PD-ABB-095

A.I.D. EVALUATION SUMMARY - PART I

66065

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

IDENTIFICATION DATA

A. Reporting A.I.D. Unit:

Mission or AID/W Office USAID/Liberia
(ES# ____________________)

B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan?

Yes XX Slipped ☐ Ad Hoc ☐

Evaluation Plan Submission Date: FY ____ Q ____

C. Evaluation Timing

Interim XX Final ☐
Ex Post ☐ Other ☐

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)
669-0211	PVO/NGO Support Project	88	9/92		
669-0211-G-00-8004-00	Micro/Small Enterprise Dev (Grant to Partnership for Productivity/Liberia)	88	9/92	3,600	3,600

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director

Action(s) Required	Name of Officer Responsible for Action	Date Action to be Completed
-Proceed with the addition of U.S. 2.4 million and extend PACD to September 1992.	USAID	Sept 1989
-Design an asset management strategy to counter inflation and the devaluation of the Liberian currency.	PfP/L	January 1990
Please note that, as per Mission comments on page 6, completion of the actions identified below will depend on the improvement of the situation in Nimba.		
-Facilitate PfP/L partnership with a U.S. PVO involved in micro/small enterprise development. Assist PfP/L draw up memorandum of agreement with U.S. PVO for provision of TA and training for staff development in (a) redesign and automation of program and financial MIS and (b) computer literacy in wordprocessing, spreadsheet, and database.	USAID	April 1990
-Proceed with the decentralization of PfP/L in Nimba and modify PfP/L's field organizational structure.	PfP/L	April 1990
-Initiate expansion to Bong County, appraise local producer organizations, and submit financial projections of Bong County operations.	PfP/L	April 1990
-Modify PfP/L program and financial MIS, including quarterly reports and post-loan evaluation systems.	PfP/L	April 1990
-Develop training packages for Saveway leaders to make their groups more dynamic.	PfP/L	Dec 1990

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation: (Month) August (Day) 21 (Year) 1989

G. Approvals of Evaluation Summary And Action Decisions:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Name (Typed)	Maria Beebe	Alfred Kulah	Ely Gabisi	John F. Hicks
Signature	Maria Beebe	A. Kulah	E. Gabisi	John F. Hicks
Date	April 16, 1990	4-20-90	4-23-90	4-23-90

ABSTRACT

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

In January, 1988 USAID/Liberia made a five year grant of $1.2 million for operations and loan funds to PfP/L. Its purpose was to strengthen and expand financial services--savings, loans and management assistance--to Nimba County producers and to assist PfP/L toward financial viability. This evaluation was to examine the impact and condition of PfP/L as an intermediary. Also, PfP/L has requested to expand services to Bong and Lofa Counties, adjacent areas that have almost no financial services for small business people and farmers. USAID/Liberia is considering capitalizing PfP/L's expansion with $2.4 million in Economic Support Funds (ESF). A second purpose of the evaluation, thus, was to assess whether and how PfP/L is capable of this; and to project the impact of PfP/L's sustainability.

The major findings and conclusions are:

*For 15 years, PfP/L, a Liberian PVO, has been one of the main economic development institutions of Liberia. Currently, it offers savings and loan services to over 12,000 small farmers, market women and micro and small business owners.

*Since 1987, PfP/L has focused on providing financial services. Its goal has been to attain cost-efficiency at least to a point where operating expenses can be paid from local revenues. It has not become self-financing yet, but is serious about doing so.

*PfP/L has indeed been a catalyst to the growth of the indigenous small business class in Nimba County. In the first 15 months of this grant, $926,000 in new loans has been channelled to micro and small business owners and market women. A sample of 32 businesses taken by the evaluators to compare pre-loan and post-loan assets showed annual average increases of 154 percent, which is good for the size and type of businesses involved.

*PfP/L's on-time loan repayment rate is 83 percent with all but a tiny amount of arrears being less than 12 months old.

*PfP/L has arrived at a point in Nimba where it must consolidate and emphasize the amount and regularity of savings over the creation of new Saveways and new members. The profitability and cost-efficiency of the Saveway program needs to be monitored.

*As PfP/L grows, the challenge is to increase staff productivity so that substantially more can be served with little increase in personnel.

*Provision of financial services is a crucial aspect of alleviating rural poverty and creating a more equitable and dynamic rural economy in Liberia. The unusual aspect of this intermediary is that it supplies thousands of rural producers with financial services and has a significant base of popular support--something that is rare to see in Africa. Infusion of USAID funds will stimulate high growth and expansion. PfP/L will need to institute quality measures--better accounting and control systems, increased staff financial management capabilities, and other technical assistance.

The evaluators noted the following "lessons":

*Domestic capital formation is and should be the priority for rural financial services.

*The provision of credit can stimulate micro/small enterprises in the rural areas.

*PVOs that serve as financial intermediaries and that aim for financial viability and sustainability could attain cost-efficiency over a period of time.

I. Evaluation Costs

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. $)	Source of Funds
Cheryl Lassen	Nathan Associates		18,100	Project funds
Noel Duche	Subah Belleh		10,000	Project funds
John Vawar	Subah Belleh			

2. Mission/Office Professional Staff Person-Days (Estimate) 20 PD

3. Borrower/Grantee Professional Staff Person-Days (Estimate) 80 PD

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:

- Purpose of evaluation and methodology used
- Purpose of activity(ies) evaluated
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office:	Date This Summary Prepared:	Title And Date Of Full Evaluation Report: September, 1989
USAID/Liberia	March 28, 1990	Extending Financial Services to Rural Producers in Africa: an Evaluation of Partnership for Productivity/ Liberia

Purpose of the Evaluation: In January, 1988 USAID/ Liberia made a five year grant of $1.2 million for operations and loan funds to PfP/L. Its purpose was to strengthen and expand financial services-savings, loans and management assistance--to Nimba County producers and to assist PfP/L toward financial viability. This evaluation was to examine the impact and condition of PfP/L as an intermediary. Also, PfP/L has requested to expand services to Bong and Lofa Counties, adjacent areas that have almost no financial services for small business people and farmers. USAID/Liberia is considering capitalizing PfP/L's expansion with U.S. $2.4 million in Economic Support Funds (ESF). A second purpose of the evaluation, thus, was to assess whether and how PfP/L is capable of this; and to project.the impact of PfP/L's sustainability.

Findings: For 15 years, PfP/L, a private voluntary organization (PVO), has been one of the main economic development institutions of Liberia. Currently it offers savings and loan services to over 12,000 small farmers, market women and micro and small business persons. Far from groping for a program identity, PfP/L has a good understanding of the clientele it works with, the methods used, and how to fit in effectively with the local cultural and institutional context. Over the 15 years, PfP/L's program design and perspective about sustainability has changed. For 11 years, PfP/L delivered free small business extension paid for by foreign aid. Since 1987 it has focused on providing financial services. Its goal has been to attain cost-efficiency at least to the point where operating expenses can be paid from local revenues. It has not become self-financing yet, but is serious about doing so.

The five year performance benchmarks of the Grant call for PfP/L to establish 52 new Saveways of 40 persons each (2080 new savers) and develop the capacity to mobilize U.S. $1.2 million annually ($100,000 per month) in gross savings and provide U.S. $1.7 million in new loans at the end of five years. PfP/L is on target to meet these benchmarks. In July 1989, PfP/L worked with 96 Saveway groups, serving 9421 savers in 384 population settlements of Nimba County. In 15 months, the number of new savers brought into PfP/L's system is 4844, and the increase in Saveway Clubs is 21. So far in 1989, monthly savings mobilized averaged L$67,500 and new loans are projected to exceed L$1 million this year.

The services of this project are well appreciated by small business people and the rural poor. Outside of the capital city, there are no commercial banks in Liberia. Although several secondary towns have government banks, these lack liquidity for loans. With little available transport, villagers cannot get to the banks to save. Informal "money clubs" run the risk of embezzling their funds.

The evaluation found that PfP/L's services are indeed reaching the poor, although the bulk of PfP/L's loan clients are micro entrepreneurs and progressive, though small, farmers who are not the absolute poorest. Savings and loans were found to be distributed equitably among male and female producers, given their different economic roles. Villages served by Saveway Clubs are not all grouped around major towns: many of them are small and distant from the principal north-south road. Within the Saveways, villages form money clubs whose effect is to enable even the smallest to participate. Through savings, they also have access to production and marketing credit for longer periods, larger amounts and better terms than other sources. Although most small business loans went to males, PfP/L has also assisted the Nimba County Association of Market Women (800 members) to improve their leadership, management systems and establish savings and loan infrastructure.

PfP/L has indeed been a catalyst to the growth of the indigenous small business class in Nimba County. In the first 15 months of this grant, L$926,000 in new loans has been channeled to micro and small business persons and market women. With increased capitalization from USAID, the volume of loans projected over the next three years to micro and small business is L$6,812,000. A sample of 32 businesses taken by the evaluators to compare pre-loan and post-loan assets showed annual average increases of 154 percent, which is good for the size and type of businesses involved.

PfP/L's on-time loan repayment rate is 83 percent with all but a tiny amount of arrears being less than 12 months old. This is satisfactory performance for a portfolio with a substantial percentage of agricultural loans that depend on a slow paying government marketing board. PfP/L's field agents carry an average client load of 4 Saveway Clubs, 375 savers, and $28,000 in credit distributed among an average 70 small borrowers. That compares well with some of the best rural microenterprise development programs worldwide, and PfP/L agent-client ratio will become even more efficient with time. In 1988 it cost PfP/L $0.24 for every dollar it loaned and $0.67 for every dollar saved. Saveway's costs are high, but understandable. They reflect the time it takes to build savings infrastructure and the long distances travelled to serve small savers. There is, however, a need for consolidation (more savings per saver and Saveway) and greater cost efficiency.

Constraints, Problems and Challenges: Since January 1988, the inflated supply of Liberian dollars has reduced their street value vis-a-vis the U.S. dollar by half, although the official exchange rate remains at 1:1. PfP/L has lost some of the value of USAID disbursements to it when government banks exchanged U.S.$ for L$ at the official rate. Liberia's weakening currency and expanded money supply also pose a risk to preserving the value of loan fund assets. With a significantly bigger loan fund, PfP/L will be more vulnerable to what is happening in the national economy and thus must upgrade its asset management strategy. There are strategies to counter devaluation and inflation. The most important is not to convert US$ additions to the loan fund to local currency, but to hold them in a hard currency for PfP/L to lend.

