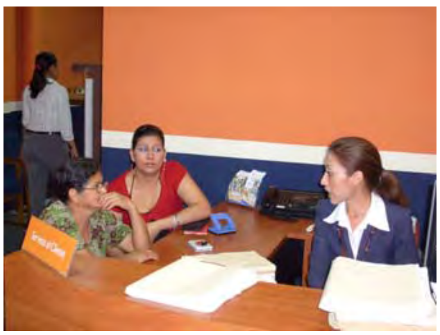


PHOTO: KELLY MILLER

Now a regulated non-bank financial institution, Apoyo Integral remains committed to serving its original customer base of micro and small entrepreneurs.

At the onset of USAID's Financial Services for Small and Medium Enterprises Program in 2006, Apoyo Integral had just 101 active small enterprise borrowers. As of December 2008, they had almost six times that number, or 593 active borrowers. The growth in microenterprise borrowers also doubled during the program.

Achieving regulated status from the Superintendency of the Financial System was vital to Apoyo Integral's success as a financial institution. As a regulated non-bank financial institution, Apoyo Integral (AI) can now capture savings and term deposits, guarantee those deposits with the Deposit Guarantee Institute, and issue credit cards, all key to sustainability. With a lower-cost source of capital for on-lending (savings and deposits), AI can now provide loans at lower interest rates and a wider variety of services to its clients.

By becoming the first regulated credit and savings society in El Salvador, Apoyo Integral is one of the most successful cases of financial advancement in the Salvadoran microfinance sector. Continued assistance from USAID was a key factor. "USAID's contribution, through its technical assistance, was undoubtedly an important support in the successful culmination of the regulation process. As a result, we are grateful and we share this accomplishment with them," said Carlos Viteri, general manager.

Obtaining regulated status was not easy. Apoyo Integral began receiving USAID support in 1992 when it was a small organization providing individual housing credit. In 2006, after demonstrating its capacity to expand to serve micro and small enterprises, USAID selected AI as an ideal candidate to support in becoming a regulated organization under its Financial Services for Small and Medium Enterprises Program. The two-year endeavor to strengthen Apoyo Integral's capacity to fulfill all superintendency requirements included development of a software system to produce uniform reports, completion of a feasibility study, development of standardized credit procedures, and design of a new organizational structure.

With Apoyo Integral, USAID developed and implemented a tailored technical assistance and training plan. In December 2008, the superintendency approved AI's new status and in January 2009, the institution opened its doors to the public as El Salvador's first savings and credit society. Apoyo Integral has significantly expanded its clientele and portfolio while staying true to its ideals and continuing to lend to the people that helped start the organization: underserved individuals and micro and small entrepreneurs.

SECTION VI. CHALLENGES AND LESSONS LEARNED

Over the life of the program, several partner institutions suspended or delayed technical assistance activities due to internal developments, such as major reorganizations and staff restructuring. For example, the program experienced protracted delays in implementing work plans with Banco Hipotecario and Banco Promérica due to internal staffing and restructuring, although both institutions re-engaged with the program once their issues were resolved. While it is highly desirable to implement work plans on schedule, that is not always possible, even with the most dedicated partners, and allowances must be made for delays and disruptions. This was especially true with this program, as banks were investing heavily in SME initiatives and contributing roughly half the cost of technical assistance. If banks are paying for a part of their assistance and investing directly in developing platforms, they will take them seriously in the final analysis as a general rule.

The program encountered certain challenges with bank partners that it could not overcome, impacting its contributions to the development of the sector. Several of these challenges are detailed in the following sections.

A. Changes in Bank Ownership

In 2007, Citigroup, HSBC, and Bancolombia acquired three of the program's major bank partners and El Salvador's three largest banks: Banco Cuscatlán, Banco Salvadoreño and Banco Agrícola, respectively. While there was initial concern about the commitment of the new owners to growing the banks' SME business, all three indicated continued support for the segment. In some respects, they facilitated the adoption of new approaches (see Section D below). Nonetheless, internal restructurings brought about by the acquisitions had serious ramifications for the program's original work plan. Banco Agrícola almost immediately suspended program activities, feeling that Bancolombia's strong SME orientation would enable it to develop its SME business without program assistance. Banco Cuscatlán moved forward successfully with SME program development but suddenly suspended activities in late 2007 due to internal restructurings and concerns about the growing financial crisis and its global impact on Citigroup.

Banco Salvadoreño continued work plan implementation with only minor delays after HSBC took over. It went on to become one of the program's biggest success stories, growing its SME portfolio exponentially in just a few short years. HSBC even saw benefits for its SME activities extend beyond the local market: some of the credit innovations developed with program assistance in El Salvador were adopted by HSBC's regional office in Mexico.

Despite delays and staff departures, the program maintained close contact with each partner and met regularly with Banco Agrícola and Banco Cuscatlán to offer assistance. In all cases, bank executive management remains committed to building their SME portfolios and plans to resume SME activities using lessons learned from the program once internal restructuring and external shocks subside.

B. Sub-Prime Crisis Spillover

Due to its proximity and dependency on U.S. markets, El Salvador began feeling the impacts of the financial crisis in 2007. The first of the program's bank partners to be affected was Banco Cuscatlán, which was acquired by Citigroup that year. The program's counterpart at the bank was abruptly retrenched (along with several other senior executives) in late 2007 due to Citigroup's difficulties stemming from the U.S. sub-prime crisis. The program's work plan with Cuscatlán was well advanced at the time and had already resulted in the rollout of SME pilot programs in several branches. While bank representatives repeatedly assured the program that they remained committed to the SME segment and to building on the foundation laid with the program, Citigroup's problems continued to be severe, and program staff were unable to re-engage the bank during the rest of the program. As mentioned above, we are still confident that Banco Cuscatlán will eventually stabilize and pursue SME business.

In light of the experience with Banco Cuscatlán and in anticipation of challenges with other banks, the program hosted an event in spring 2008, "The Economic and Financial Climate and Salvadoran SMEs: Challenges and Opportunities." The event raised awareness of the critical importance of supporting the SME segment in light of a possible recession in the United States and financial volatility in El Salvador. The event also aimed to reassure partner banks that the SME segment was a relatively stable one in turbulent as well as smooth economic periods.

