

**A.I.D. EVALUATION SUMMARY - PART I**

PD-ABA-751  
13A 65651

1. BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS.  
2. USE LETTER QUALITY TYPE, NOT "DOT MATRIX" TYPE.

**IDENTIFICATION DATA**

|  |  |  |
|--|--|--|
| <b>A. Reporting A.I.D. Unit:</b><br>Mission or AID/W Office: <u>USAID/Liberia</u><br>(ES# _____) | <b>B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?</b><br>Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/><br>Evaluation Plan Submission Date: FY <u>89</u> Q <u>2</u> | <b>C. Evaluation Timing</b><br>Interim <input checked="" type="checkbox"/> Final <input type="checkbox"/><br>Ex Post <input type="checkbox"/> Other <input type="checkbox"/> |
|--|--|--|

**D. Activity or Activities Evaluated** (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)

| Project No. | Project /Program Title                                | First PROAG or Equivalent (FY) | Most Recent PACD (Mo/Yr) | Planned LOP Cost (000) | Amount Obligated to Date (000) |
|-------------|---|--------------------------------|--------------------------|------------------------|--------------------------------|
| 669-0201    | Small & Medium Enterprise Development Support Project | 84                             | 12/90                    | 4,212                  | 4,212                          |

**ACTIONS**

| E. Action Decisions Approved By Mission or AID/W Office Director  | Name of Officer Responsible for Action | Date Action to be Completed |
|---|--|-----------------------------|
| Action(s) Required  |  |                             |
| Write off non-collectible loans guaranteed by NBL.  | Grantee/SEFO                           | 12/90                       |
| USAID should consider financing the capital required for a buildup of the loan portfolio through the first 2 years on a grant basis, and recurrent cost support, with close monitoring to see if additional support is warranted. (USAID has agreed to a one year extension.) | USAID                                  | 9/89                        |
| VITA assistance should remain in place at least through the first year of implementation of new activities financed by AID.   | USAID                                  | 9/89                        |
| USAID should use its utmost influence to secure guarantee reimbursement of NBL loans, including at its discretion, making it a precondition for continued support to SEFO.  | USAID                                  | 3/90                        |

(Attach extra sheet if necessary)

**APPROVALS**

**F. Date Of Mission Or AID/W Office Review Of Evaluation:** \_\_\_\_\_ (Month) 07 (Day) 18 (Year) 89

**G. Approvals of Evaluation Summary And Action Decisions:**

| Name (Typed) | Project/Program Officer | Representative of Borrower/Grantee | Evaluation Officer | Mission or AID/W Office Director |
|--------------|-------------------------|------------------------------------|--------------------|----------------------------------|
|              | Alfreda Brewer          | Richard Slacum                     | Ely Gabisi         | John F. Hicks                    |
| Signature    | <i>Alfreda Brewer</i>   | <i>Richard Slacum</i>              | <i>Ely Gabisi</i>  | <i>John F. Hicks</i>             |
| Date         | 2/14/90                 | 2/20/90                            | 2/14/90            |                                  |

**ABSTRACT**

**H. Evaluation Abstract (Do not exceed the space provided)**

The Small and Medium Enterprise Development Support (SMEDS) Project is being implemented through a U.S. PVO, Volunteers in Technical Assistance (VITA). This project is assisting a Liberian organization, Small Enterprises Financing Organization (SEFO), that makes loans to small and medium entrepreneurs. The evaluation was to examine the prospect of self-sustainability and to advise the Mission whether it should continue assistance to the Project. One person conducted the evaluation and reviewed the 1986 evaluation and 1988 assessment, held interviews with key personnel, surveyed clients and examined SEFO reports. As the annual audit of SEFO was also taking place at that time, the evaluator benefited from auditor input as well.

While SEFO operates in a negative lending environment, its performance has markedly improved since its inception in 1982. The recovery rate on its active portfolio is 80% compared to 46% on total outstanding loans. Costs per loan have been cut by 33%. Client selection and appraisal capacity has improved; client follow-up is well matched to loan recovery; and the SEFO credit department as well as the loan officers are competent, knowledgeable and effective. SEFO, however, will not become financially viable in the foreseeable future because it is undercapitalized, has significant debt and cash flow as well as liquidity problems. To improve (1) SEFO's overall performance, the evaluation recommended that SEFO: invoke the guarantee on National Bank of Liberia (NBL) loans and increase the spread of interest rates. (2) The programming recommendations included: attracting more loans; increasing the number of loans each loan officer is responsible for monitoring; and revising the loan officer evaluation system. The last category of recommendations on (3) institutional performance included: merging the position of president and general manager; adding new members to the Board of Directors; and developing a computer based system linking portfolio monitoring and central accounts.