Both savers and borrowers complain of PfP/L's slow transaction time in disbursing withdrawals and loans, which can take several weeks. Another complaint is that PfP/L does not pay interest earnings. With 10,000 tiny accounts, hand kept journals, and only the central office issuing cash, disbursements are slow and figuring every saver's interest is impossible. Savings statements are never given unless requested; nor is interest paid out unless requested. Despite having cash which they put into informal mechanisms, small business people and market women do not save more in the Saveway because they cannot gain agile access to funds. And the enthusiasm of rural savers is dampened by the lack of paid interest. The Saveway program has expanded rapidly since 1986, and PfP/L has arrived at a point in Nimba where it must consolidate and emphasize the amount and regularity of savings over the creation of new Saveways and new members. There are 6200 rural Saveway members in Nimba County, but only 42 percent of them save at a rate sufficient to rollover L$40 yearly into the loan fund. Although it takes time to build savings infrastructure, PfP/L has arrived at the stage where it is appropriate to carefully monitor the profitability and cost-efficiency of the Saveway program.

Considering the Effects of Expansion and Growth: Even assuming that it can preserve assets, the present size of PfP/L's loan fund is not nearly sufficient for the credit demand it has in Nimba County, let alone Bong and Lofa Counties. Since 1986, PfP/L has doubled annually its amount of agricultural loans. In 1989 it will lend $254,000 to 17 farmer development associations (FDAs) and clan marketing associations (CMA). These cash crop loans present little risk because the FDA/CMAs know their membership well and self-select borrowers because PfP/L refuses to make additional loans to them if there is not 100 percent repayment. The 15 CMAs (which are apex organizations of 20+ village-level FDAs) receiving PfP/L credit all want larger loans. Plus, there are 25 other CMAs in Nimba to whom PfP/L has not yet made a loan. Similarly, the new reformist leadership of the Nimba Market Women's Association is rapidly organizing their savings and loan infrastructure. This will enable them to distribute an increased amount of loans collateralized by group savings. Rural transport is also very scarce in Nimba and there is a great deal of demand for these loans.

More farmer cooperative organizations exist in Bong and Lofa than in Nimba. With savings collateral and a strict policy of holding the group responsible for 100 percent repayment, PfP/L ought to be able to create responsible loan infrastructure in Bong and Lofa just as it has done in Nimba.

PfP/L personnel, both administrative and field agents, already have a heavy workload. As PfP/L grows, the challenge is to increase staff productivity so that substantially more can be served with little increase in personnel. Manual accounting, poor communications (no telephone or radio), and lack of training hamper this today. At the level of the PfP/L Governing Council there is a need to reduce the excess proportion of government representation (two thirds of members) and to improve the knowledgeable involvement of board members with strategic planning and policy-making. At the management level, the deputy general manager should be able to perform other critical management functions such as analysis of financial performance, evaluation of the loan portfolio, and quantitative monitoring of staff productivity are not being performed adequately. This position should be filled by a computer literate, technically qualified analyst who can organize information and track key indicators to reveal the "big picture" of financial and program performance. Improved financial analysis is a must for successful growth and expansion in an unstable economy.

With high growth, PfP/L must be effective at reducing threats to its integrity. One way it can do this is to make the bulk of its loans to organized structures of small farmers, market women and micro-entrepreneurs, and to eliminate commercial loans of larger than $10,000 (which are associated with greatly increased possibilities for kickbacks and corruption). PfP/L has also applied to Peace Corps for five internal inspector/auditors who will survail operations at all levels. This is an excellent idea. If Peace Corps cannot supply these positions, USAID should consider allowing PfP/L to use project funds to hire at least one internal auditor/inspector.

The PfP/L management staff also need further training in banking procedures, financial control and information systems and asset management. A source of technical training and assistance should be found for them. Given that PfP/L does not have peer institutions in Liberia with whom it can discuss the growth and change it is undergoing, and that it works in a risky economic economic context for financial management, it should have a qualified source of international expertise with whom it can consult on a consistent, periodic basis.

As to the financial effect of increased capitalization on PfP/L sustainability, several cash flow projections were done comparing moderate and high annual growth rate in PfP/L loan volume. The purpose of this was to see the effect of different rates of disbursement of USAID funds. A conclusion of the evaluation is that prospects are reasonable for PfP/L to absorb US $2.4 million of operating and loan funds by a PACD of September, 1992. If PfP/L appears to have difficulty with this rate of growth, signs of trouble will be an inability to absorb capital and/or a sustantial increase in arrears. If this happens, disbursement should be slowed and PACD extended. Analysis shows that PfP/L can break even and cover its operating costs with local revenues by charging an interest rate equivalent to 14 percent in U.S. dollars. What this rate is in Liberian terms and whether it is feasible to charge it to all of PfP/L's loan clients will depend on the rate of inflation and economic conditions in Liberia. If destabilization increases, the most rational goals for PfP/L to pursue are to preserve the value of its assets and improve the integrity of its management until better economic times come along.

<u>Recommendations:</u> Provision of financial services is a crucial aspect of alleviating rural poverty and creating a more equitable and dynamic rural economy in Liberia. As such, this project has much higher developmental merit than alternative uses of USAID Economic Support Funds (ESF). The unusual aspect of this intermediary is that it supplies thousands of rural producers with financial services and has a significant base of popular support--something that is rare to see in Africa. This new ESF infusion will stimulate high growth and expansion. In a context that is economically unstable and corrupt, the bottomline requirements for success will be for PfP/L to have better accounting and control systems, increased staff financial management capabilities, and technical assistance to help it continue to make the transition from PVO to development bank.

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.)

September 1989 Extending Financial Services to Rural Producers in Africa: an Evaluation of Partnership for Productivity/Liberia by Robert Nathan Associates under Project ARIES contract.

COMMENTS

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

The evaluation was an important factor in USAID/Liberia's decision to add $2.4 million, increasing the LOP from $1.2 million to $3.6 million, and, to extend the PACD to September 1992. The evaluation team addressed all of the issues included in the scope of work and noted the capability of PfP/L as a financial intermediary and their potential impact in the rural, farming and micro to small enterprise sector. They also made specific recommendations that would enable PfP/L to institute quality measures as they expand their services. The team spent sufficient time in the field; interviewed a wide range of people, including savers and non-savers, borrowers and non-borrowers, and microentrepreneurs who were not PfP/L clients; and provided USAID with a reasonably clean draft and very thorough debriefing, prior to departure from Monrovia. Although no substantive changes were made, it took five months for Nathan Associates to send the final report.

USAID has been working with PfP/L to draw up a partnership agreement with a potential U.S. PVO partner for provision of TA and training for staff development. Areas to be included are the redesign and automation of program and financial management information system (MIS) and computer literacy in wordprocessing, spreadsheet, and database.

PfP/L has indicated their agreement on all of the action decisions. Of exemplary note is PfP/L's action to protect its U.S. dollar assets. PfP/L has worked out a "loan guarantee agreement" with Citibank. The agreement allows PfP/L to borrow two Liberian dollars for every U.S. dollar they have deposited in their "loan portfolio" account. As long as these Liberian dollars are paid back from the loans made to their clients, PfP/L does not lose its U.S. dollars.

PfP/L was prepared to start implementing the evaluation recommendations as early as December 1989, however, the rebel incursions in Nimba County, which began on December 27, 1989, have continued thereby forcing PfP/L to close its offices. The PfP/L central office in Yekepa was opened briefly in March, however, the fighting has continued forcing the clientele and PfP/L staff to leave the area. The fighting is now affecting the adjacent counties of Bong and Lofa and PfP/L, with USAID concurrence, has decided not to start expansion activities. PfP/L is currently restructuring its program to include a core staff in Monrovia to handle the clientele which has moved here. Unless the situation improves within the next few weeks the excess staff will be retrenched. PfP/L is currently preparing a revised work plan for USAID approval.

ARIES

Assistance to
Resource Institutions
for Enterprise Support

XD-ABB-095-A
66053

EXTENDING FINANCIAL SERVICES TO RURAL PRODUCERS IN AFRICA:

AN EVALUATION OF PARTNERSHIP FOR PRODUCTIVITY/LIBERIA

Sponsored by:

The U.S. Agency for International Development

Contract DAN-1090-C-00-5124-00

Directed by:

Robert R. Nathan Associates

September 1989

ARIES

Assistance to
Resource Institutions
for Enterprise Support

January 18, 1990

Ms. Maria Beebee
USAID/Liberia
Monrovia, Liberia

Dear Ms. Beebee:

Enclosed please find five copies of the Evaluation of PfP/Liberia done by Cheryl Lassen under the ARIES project. I apologize for the considerable delay in sending this final report to you. We had several concerns about the validity of the financial analyis and several of the calculations in the report, as well as several other questions, which have since been addressed. The delay was caused in part by Cheryl Lassen's travel schedule, and awaiting her response to our questions and proposed changes, since she is final author of the report.

I spent several days reviewing the report in detail, and hope that it meets with your approval and satisfaction. I would like to reiterate that although we have changed some of the calculations and statements from the draft report, none of the changes impact on the report's recommendations and conclusions.

It was a pleasure to have this opportunity to work with you under ARIES, and I hope that we will have other such opportunities. Best wishes for the new year.