In the first half of 2008, most institutions continued to move ahead with building their SME programs, making significant investments to grow their presence in the segment. While HSBC, BAC, and Banco Hipotecario made significant progress and grew their SME portfolios in the first two quarters, the credit crunch and growing panic from the worsening global crisis significantly slowed SME growth in the last half of 2008. In nearly all cases, the number of active SME borrowers declined during this period due to banks' growing risk aversion. In some cases, however, the number of loans to SMEs grew, demonstrating banks' willingness to expand loan and product offerings to proven customers.

At the end of 2008, the program hosted a series of seminars to communicate the reality of the crisis and to reiterate the importance of the relatively stable SME segment to bank growth. Two seminars presented the current state of and expected trends in the economy to bank partners and NBFIs, with a focus on the importance of SMEs to the economy and to their business. The last seminar presented a similar economic picture to SMEs, with tips and tools for how to grow their businesses and access financing in light of the crisis.

C. NBFI Regulation Process

With regard to the program's second objective, helping AMC and Apoyo Integral proved quite challenging. Program staff and consultants worked diligently for the first two years of the program to secure AMC's executive director and board of directors' commitment to moving forward with the regulation process. While AMC's executive director continuously pledged a commitment to the process, the institution did not follow through.

Program staff voiced concerns about AMC's commitment almost immediately, so it was not a surprise when AMC's board decided in early 2008 to wait for changes in NBFI regulations. As a result, the program shifted to assisting two credit unions in developing their applications. Given program staff's early concerns, however, it may have been better to decide earlier to work with other institutions.

Apoyo Integral was extremely committed at all levels to obtaining regulated status. The commitment of AI executives was critical, as the process for securing regulated NBFI is an intense one. Despite the institution's fairly sophisticated management information systems, the program assisted AI for more than a year to create software modules that enable it to capture deposits and comply with SFS reporting requirements. Apoyo Integral submitted its application to the SFS in July 2007 and expected to receive licensed status by the following spring. Well into the review process, however, program staff realized that SFS approval would be much more time-consuming than originally anticipated. The SFS faced competing priorities throughout the life of the program, making the NBFI review and approval process a slow one.

D. Lessons Learned for Future Program Implementation

SME development invariably involves institutional change, which is never easy. Institutional inertia is always present in banks and other large businesses, and an SME development initiative must help executives manage change, especially in bank areas that are "success critical," such as the branch network. The head and key staff of an SME area must drive this process with the support of senior management and ensure institutional buy-in from all areas of the organization. The achievement of key objectives in an SME strategic plan hinges on institution-wide effort.

Solid commitment of bank staff at all levels is critical. All executives in the chain of command at partner banks must be committed to entering the SME segment and engaged in the process. The program occasionally encountered mid-level bank executives who were committed to the program's proposed SME approaches but experienced resistance from top executives. In other cases, the SME mandate had not been fully communicated down to the branch level. The Financial Services for SMEs Program helped build buy-in by involving executives and managers in the development of work plans and requiring their commitment by contributing to the costs of assistance. Program staff followed up with coaching managers and loan officers at the branch level. Institutions such as BAC and HSBC, which saw some of the greatest successes in building their SME portfolios, were clear cases of strong senior-level commitment and support throughout the entire process. A bank's SME unit needs a collaborative and collegial relationship with all areas relevant to their mission. Resistance must be overcome through persuasion and cooperation instead of compulsion. Teamwork and partnership are critical.

> **Lessons from BAC's "Buy vs. Build" Approach**
> While most institutions focused on building SME capacities, Banco de América Central took a more aggressive approach of acquiring a well developed MSME finance organization and its experienced staff so as to jump-start its SME initiative. This innovative approach can yield significant results in a very short time. Critical to success is proper integration of the acquired entity and its culture, client relationships, and knowledge. The acquirer must be determined to preserve these elements, and the integration process must reflect this. With BAC and PROPEMI, this was accomplished by incentivizing PROPEMI client managers and customers to remain loyal and committed to BAC. Integration was seen as value-enhancing for BAC as well as for PROPEMI and its staff. The added value was in combining the two organizations' best practices and capacities successfully and synergistically. This process was so successful in El Salvador that it is now seen as a potential template for the rest of BAC's operations in Central America.

Flexibility in implementation of the SME initiative is critical. While the program carefully crafted and updated work plans with each of its financial institution partners, program staff viewed these plans as living documents. Program partners were large private-sector actors with a range of competing priorities, and they had to be persuaded (and regularly re-persuaded) that it was in their commercial and strategic interests to mount and execute new SME initiatives. As such, the development of successful SME programs required that program staff exercise maximum flexibility to adjust and redirect assistance plans when necessary. In all cases, the development of SME programs was an iterative and organic process, reflecting changes in institutions, staff, and the financial sector. This process involved human, financial, technical, organizational, and cultural elements that all had to come together for SME programs to be successful. The process of change had to be catalyzed and fostered and left to develop on its own terms, bank by bank, at its own pace. While the process could be guided, successful initiatives had to come from within the bank and could not be imposed by program staff.

SECTION VII. LOOKING FORWARD

The Financial Services for SMEs Program awakened the financial sector to the potential and needs of the SME market and equipped it with specialized approaches and tools to efficiently and effectively serve the sector. Looking forward, partner institutions and USAID can and should build on these impressive results to ensure the development of an ever-expanding, vibrant SME finance sector.