The evaluation recommended that USAID continue financial assistance to the project by providing loan capital and recurrent cost support to SEFO if certain changes take place. It was further recommended that VITA continue to provide technical assistance to SEFO.

**COSTS**

**I. Evaluation Costs**

| 1. Evaluation Team   |             | Contract Number OR<br>TDY Person Days                                     | Contract Cost OR<br>TDY Cost (U.S. \$) | Source of Funds |
|--|-------------|---|--|-----------------|
| Name   | Affiliation |   |  |                 |
| Fred O'Regan   | AFR/MDI     | 10  | \$8,150.56                             | AFR/MDI         |
| 2. Mission/Office Professional Staff<br>Person-Days (Estimate) _____ 5 |             | 3. Borrower/Grantee Professional<br>Staff Person-Days (Estimate) _____ 10 |  |                 |

## A.I.D. EVALUATION SUMMARY - PART II

### SUMMARY

**J. Summary of Evaluation Findings, Conclusions and Recommendations (Try not to exceed the three (3) pages provided)**

**Address the following items:**

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>• Purpose of evaluation and methodology used</li> <li>• Purpose of activity(ies) evaluated</li> <li>• Findings and conclusions (relate to questions)</li> </ul> | <ul style="list-style-type: none"> <li>• Principal recommendations</li> <li>• Lessons learned</li> </ul> |
|--|--|

|                                     |  |   |
|-------------------------------------|--|---|
| Mission or Office:<br>USAID/Liberia | Date This Summary Prepared:<br>February 13, 1990 | Title And Date Of Full Evaluation Report: Small & Medium Enterprise Development Support |
|-------------------------------------|--|---|

The private sector in Liberia is vibrant despite government economic policies. While the large business sector is dominated by foreigners, primarily Lebanese and Indian, small enterprises are primarily owned by Liberians or other Africans, especially from West Africa. A primary obstacle to the expansion of small enterprises is a lack of access to credit. The intensive management required and the high risk of loaning money to small and medium enterprises make commercial banks reluctant to lend to this sector. The Small Enterprises Financing Organization (SEFO), composed primarily of Liberian shareholders, was created to provide a source of credit to small and medium enterprises and is the only entity in Monrovia that exclusively targets loans to this group. Were it not for SEFO, most SMEs could only get funds from informal sources such as money lenders and friends. USAID's Small and Medium Enterprise Development Support (SMEDS) Project, being implemented through a U.S. PVO, Volunteers in Technical Assistance (VITA), provides a technical advisor, loan capital and some operating expenses to SEFO.

The purpose of the Project is to improve financial and loan management of SEFO, eventually leading to SEFO's financial viability. As the USAID assistance shifts away from direct aid to the Government of Liberia and more towards the Liberian private sector, especially small and medium enterprises, the SMEDS Project becomes an important part of the portfolio. The Project not only addresses a key constraint to the sector but it also allows an avenue to provide other kinds of assistance.

The evaluation was carried out: 1) to look at the overall operations of SEFO and the prospects of self-sustainability and 2) to determine if USAID assistance should be continued beyond the PACD of December 1989. The evaluator discussed the Project with USAID, SEFO and VITA; interviewed GOL and private sector officials; visited randomly selected clients (15% of active clients); and reviewed documents including past evaluations and assessments, SEFO documents and audit reports.

### Principal Findings:

The evaluator identified three constraints that should be considered in assessing SEFO's performance: 1) a Liberian legal and judicial system that favors borrowers over lenders; 2) the shortage of foreign exchange at the official rate of 1:1 that reduces the ability of SMEs to purchase imported materials or spare parts; and 3) the limited financial resources of the Government of Liberia and SEFO shareholders that preclude them from providing the additional capital needed to expand SEFO's loan portfolio.

### Institutional analysis

SEFO has improved its client selection, followup and collection procedures. In selecting clients, SEFO targets certain sectors and minimizes making loans in the difficult ones. The loan size determines how detailed of an analysis is done. Client follow up is done through twice monthly visits. The loan officers have formed good working relationships with the clients. In the evaluator's opinion, these relationships are critical in order to collect loan payments due in an environment that favors borrowers and where lenders are rarely able to take possession of collateral. Both the office staff and the loan officers are competent, knowledgeable and effective, though the organization is still top heavy vis a vis the size of the active loan portfolio.