Sincerely,

Mohini Malhotra

Mohini Malhotra
Associate/Small Enterprise
Division

PROJECT OFFICE: Robert R. Nathan Associates, Inc., 1301 Pennsylvania Avenue, N.W., Washington, D.C. 20004 (202) 393-2700 Telex: 248482 NATECON

In Collaboration With • Appropriate Technology International • Control Data Corporation • Harvard Institute for International Development

AGENCY FOR INTERNATIONAL DEVELOPMENT CONTRACT DAN-1090-C-00-5124-00

ARIES

Assistance to
Resource Institutions
for Enterprise Support

EXTENDING FINANCIAL SERVICES TO RURAL PRODUCERS IN AFRICA:

AN EVALUATION OF PARTNERSHIP FOR PRODUCTIVITY/LIBERIA

September 1989

Submitted to:
USAID/Liberia

By:
Cheryl Lassen
Team Leader

PROJECT OFFICE: Robert R. Nathan Associates, Inc., 1301 Pennsylvania Avenue, N.W., Washington, D.C. 20004 (202) 393-2700 Telex: 248482 NATECON

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9

ARIES

Assistance to Resource Institutions for Enterprise Support

The ARIES project is designed to strengthen the capabilities of support organizations in developing countries to implement small-scale and micro-enterprise development programs. ARIES builds on the work of the Agency for International Development's former Program for Investment in the Small Capital Enterprise Sector (PISCES) and Small Business Capacity Development projects. It works with intermediary support organizations that provide services to small and micro-businesses and industries, such as private voluntary organizations (PVOs), banks, chambers of commerce, management training centers, business people's organizations, and other developing country government and non-governmental organizations (NGOs).

The contract for this five-year project has been awarded to Robert R. Nathan Associates, Inc. (RRNA) with subcontractors Harvard Institute for International Development (HIID), Control Data Corporation (CDC) and Appropriate Technology International (ATI).

ARIES is core funded by the Bureau for Science and Technology's Office of Rural and Institutional Development (S&T/RD) and the Bureau for Food for Peace and Voluntary Assistance's Office of Private and Voluntary Cooperation (FVA/PVC). Mission funded technical assistance represents $3.8 million, or almost three-fifths of the five-year budget of $6.8 million.

The ARIES project has three major components -- research, training, and technical assistance -- designed to cross-fertilize each other. The applied research component focuses on economic, social, and organizational issues surrounding intermediary support organizations to inform AID missions and host country actions in this subsector. The training component includes design, testing, conduct and follow-up of training programs in such areas as finance, management and evaluation for PVO and NGO personnel. The technical assistance component provides short-term technical assistance to AID missions and intermediary organizations to assist small and micro-enterprise development.

- 11

Preface

Fieldwork for the evaluation of Partnership for Productivity/Liberia (PfP/L) took place in Liberia from July 23 to August 24, 1989, including two weeks in Nimba County. The evaluation team consisted of Cheryl Lassen, contracted by Robert R. Nathan Associates, Inc., under the ARIES contract, and two Liberians contracted by USAID: Noel Duche, who prepared financial data and drafted a version of the financial analysis of the evaluation, and John Vower who interviewed clients and compiled statistics about the Saveway program. The USAID project officer, Maria Beebe, also participated in discussions and analysis about expansion.

To survey the reaction of borrowers and savers to PfP/L services, 15 savings groups were interviewed. These included both rural and urban Saveway groups, as well as those connected to market women associations and clan marketing associations. Discussions included what people liked and did not like about PfP/L; savings habits and alternative mechanisms to PfP/L; and potential uses for credit. Special effort was made, particularly with market women, to interview producers who were not participating in Saveway programs and to find out why.

A sample of 32 small business loans was made to study impact. These loans represented the range of loan sizes and types of businesses to which PfP/L lends. Client files and post-loan evaluations were reviewed and interviews done with 16 clients. Respondents included those with disputes with PfP/L as well as those who repaid successfully. Thee business people also compared PfP/L to financial services available from public banks and the informal sector.

Representatives of other key local economic development institutions were also interviewed. These included the Nimba County Superintendent, the Superintendent of the Nimba County Markets, several market women presidents, and representatives of the Nimba County Rural Development Program and the Agricultural and Cooperative Development Bank.

Several experts in banking and financial analysis were consulted to discuss the Liberian economic situation and asset management tactics in a context where there is a seriously weakening local currency. These include Robert McPheters, West Africa risk management analyst for the World Bank; David Befus, professor of international finance and development banking at Westmont College and Thunderbird School of Management; Sonia Salsman, financial analyst of Accion International; Larry Reed, program director of Opportunity International; Rene Jarquim, of experience with the Inter-American Development Bank; and John McGill, financial consultant formerly with the World Council of Credit Unions.

Although the Liberian dollar (L$) is officially equal to the U.S. dollar (U.S. $), the local currency has weakened seriosly vis a vis the U.S. dollar in the past two years. In July 1989, U.S. $1.00 bought L $2.25 with money changers on the streets of Monrovia. Unless specifically stated otherwise, all money figures in this report should be regarded as Liberian dollars.

Sincere thanks go to the staff of PfP/L for the time and effort they invested in this evaluation, especially to Dr. Alfred Kulah, General Manager and Mohammed Warraty, Field Extension Supervisor.

EXECUTIVE SUMMARY

In January, 1988 the Liberia Mission of the US Agency for International Development made a five year grant of $1.2 million for operations and loan funds to PfP/L. Its purpose was to strengthen and expand financial services--savings, loans and management assistance--to Nimba County producers and to assist PfP/L toward financial viability. This evaluation was to examine the impact and condition of PfP/L as an intermediary. Also, PfP/L has requested to expand services to Bong and Lofa Counties, adjacent areas that have almost no financial services for small business people and farmers. USAID Liberia is considering capitalizing PfP/L's expansion with US $2.4 million in Economic Support Funds (ESF). A second purpose of the evaluation was to assess whether and how PfP/L is capable of this; and to project the impact on PfP/L's sustainability.

Highlights

For 15 years, Partnership for Productivity, a private voluntary organization, has been one of the main economic development institutions of Liberia. Currently it offers savings and loan services to over 12,000 small farmers, market women and micro and small business persons. Far from groping for a program identity, this agency has a good understanding of the clienteles it works with, the methods used, and how to fit in effectively with the local cultural and institutional context. Over the 15 years, PfP/L's program design and perspective about sustainability has changed. For 11 years, PfP/L delivered free small business extension paid for by foreign aid. Since 1987 it has focused on providing financial services. Its goal has been to attain cost-efficiency at least to the point where operating expenses can be paid from local revenues. It has not become self-financing yet, but is serious about doing so.

The five year performance benchmarks of Grant 669-0211-G-00-8004-00 call for Partnership for Productivity /Liberia to establish 52 new Saveways of 40 persons each (2080 new savers) and develop the capacity to mobilize US $1.2 million annually ($100,000 per month) in gross savings and provide US $1.7 million in new loans at the end of five years. PfP/L is on target to meet these benchmarks. In July, 1989 the number Saveway groups with whom PfP/L is working is 96, serving 9421 savers in 384 population settlements of Nimba County.

In 15 months, the number of new savers brought into PfP/L's system is 4844, and the increase in Saveway Clubs is 21. So far in 1989, monthly savings mobilized averaged L$67,500 and new loans are projected to exceed L$1 million this year.

The services of this project are well appreciated by small business people and the rural poor. Outside of the capital city, there are no commercial banks in Liberia. Although several secondary towns have government banks, these lack liquidity for loans. With little available transport, villagers cannot get to the banks to save. Informal "money clubs" run the risk of embezzling their funds. Members of the Saveway Clubs appreciate that their money is safe and that PfP/L travels to them weekly to save it. Through savings, they also have access to production and marketing credit for longer periods, larger amounts and better terms than other sources.

The evaluation found that PfP/L's services are indeed reaching the poor, although the bulk of PfP/L's clients are micro entrepreneurs and progressive, though small, farmers who are not the absolute poorest. Savings and loans were found to be distributed equitably among male and female producers, given their different economic roles. Villages served by Saveway Clubs are not all grouped around major towns: many of them are small and distant from the principal north-south road. Within the Saveways, villages form money clubs whose effect is to enable even the smallest to participate. Although most small business loans went to males, PfP/L has also assisted the Nimba County associations of market women (8000 members) to improve their leadership, management systems and establish savings and loan infrastructure.

PfP/L has indeed been a catalyst to the growth the indigenous small business class in Nimba County. In the first 15 months of this grant, L$926,000 in new loans has been channeled to micro and small business persons and urban market women. With increased capitalization from USAID, the volume of loans projected over the next three years to micro and small business is L$6,812,000. A sample of 32 businesses taken by the evaluators to compare pre-loan and post-loan assets showed annual average increases of 154 percent, which is good for the size and type of businesses involved.

PfP/L's on-time loan repayment rate is 83 percent with all but a tiny amount of arrears being less than 12 months old. This is satisfactory performance for a portfolio with a substantial percentage of agricultural loans that depend on a slow paying government marketing board. PfP/L's field agents carry an average client load of 4 Saveway Clubs, 375 wavers, and $28,000 in credit distributed among an average 70 small borrowers. That compares will with some of the best rural microenterprise development programs worldwide, and PfP/L agent-client ratio will become even more efficient with time. In 1988 it cost PfP/L $0.24 for every dollar it loaned and $0.67 for every dollar saved. Saveway's costs are high, but understandable. They reflect the time it takes to build savings infrastructure and the long distances travelled to serve small savers. There is, however, a need for consolidation (more savings per saver and Saveway) and greater cost efficiency.

Constraints, Problems and Challenges

Since this grant agreement was signed 19 months ago, the inflated supply of Liberian dollars has reduced their street value vis-a-vis the US dollar by half, although the official exchange rate remains at 1:1. PfP/L has lost some of the value of USAID disbursements to it when government banks exchanged US$ for L$ at the official rate. Working informally, PfP/L has figured out how to obtain the higher rate. But until the official rate changes, there is a risk for PfP/L to make the currency exchanges that preserve the value of USAID disbursements.

Liberia's weakening currency and expanded money supply also pose a risk to preserving the value of loan fund assets. With a significantly bigger loan fund, PfP/L will be more vulnerable to what is happening in the national economy and thus must upgrade its asset management strategy. There are tactics to counter devaluation and inflation. The most important is not to convert US$ additions to the loan fund to local currency, but to hold them in a hard currency account which is used as a loan guarantee fund to access local currency for PfP/L to lend. Additional measures can include charging interest rates that approximate inflation, and credit arrangements such as lease lending or payment in real goods. Devaluation occurs without warning, and inflation can also explode in a few months time. PfP/L must take care not to underestimate this threat, and to take preventative measures <u>in time</u>. Other PVO intermediaries who lost a large portions of their credit funds did so because they failed to anticipate that devaluation or high inflation would happen and could not recall outstanding loans fast enough to preserve assets when these maladies hit.