A. Recommendations for Banks

General:

1. It is important that banks with established specialized SME areas maintain close relationships with their clients. Adopting approaches such as Customer Service Relationship (CRM) would be extremely useful given that they can help banks comply with know-your-customer requirements. These management approaches would also facilitate further market segmentation and more refined techniques and methods to increase their client bases.
2. It is also recommended that banks adopt specific techniques for identifying prospective clients. Mapping cities and making use of the more general criteria incorporated into credit risk evaluation models will be helpful.
3. To complement client identification techniques, banks should continue to strengthen their techniques for approaching potential clients, negotiating and proposing financial products, and closing the deal.
4. With customer service, banks should adopt a culture of continual innovation in what they consider good service to SME clients. Banks should not assume that a client is permanently theirs simply because they have sold them a product. SME units should incorporate post-sale auditing, with support from banks' marketing areas, to identify activities that improve client loyalty, such as offering a wide range of products and services that can be adapted to the needs of all sectors and SME subsectors. This is a common practice in product markets. For example, computer manufacturers like Dell, Toshiba, and Sony produce as many as 500 models for their clients. The day has passed when banks offered just three to five products, as they did before becoming familiar with strategies for serving SMEs.
5. Banks' risk areas should analyze and maintain statistics on the reasons that clients become delinquent on loans. Reasons might include environmental risks, economic problems specific to a given sector or subsector (technological advances that affect productivity, costs, etc.), or risks attributable to the management and characteristics of the enterprise. This data should be incorporated into prospective client databases and used to evaluate credit risk.

Specific:

1. For banks that have already rolled out SME strategies, tools, and products on a wide scale (Banco de América Central, Banco Agrícola, HSBC, and Banco Hipotecario):
   - Look inward. Build employee loyalty, especially in those in charge of portfolio management, to minimize the loss of trained and specialized staff.

- Institutionalize permanent training programs in SME credit technologies, among other areas. To achieve this, it would be helpful for banks to maintain close contact with others that have made advances in serving SMEs.
- Create or improve employee incentive programs to avoid the high turnover that is so harmful to banks.

2. For banks that are still in the process of developing or piloting SME strategies, tools, and products (Promérica and Banco Cuscatlán/Citibank):
    - Reinvigorate and staff up SME units.
    - Incorporate training and technical guidance on how to effectively serve SME clients. Banco Cuscatlán, for example, received training and technical assistance to understand and implement an SME culture, develop an SME risk model, and design appropriate SME products. However, it has yet to roll these out on a wide scale. Promérica received training and technical assistance in developing and implementing the SME platform elements described in this report, but lacks an internal champion to coordinate SME strategy.

B. Recommendations for NBFIs

1. In general, NBFIs should model their SME service culture, especially for small enterprises, on the Ministry of Economy's definition of SMEs as enterprises with annual sales of between $100,000 and $999,000 and with 10-49 employees.
2. Given that their loan portfolios already include SME clients, NBFIs should seek assistance in designing products especially for small enterprises, rather than continuing to offer them the same products they offer to microenterprises.
3. NBFIs should gradually improve their credit risk evaluation systems, specifically credit analysis, to improve response times — a key issue for small enterprises.
4. Finally, NBFIs should dedicate part of their marketing to the identification of SMEs. Care should be taken not to finance SMEs that have been rejected by commercial banks. In this regard, it would be useful to obtain access to databases with credit information to improve the evaluation of new clients or those requesting larger loans. Use of risk evaluation systems is recommended.

C. Recommendations for the Superintendency of the Financial System

1. It is recommended that the SFS share its recently drafted SME regulations with Salvadoran banks and NBFIs to build consensus around these norms and put them into effect as soon as possible.
2. Complete the transition from compliance-based to credit risk-based supervision. The SFS has already made significant changes in this regard. Additional training in this area is recommended.
3. Create specialized SME risk units within the SFS.
4. Support creation of new guarantee funds or improve existing funds to facilitate access to credit.
5. Initiate the process of adopting a risk model to propose to banks. This would standardize the process, as has been done in Colombia. The SFS was exposed to this model during the tour of the Colombian Superintendency.

6. Create a roadmap for the NBFI regulation process that sets clear expectations and timelines at each stage of the review, inspection, and approval of applications for NBFI regulated status, so that applicants can better estimate the costs and time required to obtain a license.

D. Recommendations for ABANSA

1. Continue supporting the SME committee to advocate for policies and norms that support SME finance. Host committee meetings at least quarterly to maintain momentum.
2. Through the SME committee, work closely with the SFS to introduce SME regulations.

E. Recommendations for USAID

1. Given that the program is seeing a decline in new loans to SMEs as a result of the financial crisis, USAID should continue supporting the development of structures and systems that increase SME access to appropriate financial products. Programs, possibly in collaboration with the Inter-American Development Bank or Central American Bank for Economic Integration, that provide ongoing support to establish the best SME finance methodologies in the largest possible number of financial institutions, are necessary to maintain the momentum of SME lending. Programs are also needed to update these methodologies, especially in creating statistical models for credit risk analysis.
2. With the ABANSA SME committee, advocate for changes in regulations to support SME finance.
3. Given banks' hesitation to reach out to new clients as a result of the financial crisis, USAID should support guarantee mechanisms which can help spark lending to new SME borrowers in these troubled times. USAID should also consider building the capacity of local guarantee providers, such as the Banco Multilateral de Inversiones, to effectively manage a specialized SME guarantee fund. This fund should work with NBFIs as well as banks.
4. Finally, given that many commercial banks now have the tools to expand services to SMEs, it is recommended that USAID develop a new program to promote SME finance through NBFIs.

ANNEX A. QUALITATIVE AND QUANTITATIVE INDICATORS AND PROGRAM RESULTS

The main objective of USAID's Financial Services for SMEs program was to dramatically increase SME access to credit and other financial services. The primary measure of this was an increase in the number of SME borrowers by 20 percent per year and an increase in the net volume of loans to SMEs by 10 percent per year. As detailed in Table 1, in addition to these basic quantitative measurements, the program monitored several quantitative and qualitative indicators to track changes in our financial institution partners' attitudes towards and operations for SMEs. These measurements helped staff ensure activities were on the right track to building sustainable SME service capacity for the long-term.

The program also had the objective of assisting two microfinance institutions to become regulated non-bank financial institutions (NBFIs) by the end of the program. In addition to this main indicator, staff tracked increases in the number of micro-loans and new microenterprise borrowers in our NBFI partners. These indicators helped USAID measure its ongoing impact in the microfinance sector in El Salvador.