### Financial analysis

In spite of a competent staff and the improved procedures, SEFO still has several serious financial problems making long term viability impossible without donor support. The biggest problem facing SEFO is its negative cash flow. The collections of principal and interest are not sufficient to meet operational expenses and expand the portfolio, thus continuing decapitalization.

### Role of VITA

The technical assistance has helped SEFO streamline staff, improve planning capabilities and procedures, and develop a computerized loan information system. VITA should continue trying to improve the financial information collected and decentralize decision making.

S U M M A R Y (Continued)

The principal recommendations are:

Write off non-collectible loans guaranteed by NBL.

USAID should consider financing the capital required for a buildup of the loan portfolio through the first 2 years on a grant basis, and recurrent cost support, with close monitoring to see if additional support is warranted.

VITA assistance should remain in place at least through the first year of implementation of new activities financed by AID.

USAID should use its utmost influence to secure guarantee reimbursement of NBL loans, including at its discretion, making it a precondition for continued support to SEFO.

Loan turnover and recovery should become virtually the sole criteria for field staff performance, TA should be basically eschewed and monitoring of general business performance should be managed through central means on a periodic basis.

The positions of president and general manager should be merged and the current general manager should become advisor to the president.

SEFO should be more proactive in attracting loan applicants.

Client load for all current field staff must be raised to 50 clients each.

SEFO should appoint one specialized loan committee to make decisions on all credits above \$10,000.

An overall computer system should be developed that will fully integrate tracking of the portfolio with the management of accounts.

Membership on the Board of Directors should be opened up to include a broader range of private sector representatives.

The recommendation to decentralize the client screening process to field level and the outstationing of business officers will need to be further discussed. The recommendation to have local investors consider converting their share capital to a grant is also under study.

ATTACHMENTS

K. Attachments (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier; attach studies, surveys, etc., from "on-going" evaluation, if relevant to the evaluation report.)

Full Evaluation Report

COMMENTS

L. Comments By Mission, AID/W Office and Borrower/Grantee On Full Report

USAID/Liberia felt the evaluator presented a realistic assessment of SEFO's prospects of self-sustainability and offered some suggestions to improve weaknesses in SEFO's operations. These recommendations formed the conditions under which USAID will release additional capital to SEFO and also provided a basis of discussion about SEFO for the management, the Board of Directors, USAID and VITA. Unfortunately, the evaluator's time was too short for him to have a draft evaluation report ready before he left or to conduct a debriefing for all concerned. Since the evaluation reinforced conclusions of those involved in the project, most of the recommendations were approved. Two recommendations, however, were rejected: 1) SEFO should renegotiate its current borrowing and lending terms with the NBL to provide itself with a margin of at least 20% and 2) to target SEFO's recovery rate to 90% by 1990. Although both are desirable, they were rejected because they were unrealistic.

As per USAID's request, a detailed reaction to the referenced evaluation was prepared jointly by SEFO management and VITA, and subsequently submitted to the SEFO Board of Directors where each point was reviewed. With a minimum of modification, most of the points were accepted, and plans made to implement recommendations where appropriate.

**E. Action Decisions Approved By Mission (Continuation Sheet)**

|   |                         |               |
|---|-------------------------|---------------|
| Loan turnover and recovery should become virtually the sole criteria for field staff performance, TA should be basically eschewed and monitoring of general business performance should be managed through central means on a periodic basis. | Grantee/SEFO            | 2/90          |
| The current general manager should become advisor to the president. The positions of president and general manager should be merged.  | Grantee<br>Grantee/SEFO | 1/90<br>12/90 |
| SEFO should be more proactive in attracting loan applicants.  | Grantee/SEFO            | Ongoing       |
| Client load for all current field staff must be raised to 50 clients each.  | Grantee/SEFO            | 1/90          |
| SEFO should appoint one specialized loan committee to make decisions on all credits above \$10,000.   | Grantee/SEFO            | 10/89         |
| An overall computer system should be developed that will fully integrate tracking of the portfolio with the management of accounts.   | Grantee                 | 3/90          |
| Membership on the Board of Directors should be opened up to include a broader range of private sector representatives.  | Grantee/SEFO            | 6/90          |
| The following two recommendations are under study and will be discussed further: 1) decentralization of the client screening process to the field level and 2) local investors converting their share capital to a grant.                     | USAID/Grantee/<br>SEFO  | 2/90          |