Both savers and borrowers complain of PfP/L's slow transaction time in disbursing withdrawals and loans, which can take several weeks. Another complaint is that PfP/L does not pay interest earnings. With 10,000 tiny accounts, hand kept journals, and only the central office issuing cash, disbursements are slow and figuring every saver's interest is impossible. Savings statements are never given unless requested; nor is interest paid out unless requested. Despite having cash which they put into informal mechanisms, small business people and market women do not save more in the Saveway because they cannot gain agile access to funds. And the enthusiasm of rural savers is dampened by the lack of paid interest.

The Saveway program has expanded rapidly since 1986, and PfP/L has arrived at a point in Nimba where it must consolidate and emphasize the amount and regularity of savings over the creation of new Saveways and new members. There are 6200 rural Saveway members in Nimba County, but only 42 percent of them save at a rate sufficient to rollover L$40 yearly into the loan fund. Although it takes time to build savings infrastructure, PfP/L has arrived at the stage where it is appropriate to monitor the profitability and cost-efficiency of the Saveway program more carefully.

The rapid increase in the number of savers has strained PfP/L's manual accounting systems to their limits. There are four different sets of journals right now which are difficult to reconcile with one another or extract the information needed to manage. In 1988, deceitful employees took advantage of the lags in accounting system to embezzle funds. Fortunately, they were discovered in a few months time and the amount lost was not that great. But to prevent malfeasance of this sort in the future, and in order to handle the increasing volume of transactions and furnish timely financial information, the design of PfP/L's accounting systems needs to be improved and computerized.

Considering the Effects of Expansion and Growth

Even assuming that it can preserve assets, the present size of PfP/L's loan fund is not nearly sufficient for the credit demand it has in Nimba County, let alone Bong and Lofa Counties. Since 1986 PfP/L has doubled annually its amount of agricultural loans. In 1989 it will lend $254,000 to 17 farmer development associations (FDAs) and clan marketing associations (CMA). These cash crop loans present little risk because the FDA/CMAs know their membership well and self-select borrowers because PfP/L refuses to make additional loans to them if there is not 100 percent repayment. The 15 clan associations (which are apex organizations of 20+ village-level farmer development associations) receiving PfP/L credit all want larger loans. Plus, there are 25 other CMAs in Nimba to whom PfP/L has not yet made a loan. Similarly, the new reformist leadership of the Nimba Market Women's Association is rapidly organizing their savings and loan infrastructure. This will enable them to distribute an increased amount of loans collateralized by group savings. Rural transport is also very scarce in Nimba and there is a great deal of demand for these loans.

More farmer cooperative organizations exist in Bong and Lofa than in Nimba, although the agricultural extension services in these former counties (BCADP and LCADP) do not tend them as actively as does NCRDP, and there is more corruption. A high percentage of arrears exists on farmer loans made by the Agricultural Cooperative Development Bank (ACDB) in Bong and Lofa Counties. Much of the arrearage, however, is due to the poor procedures of the ACDB which does not get into the field enough to weed out potential bad loans or keep up the pressure to recollect. With savings collateral and a strict policy of holding the group responsible for 100 percent repayment, PfP/L ought to be able to create responsible loan infrastructure in Bong and Lofa just as it has done in Nimba.

PfP/L personnel, both administrative and field agents, already have a heavy workload. As PfP/L grows, the challenge is to increase staff productivity so that substantially more can be served with little increase in personnel. Manual accounting, poor communications (no telephone or radio), and lack of training hamper this today. At the level of the PfP/L Governing Council there is a need to reduce the excess proportion of government representation (two thirds of members) and to improve the knowledgeable involvement of board members with strategic planning and policy-making. At the management level, the deputy general manager is expensive and minimally productive, and the position is redundant and should be eliminated. Other critical management functions such as analysis of financial performance, evaluation of the loan portfolio, and quantitative monitoring of staff productivity are not being performed adequately. In place of a generalist deputy manager, PfP/L needs to hire a computer literate, technically qualified analyst who can organize information and track key indicators to reveal the "big picture" of financial and program performance. Improved financial analysis is a must for successful growth and expansion in a destabilized economy.

With high growth, PfP/L must be effective at reducing threats to its integrity. One of the ways it can do this is to make the bulk of its loans to organized structures of small farmers, market women and micro-entrepreneurs, and to eliminate commercial loans of larger than $10,000 (which are associated with greatly increased possibilities for kickbacks and corruption). PfP/L has also applied to Peace Corps for five internal inspector/auditors who will survail operations at all levels. This is an excellent idea. If Peace Corps cannot supply these positions, USAID should consider using project funds to hire at least one internal auditor/inspector.

The PfP/L management staff also need further training in banking procedures, financial control and information systems and asset management. A source of technical training and assistance should be found for them. Given that PfP/L does not have peer institutions in Liberia with whom it can discuss the growth and change it is undergoing, and that it works in a risky economic context for financial management, it should have a qualified source of international expertise with whom it can consult on a consistent, periodic basis.

As to the financial effect of increased capitalization on PfP/L sustainability, several cash flow projections were done comparing moderate and high annual growth rate in PfP/L loan volume. The purpose of this was to see the effect of different rates of disbursement of USAID funds. A conclusion of the evaluation is that prospects are reasonable for PfP/L to absorb US $2.4 million of operating and loan funds by a PACD of September, 1992. If PfP/L appears to have difficulty with this rate of growth, signs of trouble will be an inability to absorb capital and/or a substantial increase in arrears. If this happens, disbursement should be slowed and PACD extended. Analysis shows that PfP/L can breakeven and cover its operating costs with local revenues by charging an interest rate equivalent to 14 percent in US dollars. What this rate is in Liberian terms and whether it is feasible to charge it to all of PfP/L's loan clienteles will depend on the rate of inflation and economic conditions in Liberia. If destabilization increases, the most rational goals for PfP/L to pursue are to

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preserve the value of its assets and the integrity of its management until better economic times come along.

Provision of financial services is a crucial aspect of alleviating rural poverty and creating a more equitable and dynamic rural economy in Liberia. As such, this project has much higher developmental merit than alternative uses of USAID Economic Support Funds (ESF). The unusual aspect of this intermediary is that it supplies thousands of rural producers with financial services and has a significant base of popular support--something that is rare to see in Africa. This new ESF infusion will stimulate high growth and expansion. In a context that is economically unstable and corrupt, the bottom-line requirements for success will be for PfP/L to have better accounting and control systems, increased staff financial management capabilities, and technical assistance to help it continue to make the transition from PVO to development bank.

Recommendations to PfP/L

1. Pay interest annually to savers and provide them with a statement at least on an annual basis.

2. Consolidate and improve the cost-effectiveness of PfP/L savings operations in Nimba County. Attain a savings rollover of US$20 per member. Track and improve cost per $ saved.

3. Design an asset management strategy to counter inflation and the devaluing of Liberian currency. It is recommended that this strategy not change US dollar additions to the loan fund to local currency, but rather use a loan guarantee fund.

4. Proceed with the decentralization of PfP/L in Nimba County, which consists of moving the main office to Ganta and establishing three branches in Sannaquellie, Ganta and Saclapea to disburse funds. Submit a design for how this branch system will operate, identify what changes must be made from the present system, and provide a timetable and budget.

5. Purchase radios and other equipment necessary for secure branch operations as soon as additional funding becomes available.

6. In order to improve and automate PfP/L's financial administration system, purchase computer equipment as soon as grant funds are available and prepare specifications for staff computer training (who, what functions, what software programs). Hire a consultant to analyze PfP/L's financial MIS and controls and advise on creating a database from PfP/L's manual systems.

7. Initiate expansion to Bong County. Prior to making loans and no later than six months after opening the Gbanga office, submit a projection of the Bong loan

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portfolio and an assessment of local producer organizations.

8. Modify PfP/L's field organizational structure to include two managers: one of Nimba field coordinator who shall have no responsibility for expansion and the other of Expansion Coordinator who shall not be responsible for Nimba operations.

9. Within six months of signing of the grant extension, hire the financial/evaluation analyst. (Funding for this position should come within the budget for personnel.)

10. Redesign the program and financial management information system. Reinstitute the post-loan evaluation system and sample results of all types of loans. Institute a system to evaluate Saveway performance. Modify PfP/L quarterly reports to include statistical information and analysis about:

- differences in Saveway performance
- arrears--by volume, loan type, region and age
- analysis comparing the performance and cost effectiveness of regional branches
- indicators and analysis of financial sustainability (progress in covering operating costs with local earnings)
- small enterprise impact
- staff productivity
- preservation of the value of assets in US dollar terms

11. Develop training packages for Saveway leaders to make their groups more dynamic and to increase community-based management and decrease agent management.

12. Develop a package of short business management training that can be presented to urban market women and micro and small entrepreneurs on a fee basis.

13. Improve the system of credit analysis and review to insure proper assessment of each type of loan.

14. Enforce savings margin requirements across the board for all types of loans, including farmers.

15. Charge interest rates that parallel inflation and are not unrealistically different from what is charged by commercial and informal lenders.

16. Track and evaluate actual interest earnings, savings and loan activity, US dollar value of assets and expenditures vis-a-vis budgets and projections. Analyze actual financial performance versus projected performance in quarterly reports to USAID.

Recommendations to USAID/Liberia

1. Proceed with the addition of US $2.4 million of additional funds to Grant Number 669-0211-G-00-8004-00 to PfP/L. Extend PACD to September, 1992.

2. Insure that PfP/L implements evaluation recommendations.

3. Given the importance of the analyst/evaluator to PfP/L's financial viability, advise on the selection of this officer.

4. Facilitate PfP/L's access to qualified trainers and consultants to computerize and improve its financial administration and management information systems. If it can find an appropriate US or international institution, encourage PfP/L's affiliation with an agency that can help it upgrade its understanding and systems for development banking.

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I. FINANCIAL MARKETS IN RURAL LIBERIA

About Liberia

Liberia is well endowed with mineral deposits, forests and lush agricultural land. Located on the coast of West Africa, Liberia is 43,000 square miles in size and has a population of approximately 2.5 million. It is bordered by the countries of the Ivory Coast, Guinea, and Sierra Leone. More than 70 percent of its inhabitants are rural based, and outside the capital city the most populated area is three northern agricultural counties, Nimba, Bong and Lofa.