The following sections detail each of the program's major indicators and results and issues under each. To track only those changes related to program assistance, the program "froze" increases/decreases in performance monitoring data from several financial institutions:

- Citibank (formerly Banco Cuscatlán): Due to internal restructuring in 2007, the bank delayed technical assistance indefinitely. As such, the program stopped counting increases and decreases in SME borrowers, loans, delinquency rates, etc. as of September 2007, when the last technical assistance activity ended.

- Banco Promérica also faced internal restructuring and staffing issues that delayed technical assistance and effectively made its SME unit non-functional towards the end of 2008. Again, the program decided with USAID not to count increases or decreases in borrowers, loans, delinquency rates, etc. after September 2008.

- The program provided a specialized training course in SME lending best practices to FEDECRÉDITO and four of its Workers' Bank member institutions in fall 2006. This course was successful, and FEDECRÉDITO continues to replicate it for a large number of the members of its workers' banks and credit unions. The program provided additional training in spring 2008. From summer 2008 through the end of the program, staff encountered difficulties in obtaining updated performance monitoring data from FEDECRÉDITO's management. As such, increases/decreases in borrowers and loans are only included through March 2008.

- After two years of technical assistance, AMC decided in spring 2008 not to become a regulated NBFI. As the program ended technical assistance to the institution at this time, it also stopped collecting data from AMC.

Table 1. Summary of USAID Financial Services for SMEs Program Indicators and Results

USAID Code	Indicator	Description	Baseline values (Sep 06)	Program Targets			LOP	Actual Numbers Reported by Partners						LOP	% Target Reached
				FY 2006	FY 2007	FY 2008	FY 2009 (Feb 09)	FY 2006	%	FY 2007	%	FY 2008	%	FY 2009 (Feb 09)	
PIR 1: Functional & Sustainable SME Lending Capacity Developed in Fis & SME Access to Credit and other Financial Services Increased															
	OI.1	Increase in sales of SME clients		**Increase over time**											
	OI.2	Increase in number of employees of SME clients		**Increase over time**											
IR 3.3a	OI.3	Number active new SME borrowers	10,939	438	2,500	4,500	6,900	440	**100%**	3,282	**131%**	4,934	**110%**	5,283	**77%**
IR 3.3b	OI.4	Number active new SME loans	16,612	1,750	4,025	7,245	11,100	1,816	**104%**	6,252	**155%**	9,829	**136%**	9,380	**85%**
IR 3.3c	OI.5	Value active new SME loans (000)	$ 734,878	$ 48,993	$ 97,980	$ 176,370	$ 211,645	$ 39,224	**80%**	$ 107,900	**110%**	$ 218,930	**124%**	$ 183,556	**87%**
IR 3.3e	T.1	Number people trained		200	600	1,000	1,500	269	**135%**	979	**163%**	1,923	**192%**	2,630	**175%**
KRA 11. Dedicated SME Area Functional															
	QI.1	Functional and sustainable capacity in FIs created or consolidated	0	0	3	4	5	0	**100%**	5	**167%**	4	**100%**	4	**80%**
	QI.2	Number of dedicated SME areas functional	1	0	3	4	5	1	**200%**	5	**167%**	4	**100%**	4	**80%**
KRA 1.2 Appropriate SME Risk Management System Functional															
	QI.3	Number SME credit risk management systems operational	0	0	3	4	5	0	**100%**	4	**133%**	4	**100%**	4	**80%**
IR 3.3d	RE.1	Delinquency rate of regulated FIs (PaR 90)	1.94%	<2%	<2%	<2%	<2%	NA	**NA**	1.93%	**NA**	3.26%	**NA**	3.62%	**NA**
KRA 1.3 Appropriate SME Products Developed/Improved and Successfully launched															
	PS.1	Number appropriate SME products developed/improved and piloted	0	0	3	9	12	0	**100%**	27	**900%**	36	**400%**	36	**300%**
PIR 2: Two NBFIs Newly Regulated															
IR 3.3f	OI.9a	Number active new micro borrowers	22,181	3,000	5,000	7,000	7,000	3,761	**125%**	8,877	**178%**	14,861	**212%**	14,861	**212%**
IR 3.3g	OI.9	Number active new micro loans	28,593	3,500	6,000	8,750	8,750	3,885	**111%**	15,126	**252%**	6,228	**71%**	6,228	**71%**
	OI.10	Number active micro loans < $400	10,134	1,050	1,750	2,450	2,450	1,708	**163%**	2,321	**133%**	4,536	**185%**	4,536	**185%**
	RE.6	NBFI operational self-sufficiency		>100%	>100%	>100%	>100%	112%	**112%**	118%	**118%**	114%	**114%**	114%	**114%**
	RE.7	NBFI financial self-sufficiency		>100%	>100%	>100%	>100%	109%	**109%**	112%	**112%**	112%	**112%**	112%	**112%**
	QI.4	Number of partner NBFIs regulated		0	0	2	2	0	**100%**	0	**100%**	0	**0%**	1	**50%**

Development Credit Authority (DCA) Loan Monitoring															
	DCA 1.	Utilization Rate	16%					45%		35%		62%		67%	
	DCA 2.	Number of new loans placed under the guarantee	0					20		49		88		110	
	DCA 3.	Value of new loans placed under the guarantee	0					$ 1,451,405		$ 2,454,575		$ 4,593,989		$ 5,025,938	
	DCA 4.	Cumulative number of loans placed under the guarantee	14					34		63		102		124	
	DCA 5.	Cumulative value of loans placed under the guarantee	$ 348,400					$ 1,809,805		$ 2,802,975		$ 4,942,389		$ 5,374,338	
	DCA 6.	Average number of SME employees	98					NA		NA		NA		NA	
	DCA 7.	Amount of sales of SMEs enjoying DCA facility benefits	$ 98,310					NA		NA		NA		NA	

OI.1. Increase in Sales of SME Clients

USAID asked program staff to track this indicator as part of its objectives for economic growth in El Salvador. Because program financial institution partners do not track this information on SME clients, program staff agreed to conduct a survey at the end of the program using a random sample of each financial institution’s SME clients’ files. However, as staff began to organize this survey in fall 2008, they found the time and resources required were beyond those available. About the same time, the U.S. financial crisis began to significantly affect sales of Salvadoran SMEs. Thus, any data that would have been captured through the survey would have been skewed by the economic downturn and would not demonstrate the true impact of USAID technical assistance.