Rural Liberia is characterized by a dual economy featuring foreign investment concessions on the one hand, iron ore, rubber, logging), and subsistence agriculture and small scale trading and service on the other. Traditional agricultural households will participate more in the market economy if the infrastructure, institutions and prices are right for them. All three present serious challenges. Even where tertiary roads exist, rural transport is very scarce. Government of Liberia (GOL) agricultural extension services function in Nimba, Bong and Lofa Counties, but do not offer credit. The Liberia Produce Marketing Corporation buys coffee and cocoa, but it is frequently late in paying and corrupt in dealing with producers not organized into farmer associations. The legal system for punishing corruption and malfeasance is weak, and it thus flourishes.

Although some dismiss the economic power of traditional agriculture, at least 50 percent of rural households in Liberia produce cash crops including tree crops, rubber, rice, palm products and vegetables. The question is how much of their surplus can low income farm families retain to improve their means of production? Or, how much of it will be skimmed away by middlemen or corrupt elements? Access to financial services is an important determinant of a more equitable and dynamic rural economy.

Liberian Rural Financial Markets

Outside of the capital of Monrovia, there are three types of providers of financial services: government banks, non-formal financial intermediaries, and informal money-lenders.

Branches to two government banks, the Agricultural Cooperative Development Bank (ACDB) and the National Cooperative Housing Bank (NCHB) exist in several rural towns in Liberia. These government banks collect savings and make money transfers. Unlike its name, the ACDB does not make agricultural loans at present, but rather uses the majority of its capital for lending to state enterprises. This policy, plus the chronic liquidity crisis of the National Bank of Liberia system makes for a paucity of small producer credit.

Although it is not chartered as a bank, PfP/L is Liberia's oldest and biggest non-formal financial intermediary. There are no other finance organizations or PVOs specializing in small enterprise development outside of Monrovia. Agricultural cooperatives provide marketing and input supply, but corruption is widespread among them. The most honest and effective farmer associations are those with foreign technical assistance such as the NCRDP in Nimba which is a joint German/GOL collaboration. Some savings and loan cooperatives have been organized at hospitals, colleges, etc. but they are for employees and not the population as a whole.

The most widespread mechanisms for savings and lending are informal ones. They affect everyone from the richest to the poorest and from the busiest market to the remote village. Popular ways to save are: a "money club," a "susu," or a "Nigerian susu." Savers joining a money club in January make regular weekly deposits throughout the year. In December they receive their savings plus a small interest payment. Money clubs are like Christmas clubs sponsored by small town US banks, except that the deposits in Liberian money clubs are managed by private individuals and there is no government guarantee for depositors. A "susu" is a shorter term savings mechanism. A group of savers decides how much each of them will contribute weekly---$5, $10, $20, $50, etc. The total pot of savings is given to one member each week, and the susu continues until all members receive a pot. With a "Nigerian susu," an individual decides how much s/he wants to save daily and a collector comes by for a month to receive that amount. After 30 days the saver gets back savings minus one day's deposit which is the collector's fee.

The risk of these informal mechanisms is that they can be managed by embezzlers. There are no statistics on this, but malfeasance occurs frequently. Thus savers are wary of entrusting their money to anyone or anything new. Given the slowness and corruption of the legal system, even if police apprehend swindlers, the money is spent and not recoverable. Even when the funds are intact, much arguing and conflict surrounds these informal mechanisms when the terms of the savings arrangement are not honored.

Two sources of informal loans are middlemen and money clubs. The market middleman gives small amounts of credit in return for tying up a crop's purchase, or they purchase the crop while it is still growing in return for a price as low as 25 percent of market value. Rural families endure a difficult period before the harvest when their supply of food and cash is at an annual low. When they do not have enough food to subsist, they must sell early at low prices. Money clubs and/or money lenders (many of whom manage others' savings funds) lend at a rate of 12--25 percent interest per month of the value of the loan. Money club loans can be transacted quickly and they provide a safety net for villagers' emergencies. But the loans are usually too small for productive purposes and a steep annual interest rate--as high as 300 percent--is charged.

II. PfP/L SERVICES AND IMPACT

PfP/L Credit and Savings Services

PfP/L was founded in 1974 to develop small businesses to supply goods and services to the huge Liberian American Mining Company (LAMCO) and the mining town of Yekepa. (Over the past 25 years LAMCO has extracted billions of dollars of iron ore from upper Nimba County, which contains some of the richest ore deposits in the world). By 1980 PfP/L turned its attention to the surrounding rural economy based on traditional agriculture and petty trading. It received a grant from USAID to operate an integrated rural technology program that included agricultural extension, appropriate technology, business management assistance and credit. PfP/L relinquished its agricultural extension responsibilities to the NCRDP in 1984 and focused on management consultancy and credit. It was necessary to overcome multiple obstacles to rotate credit in the prevailing legal and cultural context. People were accustomed to grants, not loans; few had bankable collateral; and it was difficult to prosecute defaulters in the slow and corrupt court system. A successful methodology emerged based on knowing applicants closely; requiring a borrower to have bondsmen who would be legally responsible for unpaid debts; and careful loan follow-up.

NCRDP and PfP/L made an agreement that the former would supply agricultural extension and organize farmer groups in Nimba and the latter would provide business services. Their relationship has continued to be positive, and the two programs recognize their complimentary effects on one another. The FDA and CMA have been good vehicles for savings and loan operations. PfP/L's services have also made FDAs and CMAs more responsible and economically dynamic. In the towns of Nimba County, PfP/L has worked to strengthen the economic organization of market women. PfP/L helped to democratize the Market Women Associations (MWA) and replace the corrupt and ineffective leadership with a more dynamic, reformist group. Supported by a small USAID grant, the new leadership of the Nimba MWAs is increasing membership, improving services in the markets, and organizing women into Saveway Clubs. Group MWA savings will be used to collateralize loans for the smallest market women.

An important innovation for PfP/L was the introduction of a savings program in 1984. PfP/L adopted its methodology of Saveway Clubs from Oxfam. Examples of accounts and a brief explanation of how the system works are presented in Chart 2.1.

Two watershed events happened to PfP/L in the 1986-7 period: its USAID grant expired and the US PVO with which it had always been affiliated, Partnership for Productivity/International, collapsed suddenly. Although PfP/L was already an indigenously managed institution when PfP/International collapsed, it was completely on its own at this point and acutely conscious of financial sustainability. All other program services but savings and loan operations dropped away. In 1988 PfP/L signed a grant agreement with USAID based on providing financial services to all of Nimba County and pursuing a breakeven financial model which would enable it to cover operating costs from local revenues. (see map 1).

Scope of Services and Impact

Table 2.1 shows PfP/L's savings mobilization performance over time. Years 1986 and 1987 saw a gradual increase. With the start of the USAID financial services grant in 1988, the numbers of Saveway Clubs and savers began to increase significantly. Grant funds bought motorcycles for PfP/L agents, which enabled them to fan out in the rural areas and recruit more members. Client visit, for example, jumped from 11,807 in 1987 to 27,801 in 1988. Levels of gross savings increased, but average savings decreased in both rural and urban Saveways.

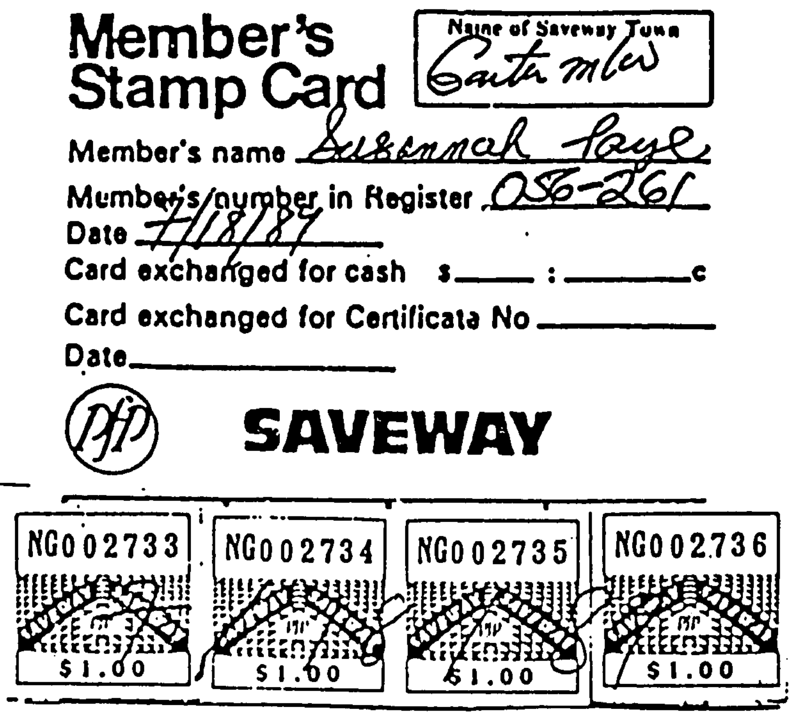
Graph 2.1 shows the steady progress made since the start of the financial services grant in increasing savings mobilization. Monthly gross savings were L$6,000 in January, 1988 and they exceeded L$97,000 in July, 1989. Annual gross savings in all of 1988 were L$318,000. In the first quarter of 1989, L$303,000 had already been collected. These increases must be somewhat discounted due to a weakening currency, which saw the value of the Liberian dollar vis-a-vis the US dollar fall from 1:1 to 2:1 during this period. There is also no doubt that a serious expansion of grassroots savings and loan infrastructure is taking place. Two things in particular have helped this. One is the USAID Commodities Import Program (CIP) which gave PfP/L's small business clients access to US$75,000 for imported vehicles and machines in 1989. Participation in CIP has sparked the interest of urban small business persons to join Saveways. Also, the Nimba Market Women's Associations have increased their organizational size and savings mobilization. Progress of the Market Women is demonstrated in table 2.2.

Chart 2.1 PfP Liberia Saveway System

Members of Saveway Clubs purchase savings stamps such as those seen here. Even illiterate savers know when they are receiving the right amount of stamps for their deposit because the stamps are colored to signify different denominations. (Red = $1, blue = $5, yellow = $10, etc.) Small savers begin with a $20 card, and are issued an interest bearing account when they reach this amount. At the right is an example of a very small saver, and below is an example of a town merchant.