OI.2. Increase in Number of Employees of SME Clients

As with indicator OI.1, staff were unable to capture reliable information through a survey mechanism to be able to extrapolate the increase in the number of employees of SME clients.

OI.3. Number of Active New Small and Medium Enterprise Borrowers

The program met and exceeded its targets for new SME borrowers in fiscal years 2006, 2007, and 2008, in large part due to the successful implementation of SME operations and products in partners Banco de América Central, Banco Hipotecario, HSBC, and FEDECRÉDITO. However, the program began to see slowed growth in lending to new SME borrowers in fall 2008 as the global financial crisis worsened. Staff are not certain of the reason for this steep decline in FY 2009; it could be the result of bank partners' increased risk aversion following the sub-prime crisis or it could be a function of slowing sales of SMEs, resulting in fewer businesses requiring loans to finance growth. In the end, program technical assistance resulted in financial institution partners growing their portfolios by 5,283 new SME borrowers, an increase of nearly 50 percent during the program, and an average increase of roughly 16 percent per year. As census estimates put the number of SMEs in El Salvador at 16,000 in 2005, an increase of more than 5,200 new SME borrowers represents a significant impact on the number of SMEs with increased access to financial services. See Table 3 for the number of new borrowers in each institution disaggregated by business size and by gender of the borrower.

OI.4. Number of Active New Small and Medium Enterprises Loans

Similar to the number of new SME borrowers, the program saw steady and dramatic increases in the number of SME loans made by financial institution partners until fall 2008. However, in early FY 2009, the program saw a decrease in the number of new SME borrowers approved for loans. Again, this could be the result of fewer SMEs applying for loans, or it may be a reflection of fewer SME loans being approved. Our financial institution partners were unable to provide additional data to enable program staff to make this determination. The program was still relatively successful in increasing SME access to financial services however, as 9,380 new loans were made by financial institutions — an increase of 56 percent in just three years. Please see Table 3 for the number of new loans made by each institution disaggregated by business size and by gender of the borrower.

OI.5. Total Value of Active New Loans to Small and Medium Enterprises

As with the number of new SME borrowers and the number of new SME loans, the program saw dramatic increases in the value of new loans to SMEs through FY 2008. Program partners made more than $100 million in new loans to SMEs during this time. Beginning in fall 2008 with the peak of the financial crisis, the program began to see a decline in the value of new loans to SMEs and a reversal of some successes. Still, the program ended with a 25 percent increase in the total value of new loans made by its partners to SMEs, or nearly $183.6 million. This figure only incorporates the value of loans made by the program's regulated bank partners and does not include the value of SME loans made by NBFI partners.

T.1. Number of People Trained

During its three years, the program trained 2,360 financial institution executives, regulators, and other individuals in best practices in SME lending operations, customer service, risk management, product development, and marketing. The program exceeded its goals for training by roughly 175 percent.

Q.1. Functional and Sustainable SME Capacity in Financial Institutions Created/Consolidated

One of the program's main objectives for increasing SME access to financial services involved building long-lasting, sustainable SME service capacity within its financial institution partners. This required that each institution have: 1) a functioning SME unit or area with dedicated staff, 2) an SME credit risk management system in place, and 3) appropriate SME products and services developed and introduced. This indicator is a composite of these three elements of a well-established SME platform and was not considered met until the institution could demonstrate all three. The program helped four banks — Banco Agrícola, Banco de América Central (BAC), Banco Hipotecario, and HSBC —create or consolidate sustainable SME service capacity within their institutions.

Q.2. Number of Dedicated SME Areas Functional

Key to building SME service capacity is having a fully staffed, specialized unit or area dedicated to serving the SME market. The program helped BAC, Banco Hipotecario, HSBC, and Banco Promérica create new SME units, as well as helped Banco Agrícola make its existing SME unit more functional. The program encountered a setback in its last year, as restructuring and staffing changes within Banco Promérica made its SME unit less than functional. Although the bank still faces challenges in getting the unit back online, Promérica's executives continue to reiterate their commitment to serving the SME segment.

Q.3. Number of SME Credit Risk Management Systems Operational

A good portion of the program's second year was dedicated to helping its financial institution partners establish sound methodologies and systems for more efficiently and effectively measuring the credit risk of SME loan applicants. The program was able to help BAC, Banco Hipotecario, HSBC, and Banco Promérica create new systems for managing SME credit risk, which significantly reduced the time and paperwork involved in processing an SME loan, as well as helped loan executives and committees make more effective approval decisions. This benefitted the banks and their SME clients, and resulted in significant growth in their SME portfolios through the fall of 2008.

RE.1. Delinquency Rate of Regulated Financial Institutions (PaR 90)

To ensure that financial institution partners continued to make sound loan decisions and manage SME clients effectively, the program tracked the percentage of SME loans past due (90 days or more). This is determined by dividing the total outstanding principal on loans to SMEs with payments more than 90 days past due by the total outstanding SME loan portfolio. This indicator is a measurement of the quality of the institution’s SME portfolio in the sense that it tracks the percentage of the bank’s portfolio in jeopardy of default. However, it is not a default rate.

Delinquency rates of program partners hovered around 2 percent until 2008, when it began to rise. This increase was somewhat expected as partner financial institutions rolled out their new SME pilot programs; a certain amount of “growing pains” are to be expected when serving any new client. However, the delinquency rate continued to climb through 2008 as the financial crisis gripped El Salvador and took its toll on many small businesses’ sales. Although the average delinquency rate of 3.62 percent of program partners at the end of February 2009 is respectable, we see some partners, particularly those multinational banks, struggling with higher-than-average delinquency rates. This signals that further assistance may be needed to help them review and possibly retool their SME risk management practices.

PS.1. Number of SME Products Developed/Improved and Piloted

The program helped partners BAC, Banco Hipotecario, Citibank, HSBC, and Banco Promérica develop or improve and pilot specialized packages of products and services for SMEs. Program staff emphasized the concept of bundling to increase the range of products and services available to SMEs. For example, SMEs need tailored deposit and checking accounts and payroll services as much as they need financing. Bundling also helped increase the profitability of SME services for the banks by capturing fees for these services. By its end, the program had helped its partners create/improve and roll out 36 distinct products and services tailored to the needs of SME clients.

OI.9a. Number of Active New Micro-Borrowers

This indicator monitored the number of new microenterprise borrowers in NBFI partners AMC and Apoyo Integral. Although this indicator did not directly track a result of the program, it enabled USAID to continue to track its impact in the microfinance sector.

OI.9. Number of Active New Micro-Loans

This indicator monitored the number of new loans made by NBFI partners AMC, and Apoyo Integral to microenterprises. Although this indicator did not directly track a result of the program, it enabled USAID to continue to track its impact in the microfinance sector.

OI.10. Number of Active New Micro-Loans < $400

This indicator monitored the number of new loans of less than $400 made by NBFI partners AMC and Apoyo Integral to microenterprises. Although this indicator did not directly track a result of the program, it enabled USAID to continue to track its impact in the microfinance sector. In particular, this indicator helped USAID monitor the number of loans made to the “very poor” in El Salvador.

RE.6. NBFI Operational Self-Sufficiency

Operational self-sufficiency of microfinance institutions is a measure of financial efficiency equal to total operating revenues divided by total administrative and financial expenses. If the resulting figure is greater than 100, the organization under evaluation is considered to be operationally self-sufficient. In microfinance, operationally sustainable institutions are able to cover administrative costs with client revenues and are therefore less dependent on grants to finance their operations. AMC and Apoyo Integral demonstrated operational self-sufficiency throughout the program.

RE.7. NBFI Financial Self-Sufficiency

Financial self-sufficiency is total operating revenues divided by total administrative and financial expenses, adjusted for low-interest loans and inflation. A microfinance institution is financially self-sufficient when it has enough revenue to pay for all administrative costs, loan losses, potential losses, and funds. This means the institution no longer has to depend on grants to finance growth of its loan portfolio. AMC and Apoyo Integral demonstrated financial self-sufficiency throughout the program.

QI.4 Number of Partner NBFIs Regulated

One of the program's main objectives was to assist Apoyo Integral and AMC, which had been part of previous USAID technical assistance programs, achieve regulated non-bank financial institution status under the SFS. Achieving regulated status was important for these institutions, as it would allow them to capture deposits, a much-needed source of capital for growing their loan portfolios and reaching out to more of El Salvador's poor micro-entrepreneurs. The program provided technical assistance to both institutions through spring 2008. At that time, much to the disappointment of the program, AMC decided not to move forward with pursuing its NBFI license. Apoyo Integral did move forward, and after a lengthier-than-expected review process by the SFS, received regulated NFBI status in December 2008.

DCA Indicators

Program staff also tracked the number and value of SME loans made by partner HSBC using USAID's Development Credit Authority program. This is a loan guarantee program that in the case of HSBC, guaranteed 50 percent of loans made to SMEs with terms of three years or greater. Drawing on program assistance, HSBC increased its use of the guarantee from 16 percent to 67 percent in just three years. HSBC made more than $5.37 million in new loans to SMEs using the guarantee, making it an effective tool for increasing access to finance for this underserved segment.

Table 2. Cumulative Number of SME Borrowers, Number of SME Loans, and Value of SME Loans Made by Partner Financial Institutions by Quarter and Fiscal Year

OI.3 No. SME Borrowers	Baseline	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	FY 06	FY 07	FY 08	FY 09	LOP	% Change
Banco Promerica	578	578	261	276	291	291	404	272	608	606	606	606					28	5%
BAC	252	232	311	346	339	2,012	2,026	2,043	2,048	2,035	2,098	2,037					1,785	708%
Banco Hipotecario	1,725	1,981	2,083	2,243	2,296	2,363	2,477	2,445	2,542	2,538	2,448	2,407					682	40%
HSBC	2,310	2,395	2,601	2,692	2,719	2,758	2,847	2,965	3,516	3,342	3,340	3,255					945	41%
Banco Cuscatlan	936	943	965	976	927	910	910	910	910	910	910	910					(26)	-3%
Banco Agricola	3,315	3,392	3,504	3,656	3,504	3,504	3,504	3,504	3,504	3,504	3,939	3,976					661	20%
Fedecredito	1,614	1,614	1,398	1,746	1,834	1,915	2,036	2,111	2,111	2,111	2,111	2,111					497	31%
AMC	108	134	158	NA	NA	195	232	308	308	308	308	308					200	185%
Apoyo Integral	101	110	150	NA	NA	273	340	353	409	519	593	612					511	506%
TOTAL	10,939	11,379	11,431	11,935	11,910	14,221	14,776	14,911	15,956	15,873	16,353	16,222	440	2,842	1,652	349	5,283	48%

OI.4 No. SME Loans	Baseline	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	FY 06	FY 07	FY 08	FY 09	LOP	% Change
Banco Promerica	889	889	513	535	562	629	588	630	839	966	966	966					77	9%
BAC	344	323	587	619	634	2,773	3,297	3,311	3,208	3,201	3,362	3,174					2,830	823%
Banco Hipotecario	2,866	3,359	3,621	3,838	3,859	4,213	4,270	4,333	4,381	4,311	4,206	4,196					1,330	46%
HSBC	3,908	4,981	5,973	5,844	5,893	5,365	5,529	6,261	7,401	7,529	7,249	6,984					3,076	79%
Banco Cuscatlan	1,645	1,747	1,777	1,806	1,815	1,711	1,711	1,711	1,711	1,711	1,711	1,711					66	4%
Banco Agricola	4,894	5,020	5,168	5,365	5,427	5,427	5,427	5,427	5,427	5,427	5,574	5,575					681	14%
Fedecredito	1,856	1,856	1,478	1,928	2,025	2,203	2,345	2,435	2,435	2,435	2,435	2,435					579	31%
AMC	108	139	165	NA	NA	262	304	331	331	331	331	331					223	206%
Apoyo Integral	102	114	155	NA	NA	281	350	376	418	530	603	620					518	508%
TOTAL	16,612	18,428	19,437	19,935	20,215	22,864	23,821	24,815	26,151	26,441	26,437	25,992	1,816	4,436	3,577	(449)	9,380	56%