The stamps are printed outside of Liberia and each bears a security code to prevent counterfitting, theft, or embezzlement.
At the village level, each Saveway Club has a safe with three locks held by the Saveway President, Treasurer, and PfP agent respectively. Thus the safe which contains member passbooks money and stamps can never be opened by an unsupervised individual.

To withdraw money, a saver submits a request and his or her passbook to PfP and receives the money and cancelled stamps 1-2 weeks later.


Member's Stamp Card

Name of Saveway Town

Member's name Susannah Faye

Member's number in Register 056-261

Date 7/18/87

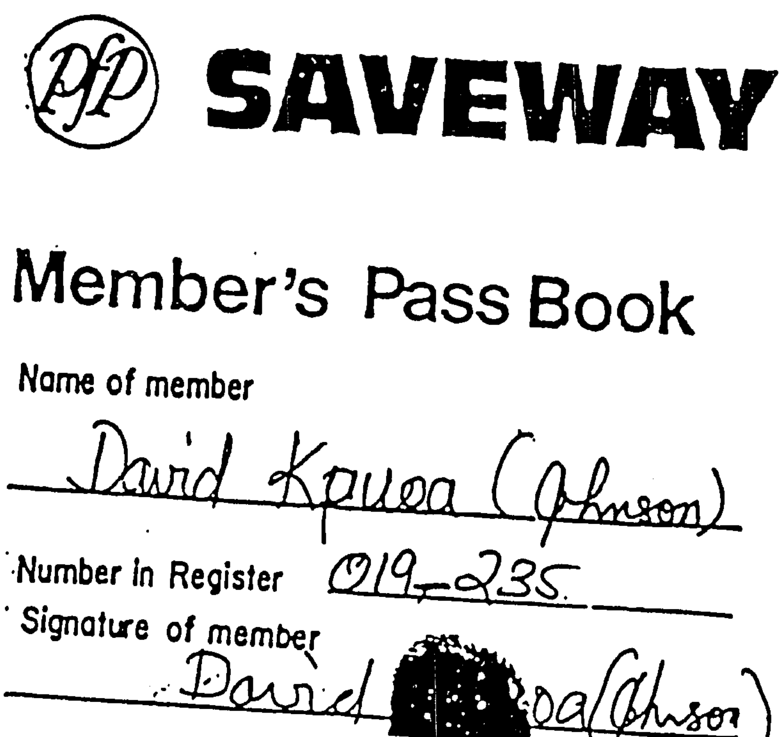
Card exchanged for cash $____ : ____c

Card exchanged for Certificate No ______

Date ______

SAVEWAY

NG002733 $1.00 | NG002734 $1.00 | NG002735 $1.00 | NG002736 $1.00


SAVEWAY

Member's Pass Book

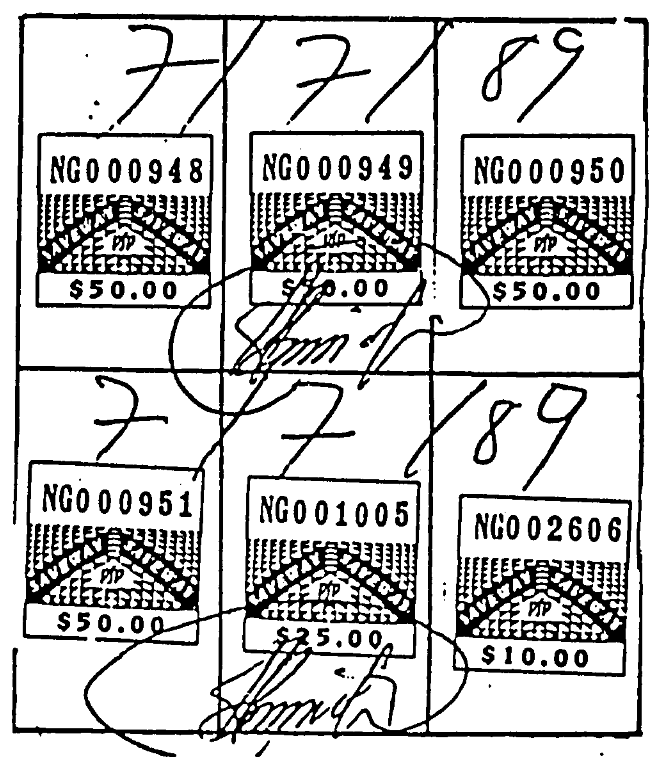
Name of member

David Kpuoa (Johnson)

Number in Register 019-235

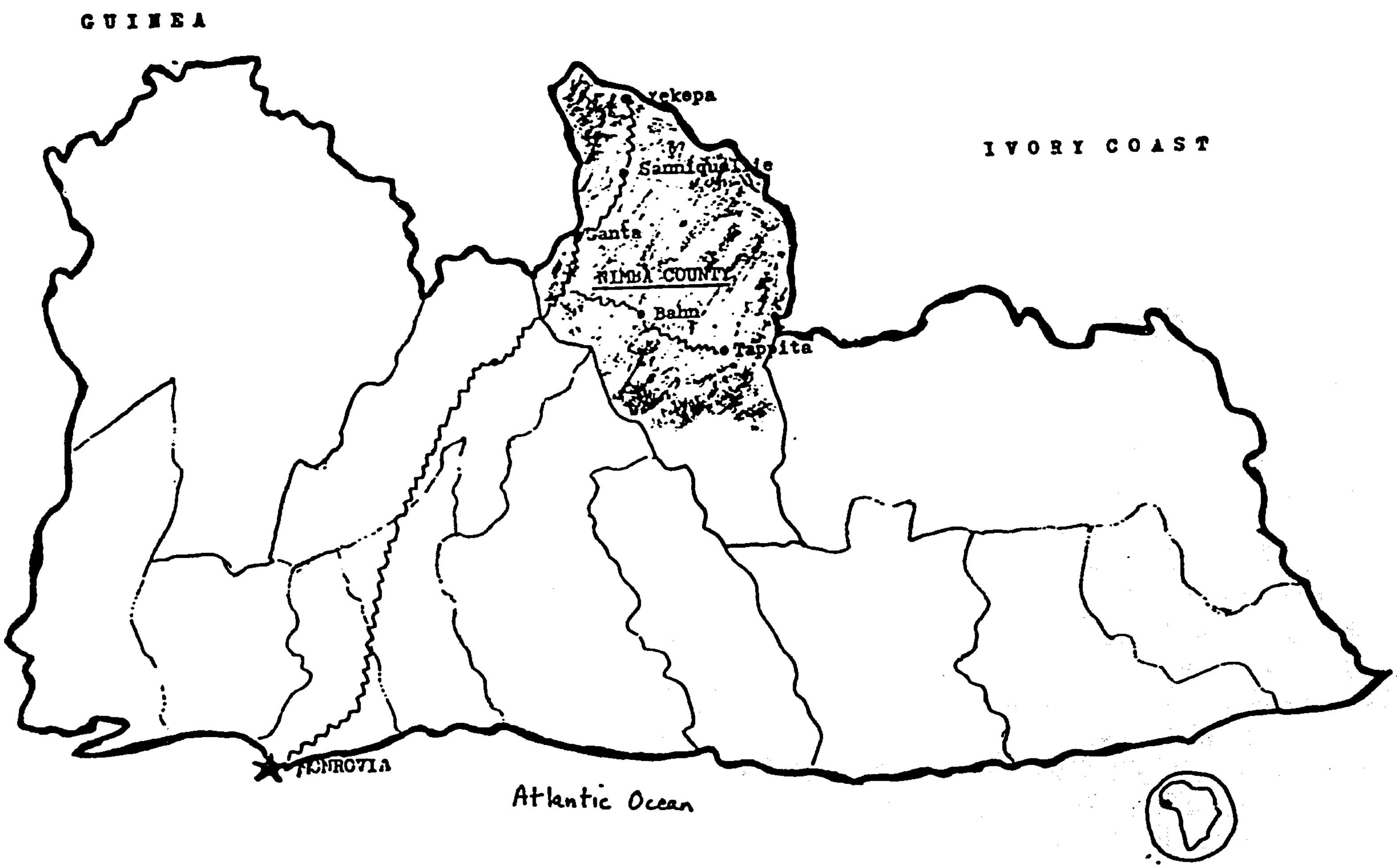
Signature of member

David [redacted]oa(Johnson)



Map 1. MAP OF LIBERIA

PRINCIPAL CENTERS OF PFP ACTIVITY — 1989



/~~/ = major north/south road in Liberia

/▒/ = project area. This includes most of the populated area of Nimba County. Southern Nimba is a sparsely populated forest reserve.

Table 2.1 PfP/LIBERIA MOBILIZED SAVINGS 1986-1989

(In Liberian Dollars)

Rural Saveways	1986	1987	1988	1989 1./
Number	50	55	73	75
Membership	1,902	1,920	5,137	6,237
Gross Savings (000)	31	49	103	90
Av. Annual Savings/ Member	16	77	20	14
Net Rollover to Loan Fund 2/ (000)	17	27	57	49
Urban Saveways				
Number	6	6	6	6
Membership	506	630	1,098	1,294
Gross Savings (000.00)	51	91	128	122
Av. Annual Savings/ Member	100	145	116	94
Net Rollover to Loan Fund 2/ (000)	28	50	70	67
Market Women Saveways				
Number	8	8	9	9
Membership	550	1,027	1,611.	1,890
Gross Savings (000)	25	38	87.	92.
Av. Annual Savings/ Member	46	37	55	49
Net Rollover to Loan Fund 2/ (000)	14	21	48	50
Total				
Number	64	69	88	90
Membership	2,958	4,577	7,846	9,421
Gross Savings(000)	107	179	318	303
Av. Annual Savings/ Member	36	39	41	32
Net Rollover to Loan Fund (000)	58	98	174	265

Source: PfP/Liberia Saveway Accounting Journals

1/ includes first quarter of 1989.

2/ net rollover to loan fund (loanable funds) = 54.6% of gross savings.