OI.5 Value SME Loans	Baseline	Sep-06	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	Mar-09	FY 06	FY 07	FY 08	FY 09	LOP	% Change
Banco Promerica	59,379	59,379	38,460	40,806	44,887	45,927	33,371	33,561	34,611	55,709	55,709	55,709					(3,670)	-6%
BAC	19,791	10,801	20,063	25,206	26,206	58,916	81,476	85,618	113,285	107,876	114,800	110,223					90,432	457%
Banco Hipotecario	112,838	126,371	132,977	132,352	144,818	157,543	166,259	170,615	186,882	177,517	173,434	181,346					68,508	61%
HSBC	154,783	179,347	190,853	190,853	195,585	179,164	186,081	193,559	208,324	211,478	204,338	199,979					45,196	29%
Banco Cuscatlan	150,087	152,504	161,603	164,508	154,658	146,728	146,728	146,728	146,728	146,728	146,728	146,728					(3,359)	-2%
Banco Agricola	238,000	245,700	251,000	251,800	254,500	254,500	254,500	254,500	254,500	254,500	227,114	224,449					(13,551)	-6%
TOTAL	734,878	774,102	794,956	805,525	820,654	842,778	868,415	884,581	944,330	953,808	922,123	918,434	39,224	68,676	111,030	(35,374)	183,556	25%

Table 3. Number of SME Borrowers Disaggregated by Gender and Enterprise Size (February 2009)

Institution	Gender	Quantity	%	Size	Gender	Quantity	%
CitiBank El Salvador[1]	Male	709	78%	Small	Male	138	71%
					Female	57	29%
					Total Small	**195**	**100%**
	Female	201	22%	Medium	Male	571	80%
					Female	144	20%
					Total Medium	**715**	**100%**
	Totals	**910**	**100%**			**910**	
Banco Agrícola	Male	2,478	62%	Small	Male	1,878	60%
					Female	1,254	40%
					Total Small	**3,132**	**100%**
	Female	1,498	38%	Medium	Male	600	71%
					Female	244	29%
					Total Medium	**844**	**100%**
	Totals	**3,976**	**100%**			**3,976**	
Banco de America Central	Male	1,577	77%	Small	Male	1,396	77%
					Female	428	23%
					Total Small	**1,824**	**100%**
	Female	460	23%	Medium	Male	181	85%
					Female	32	15%
					Total Medium	**213**	**100%**
	Totals	**2,037**	**100%**			**2,037**	
Banco Hipotecario	Male	1,919	80%	Small	Male	1,662	79%
					Female	455	21%
					Total Small	**2,117**	**100%**
	Female	488	20%	Medium	Male	257	89%
					Female	33	11%
					Total Medium	**290**	**100%**
	Totals	**2,407**	**100%**			**2,407**	
Banco HSBC Salvadoreño	Male	2,262	69%	Small	Male	1,438	66%
					Female	746	34%
					Total Small	**2,184**	**100%**
	Female	993	31%	Medium	Male	824	77%
					Female	247	23%
					Total Medium	**1,071**	**100%**
	Totals	**3,255**	**100%**			**3,255**	
Banco Promerica[2]	Male	415	68%	Small	Male	382	72%
					Female	148	28%
					Total Small	**530**	**100%**
	Female	191	32%	Medium	Male	33	43%
					Female	43	57%
					Total Medium	**76**	**100%**
	Totals	**606**	**100%**			**606**	
FEDECREDITO[3]	Male	778	37%	Small	Male	778	37%
					Female	1,333	63%
					Total Small	**2,111**	**100%**
	Female	1,333	63%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**2,111**	**100%**			**2,111**	
AMC, de R.L.[3]	Male	188	61%	Small	Male	188	61%
					Female	120	39%
					Total Small	**308**	**100%**
	Female	120	39%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**308**	**100%**			**308**	
Apoyo Integral, S.A.	Male	356	58%	Small	Male	356	58%
					Female	256	42%
					Total Small	**612**	**100%**
	Female	256	42%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**612**	**100%**			**612**	
Caja de Crédito de Sonsonate	Male	1,200	46%	Small	Male	1,200	46%
					Female	1,412	54%
					Total Small	**2,612**	**100%**
	Female	1,412	54%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**2,612**	**100%**			**2,612**	
Caja de Crédito de Soyapango[4]	Male	44	71%	Small	Male	23	72%
					Female	9	28%
					Total Small	**32**	**100%**
	Female	18	29%	Medium	Male	21	70%
					Female	9	30%
					Total Medium	**30**	**100%**
	Totals	**62**	**100%**			**62**	
TOTALS[5]	Male	10,682	66%	Small	Male	8,216	63%
					Female	4,797	37%
					Total Small	**13,013**	**100%**
	Female	5,540	34%	Medium	Male	2,466	77%
					Female	743	23%
					Total Medium	**3,209**	**100%**
	Totals	**16,222**	**100%**			**16,222**	

[1]Information as of September 2007
[2]Information as of September 2008
[3]Information as of March 2008
[4]Information as of December 2008
[5]Totals do not include the Cajas de Credito de Sonsonate and Soyapango

Table 4. Number of SME Loans Disaggregated by Gender and Enterprise Size (February 2009)