Graph 1 PfP/L Gross Savings Mobilized Monthly

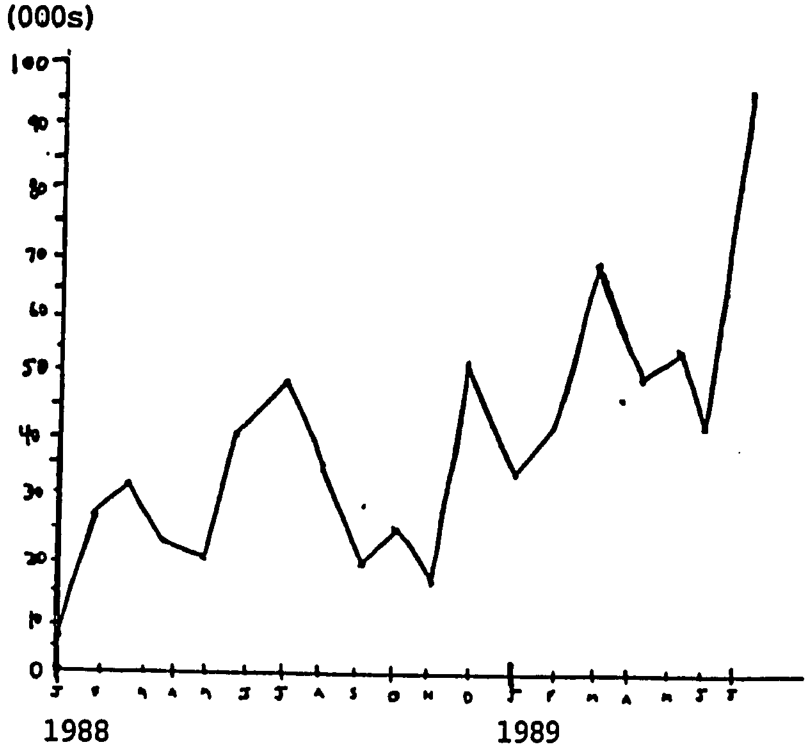


Table 2.2
Nimba Market Women Savings, (L$) 1988-1989

Year	MWAs	Members	Gross Savings	Net Savings
1986	8	550	25,000	16,000
1987	8	1,027	38,000	11,000
1988	9	1,611	87,000	31,000
1989*	9	1,900	92,000	53,000

* Figures are for the first two quarters of 1989.
Source: PfP/L savings journals.

Table 2.3 presents information on why people withdraw and what they use their savings for. Among Saveway depositors it is interesting to note that the two main uses are either for subsistence or productive purposes.

Table 2.3
Reason for Saveway Savings Withdrawal

	Percentage
Education	9%
Production	37%
Emergency/Sickness	3%
Housing	4%
Unspecified (Subsistence)	47%
	100%

Source: Saveway withdrawal slips for the period January-June, 1989. N = 246 withdrawals.

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PfP/L's Lending Activity

Table 2.4 presents a longitudinal perspective on PfP/L lending. The category of lending that expanded the most is agricultural loans which grew from a volume of $47,000 in 1986 to $326,000 in 1989. (The latter figure is not reflected in Table 2.4.) Small business loans have also grown rapidly in 1989, in part because of the stimulation of the Commodities Import Program.

Most of PfP/L's small and micro business lending is for retail and service establishments. Nimba County borders three other countries (Ivory Coast, Guinea, Sierra Leone) and there is much trading that goes on back and forth across borders as well as within Nimba County and Liberia itself. Service loans are made for enterprises like pharmacies, clinics, restaurants, mechanical repair, etc. As Table 2.5 shows, PfP/L makes relatively fewer loans to service and manufacturing businesses, in part because there are less of them, but also because PfP/L hasn't been as successful in recruiting these.

Table 2.6 shows a breakdown of PfP/L lending by gender. Most lending to women is through Market Women Associations and Farmer Associations. The breakdown of the total volume of lending by sex does not truly reflect the amount of effort PfP/L has made to include women in financial services because most of this effort has gone to strengthening the MWAs. Although MWA membership has increased and the leadership has become more effective, organizing efforts are still at an early stage. For example, only 1 out of 8 market women belong to Saveway Clubs. As these clubs become stronger and can administer loans themselves, they will absorb much more capital. With weak organization in the past, market women have been difficult to lend to because they are itinerant and pose a collection problem for loan agents. Approximately 40 percent of the agricultural loans are made to women. There are no sex-based restrictions to land tenure in Liberia, and women can have sizeable farms.

Table 2.7 shows the size distribution of PfP/L loans. PfP/L makes occasional commercial loans either to obtain transport or to put its funds to work during the non-agricultural period. Another 10 percent of the loans it makes are to small businesses (US $2500--$6000). These are 12 month loans for working capital and occasional acquisition of equipment or transport. Eighty percent of PfP/L's loans, however, are to micro-businesses borrowing US $2500 or less. The loan size distribution reflects a basic characteristic of the nature of PfP/L. It is a financial intermediary whose staff and methods are experienced with lending to small and micro business and producer organizations.

Regional Performance Differences

Table 2.8 shows rural Saveway performance by region. Unlike PfP/L which reports only on the volume of saving, the evaluation divided rural Saveways (the most numerous kind) into higher and lower performance rankings and then cross-tabulated these by region to see what patterns emerged. Forty two percent of all rural Saveway members deposit at least L$80 in gross savings per year. Savers in the Ganta, Sannaquellie and Tappita regions are somewhat above the average for the total program. The Yekepa region is performing at the average; and the Bahn region is presently performing below average. Performance has little to do with savers in the region and is more a reflection of the field agent and field management.

Bahn's lower performance reflects the departure of the regional supervisor and transfer of one of the field agents which left the region understaffed for months. Although there are a lot of savers in rural Nimba, Table 2.8 indicates that the majority of them are not good savers--ie., that there is more quantity than quality right now. Table 2.9 shows that the bulk of the lower performing Saveways are not new clubs but established ones whose savings impetus is down.

Consumer Opinions About PfP/L Financial Services

It was interesting to hear savers and borrowers opinions about what they liked and disliked, which they expressed in definite terms. Even though three different interviewers went out to various Saveway Clubs and individual savers, similar things were cited repeatedly. Separate interviews with seven PfP/L field agents also confirmed what the clients were saying. Far from a sample of "beneficiary views," it is important to read what follows with the realization that PfP/L has no monopoly on providing financial services. It is in competition with other formal and informal intermediaries, primarily the latter. Peoples' level of satisfaction with PfP/L determines how much they will or won't use its services.

What People Like

Village members of rural Saveways cited several advantages of this service, including:

- Security--money is not stolen
- PfP/L's willingness to travel to villages for collection and disbursement
- Peace of mind that PfP/L is a responsible intermediary
- Access to production credit

Table 2.4 PfP/LIBERIA LENDING ACTIVITY, 1986-1989

(In Liberian Dollars)

Small and Micro-Business Loans	1986	1987	1988	1989 1/
No. of Loans	451	125	145	115
Amount	204903	159,105	403,951	441,856
Average Size	910	1,272	2,785	3,842
% Total Fund	81	37	57	
Market Women				
No. of Loans	190	127	26	11
Amount	50,973	45,520	56,540	23,665
Average Size	268	358	2,175	2,151
% Total Fund	10	10	8	
Small Farmer Loans				
No. of Loans	18	258	733	46
Amount	47,700	229,095	246,460	73,530
Average Size 2/		136	81	
% Total Fund	9	53	35	
Total				
No. of Loans	659	510	904	172
Amount	253576	433,720	707,051	539,051

Source: Quarterly reports

1/ includes period up to June 30, 1989

2/ statistics for Farmer Development and Clan Marketing Associations are combined with individual farmer loans. Because FDA/CMA loans are for groups, information on the average size loan to individual producers cannot be derived straightforwardly from the data above.

Table 2.5 PfP/L Small Business Lending by Enterprise Type

	Number	Value (000s)	%Total Value	Ave.Loan Size
Retail	53	119	45%	2246
Service	16	108	41%	6760
Productive	6	34	13%	5700

Table 2.6 PfP/L Lending by Gender* -- 1988 --

	Volume	%
Males		
Small Business Loans	377,290	93.4
Farmer Loans	148,876	60.0
Total Male Loans	526,166	74.3%
Females		
Small Business Loans	26,660	6.6
Market Women Loans	56,540	100.0
Farmer Loans	98,584	40.0
Total Female Loans	181,784	25.7%

* PfP/L does not disaggregate its lending by gender. These approximations are made from examining loan journals.

Table 2.7 Distribution of PfP/L Small Business Loans by Size --1988

Range	Number	% Total
$25,000+	3	.6
6001 - 25,000	17	3.3
3000 - 6000	55	10.7
1001 - 3000	86	16.7
0 - 1000	354	68.7
Total	515	100.0

Source: computorized listing of PfP loans prepared for USAID in Feb., 1989

Table 2.8 . Rural Saveway Savings Performance - by Region, 1989

	Yekepa	Ganta	Sanniquellie	Bahn	Tappita	Total
Number Saveways	9	15	21	20	13	78
Membership	758	861	1633	1770	1175	6197
% Savers LT L$80/yr	43%	52%	52%	20%	55%	42%
% Savers LT L$80/yr	57%	48%	48%	80%	45%	58%
No. Saveways in "Low" (LT $80) cat.	6	7	10	16	5	

Source: PfP/Liberia Saveway Accounting Journals

Table 2.9 Breakdown of Low Performing Saveways by Age*

Age	No. Saveways	Membership
2 years or less	12	901
GT 2 years	35	3364

Source: PfP/Liberia Saveway Accounting Journals

* Low performance is defined as less than L$80 savings per member per year. Each Saveway is assigned a code number according to the order in which it became a Saveway. Codes 001-069 constitute Saveways greater than two years old.

- A disciplined way to save for school fees, the hungry season, or the farm
- Able to withdraw money throughout the year
- Unlike banks who do not have money to pay out demand withdrawals, PfP/L pays upon demand
- Flexibility--PfP/L will accept any size deposit
- Access to loans that are for longer term and bigger than the money club's
- For young people, a way to accumulate money without the family carrying it away
- Overall, an alternative to Mandingo traders who buy crops at low prices through tied credit arrangements

Another indication of the desire for services is the fact that people ask agents to come to their villages. Those who have Saveway Clubs keep tabs on their agent. If s/he does not show up at the regular time, the savers come to the PfP/L office to find out what is happening.