Institution	Gender	Number	%	Size	Gender	Number	%
CitiBank El Salvador[1]	Male	1,340	78%	Small	Male	193	70%
					Female	84	30%
					Total Small	**277**	**100%**
	Female	371	22%	Medium	Male	1,147	80%
					Female	287	20%
					Total Medium	**1,434**	**100%**
	Totals	**1,711**	**100%**			**1,711**	
Banco Agrícola	Male	3,593	64%	Small	Male	2,346	60%
					Female	1,549	40%
					Total Small	**3,895**	**100%**
	Female	1,982	36%	Medium	Male	1,247	74%
					Female	433	26%
					Total Medium	**1,680**	**100%**
	Totals	**5,575**	**100%**			**5,575**	
Banco de America Central	Male	2,474	78%	Small	Male	2,105	77%
					Female	614	23%
					Total Small	**2,719**	**100%**
	Female	700	22%	Medium	Male	369	81%
					Female	86	19%
					Total Medium	**455**	**100%**
	Totals	**3,174**	**100%**			**3,174**	
Banco Hipotecario	Male	3,493	83%	Small	Male	2,702	81%
					Female	640	19%
					Total Small	**3,342**	**100%**
	Female	703	17%	Medium	Male	791	93%
					Female	63	7%
					Total Medium	**854**	**100%**
	Totals	**4,196**	**100%**			**4,196**	
Banco HSBC Salvadoreño	Male	4,995	72%	Small	Male	2,723	66%
					Female	1,389	34%
					Total Small	**4,112**	**100%**
	Female	1,989	28%	Medium	Male	2,272	79%
					Female	600	21%
					Total Medium	**2,872**	**100%**
	Totals	**6,984**	**100%**			**6,984**	
Banco Promerica[2]	Male	645	67%	Small	Male	527	71%
					Female	220	29%
					Total Small	**747**	**100%**
	Female	321	33%	Medium	Male	118	54%
					Female	101	46%
					Total Medium	**219**	**100%**
	Totals	**966**	**100%**			**966**	
FEDECREDITO[3]	Male	916	38%	Small	Male	916	38%
					Female	1,519	62%
					Total Small	**2,435**	**100%**
	Female	1,519	62%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**2,435**	**100%**			**2,435**	
AMC, de R.L.[3]	Male	207	63%	Small	Male	207	63%
					Female	124	37%
					Total Small	**331**	**100%**
	Female	124	37%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**331**	**100%**			**331**	
Apoyo Integral, S.A.	Male	361	58%	Small	Male	361	58%
					Female	259	42%
					Total Small	**620**	**100%**
	Female	259	42%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**620**	**100%**			**620**	
Caja de Crédito de Sonsonate	Male	1,238	46%	Small	Male	1,238	46%
					Female	1,446	54%
					Total Small	**2,684**	**100%**
	Female	1,446	54%	Medium	Male	-	
					Female	-	
					Total Medium	**-**	
	Totals	**2,684**	**100%**			**2,684**	
Caja de Crédito de Soyapango[4]	Male	48	71%	Small	Male	23	72%
					Female	9	28%
					Total Small	**32**	**100%**
	Female	20	29%	Medium	Male	25	69%
					Female	11	31%
					Total Medium	**36**	**100%**
	Totals	**68**	**100%**			**68**	
TOTALS[5]	Male	18,024	69%	Small	Male	12,080	65%
					Female	6,398	35%
					Total Small	**18,478**	**100%**
	Female	7,968	31%	Medium	Male	5,944	79%
					Female	1,570	21%
					Total Medium	**7,514**	**100%**
	Totals	**25,992**	**100%**			**25,992**	

[1]Information as of September 2007
[2]Information as of September 2008
[3]Information as of March 2008
[4]Information as of December 2008
[5]Totals do not include the Cajas de Credito de Sonsonate and Soyapango

Table 5. Delinquency Rate of USAID-Assisted Regulated Financial Institutions – 90 Days

Financial Institution	**Sept. 2007**	**Feb. 2009**
Citibank El Salvador	2.17%	NA
Banco Agrícola	NA	3.68%
Banco de América Central	0.20%	1.75%
Banco Hipotecario	1.42%	1.92%
Banco HSBC Savadoreño	2.00%	6.19%
Banco Promérica	5.00%	NA
FEDECRÉDITO	0.76%	NA
Average Delinquency Rate	**1.93%**	**3.62%**

Table 6. Average Terms of Loans to SMEs (September 2007 vs. February 2009)

		September 2007			February 2009		
Financial Institution	Enterprise Size	Average Amount Disbursed	Average Interest Rate	Average Loan Term (Months)	Average Amount Disbursed	Average Interest Rate	Average Loan Term (Months)
CitiBank El Salvador [1]	Small	$ 58,322	9.41%	66	$ 58,322	9.41%	66
	Medium	$ 127,541	8.65%	59	$ 127,541	8.65%	59
Banco Agrícola	Small	$ 29,828	9.67%	83	$ 27,314	12.59%	104
	Medium	$ 101,622	8.53%	107	$ 113,727	10.58%	84
Banco de America Central	Small	$ 44,371	21.00%	36	$ 36,545	12.83%	59
	Medium	$ 85,312	21.00%	35	$ 69,487	10.61%	30
Banco Hipotecario	Small	$ 31,203	8.88%	55	$ 40,798	10.81%	59
	Medium	$ 139,174	8.65%	39	$ 113,470	10.70%	35
Banco HSBC Salvadoreño	Small	$ 14,499	11.04%	60	$ 15,424	16.86%	72
	Medium	$ 82,039	8.43%	59	$ 73,656	10.33%	50
Banco Promerica[2]	Small	$ 71,819	12.15%	48	$ 48,936	11.97%	57
	Medium	$ 130,759	13.11%	34	$ 150,078	10.38%	33
FEDECREDITO[3]	Small	$ 7,713	23.05%	22	$ 9,110	23.12%	32
	Medium	NA	NA	NA	NA	NA	NA
AVERAGE		**$ 71,093**	**12.58%**	**54**	**$ 68,031**	**12.22%**	**57**

[1]Information as of September 2007

[2]Information as of September 2008

[3]Information as of March 2008