Some villages have combined traditional savings mechanisms with Saveways. For example, the village of Zolowe has 68 savers in its Saveway. One of them is "Amos's Money Club" with 130 members. Another is "Jerome's Money Club" with 120 members, and a third is "Peter's Money Club" with 130 members. The money clubs reserve enough to meet villagers needs for small loans, and deposit the rest in the Saveway. At the end of the year, the money clubs return each member's accumulated savings. The villagers are happy with the honesty and responsibility of this combined savings mechanism.

What People Don't Like

Dissatisfactions varied according to economic size, but their was a consensus to savers' complaints. Among small savers, their dissatisfaction was that PfP/L did not pay interest. For example, Peter Zuweh of Zolowe has saved with PfP/L for three years, and the evaluator counted $750 of stamps in his Saveway passbook. But Zuweh says he has never been told how much interest he has earned or received an interest payment. Similar complaints were voiced in visits to savers in Boaplay, Vanyenglay, Geh, Slangouplay and Duo-Gorton.

At interviews where rural Saveway members grumbled about interest payments, the PfP/L Field Coordinator told savers that PfP/L paid interest. He explained that because there were so many accounts to calculate by hand, balance information and interest earning were not provided unless a saver specifically requested it.

Evidence corroborates what the savers are saying. The 1988 audited financial statement of PfP/L shows only $2000 in interest payments. For the audited period encompassing March-December, 1987, no interest payments were recorded. This audited information does not match PfP/L's stated policy of paying 6 percent per annum on savings deposits. It is true that PfP/L's manual accounting system is too slow and overburdened by so many accounts to calculate frequently everyone's balance. But it is also true that PfP/L sets no standard of customer service in this area. Its de facto practice retains interest whether or not savers want that. This is what frustrates people because PfP/L's practice cuts against the grain of their tradition of an annual interest payment.

A second complaint was PfP/L's slowness in disbursing withdrawals and loans. This dissatisfaction was voiced more by business people and larger market women. It was also a frustration of field agents whose clients waited 2-4 weeks for the disbursement of their money.

Where do unsatisfied clients go? Depending on their mobility and proximity to public banks, they either use the ACDB bank or informal arrangements. For example, Victoria Gblee, a kerosene seller in the Sacleapea Market, reported that she has a Saveway account and has received 3 PfP/L loans. But she keeps her working capital in the ACDB bank because it is easier to withdraw. She was confident ACDB would lend to her, but preferred borrowing from PfP/L because ACDB took months to disburse a loan, whereas with PfP/L it was only weeks.

Other business people made similar observations about PfP/L's lack of agility with disbursements, although this same slowness characterizes other banks as well. The evaluation surveyed 32 micro and small business people in Yekepa and Ganta who had received a loan from PfP/L. As Table 2.10 shows, benefits to their enterprises from these loans were substantial. Average assets for service businesses increased 178 percent, average assets for productive enterprises increased 112 percent, and average assets for retailers increased 178 percent. (Most loans are for 12 months or less, thus these can be regarded as annual increases.) Yet when one looks at savings habits in Table 2.11, there is a negative correlation between benefits and saving with PfP/L. With all three types of enterprise, PfP/L Saveway was a less attractive option to them than banks or informal mechanisms.

Table 2.10 Financial Performance of PfP/L Assisted Small Enterprises

	Av. Loan Size	Av. Equity as % of Loan	Av. Increase in Assets	% Increase in Assets
1. Service				
N=15	$3,827	16	$8,979	178
2. Productive				
N= 7	$3,244	27	$6,743	112
3. Retail				
N=10	$2,148.	11	$1,069	147

Source: PfP/L post loan evaluations and client interviews

Table 2.11 Savings Habits of Small Business Persons

	PfP	Susu	Money Club	ACDB	NHSB
Manufacturers Loans N = 7	*	**	**		
Traders Loans N = 10	**			***	
Service Artisans N = 15	*		***	**	*

Legand: * = seldom ** = periodically *** = regularly

Source: 32 business people who had received a loan from PfP

III. IMPROVING PfP/L'S DELIVERY OF FINANCIAL SERVICES

Anyone who has observed PfP/L field agents going about their work realizes that it is no easy task to provide savings and loan services to Nimba small producers. Agents travel as far as 90 kilometers on dirt roads and trails to reach customers. Six months of the year they ride in torrential rains, balancing a briefcase on the back of their motorcycle with 30 or so pounds of cumbersome coins. (Only recently did the GOL issue the first L$5 bill, but the rest of the currency is in heavy coins of L$1 or less). In order to catch villagers for meetings before they go to their fields, it is not unusual to leave home as early as 6:30 AM or return after 10 PM. The agents have monthly quotas to meet for savings and loan recollection. When not in the field, they must prepare accounts of all their transactions. The workload is not any easier in the central PfP/L office for someone like the Saveway accountant who manually posts approximately 2,000 transactions that occur every week. The hard work of the PfP/L staff is clear. But how can their program be made more effective? This chapter examines five areas.

Improving Transaction Time

Clients and staff alike recognize the delays and inefficient service caused by "the PfP/L bureaucracy." Untimely disbursements seriously hurt the micro entrepreneur engaging in seasonal activity or pursuing a narrow window of market opportunity. They are also what dissuade savers from depositing with Saveway.

PfP/L plans to undertake two major changes by the end of 1989. One is to decentralize by moving the PfP/L office to Ganta and opening branch operations in Sannequellie, Ganta and Saclapea. The other is to change to an automated accounting system using computers.

The computers may arrive and the doors to the new branch offices may open. But both of these are major undertakings that will take many months to accomplish. Other suggestions to improve transaction time are:

1. Gather some data to identify where, when and why the worst delays occur.

Treat the PfP/L system like an analysis of a manufacturing process. Pinpoint the bottlenecks and concentrate on eliminating them.

2. Immediately buy radios for the regional offices. Big losses in productivity occur because of no communications. With a radio system the field can get its most urgent needs responded to quickly and effectively.

3. Be on time with what savers expect when they expect it. If money clubs pay interest once a year, PfP/L should too. Give people a choice as to whether they take their interest payment in cash or roll it over in savings stamps. If calculating interest on many accounts is a problem, hire one or two temporary clerks so that the problem gets cleared up fast.

4. If there are many old or minuscule accounts, figure out how to combine them at the village level. Combine informal savings methods with non-formal ones, such as money clubs with a Saveway account.

5. Set up standards for disbursement and create management indicators about transaction time. Make people conscious of the extent to which they are or are not meeting the standard. For example, staff may declare that savers will receive their withdrawals no later than two weeks from the time they submit a request, and then brainstorm on how to accomplish this.

6. Hire qualified technical assistance that is knowledgeable about computerized accounting systems and data bases. A main reason for the bureaucracy is that PfP/L has five overlapping, poorly coordinated systems. This includes regional accounting, central accounting, a credit officer who prepares credit statistics, a Saveway officer who prepares savings statistics, and a computer operator who enters data to a data base.

Safeguards and Control

PfP/L experienced one serious incident of embezzlement of approximately L$10,000 when four of its central office employees colluded to issue false receipts and then stole the loan payments. Within a couple of months this was detected by PfP/L's own systems and the dishonest ex-employees are now being prosecuted. This embezzlement was possible because the regional offices do not get statements from the central office of what payments are made. Malfeasance of this sort goes undetected until central office journals are brought to the field to be reconciled. PfP/L has many controls and safeguards in place at the regional and central level. For example, four overlapping sets of journals are kept. Receipts are given and accounts are made at several levels of the organization for credit payments. It is not more controls that are necessary, but a better integration among these accounting systems and an improved information flow.

PfP/L's general manager has applied to the Peace Corps to supply the organization with five volunteers who will function as independent auditor/inspectors. Their job will be to rove at all levels to see that procedures are being followed, that borrowers do exist, and that loanees are neither offering bribes or being extorted for one.

In the Liberian context where banks have few funds and it is hard to get credit, it becomes a commonly accepted cost that one pays a bribe for a loan. This is not true with very small producers, but it is with business people. A risk PfP/L faces is that its personnel could become corrupted by this practice. Several safeguards can manage or diminish this risk. It is recommended that PfP/L not make large commercial loans because these are the ones most associated with bribes. A suggested policy guideline is to make US$10,000 the loan ceiling for an individual, with the bulk of funds being loaned through organized structures like FDAs, CMAs and MWAs, or micro enterprise loans of $3000 or less. If PfP/L cannot absorb the funds that are programmed for it, then disbursements should be stretched out more.

Improving Saveway Methodology

It is labor intensive to form a Saveway group. As the size and territorial extension of PfP/L grows, what works best for accomplishing this must be concisely identified and transferred uniformly to existing and new field agents. Today, PfP/L can define precisely how the Saveway program is administered. What it cannot define so concisely and needs to be more analytic about is its methodology for economic group formation. The transfer and adaptation of this methodology to Bong and Lofa counties will be faster and more effective if it does this.

Not all rural Saveways in Nimba County have the same level of dynamism and rate of savings mobilization. PfP/L needs to identify characteristics of the best leaders and groups, and what it can do to promote these same characteristics in other villages. It also needs to have a strategy for how to consolidate the many savers and groups that have been brought into the system in the last 18 months.

Although the Saveway methodology is good for non-literates and does not present control problems, in terms of human and group development it is a fairly top-down system that depends heavily on the agent rather than the community for management. It would be very illuminating for PfP/L to have the opportunity to exchange with other savings and loan intermediaries and learn about other methodologies in addition to Saveway for doing this. (It would also be instructive for PfP/L to compare management systems and challenges with these other intermediaries.) The World Council of Credit Unions assists several programs of a substantial scale in Africa, the most successful of which is in the Cameroon. One village-based savings and loan methodology which emphasizes community decision-making and empowerment is FINCA. A sizeable example of the FINCA methodology with high impact exists in Costa Rica.

Still a third case is the famous Grameen Bank in Bangladesh, which is as much a social liberation movement for Muslim women as it is a "bank." The good aspect of Saveway methodology is that it lays out a clear, cost-efficient, responsible way to organize a network of rural savers. But it is meager in its concepts of human and group development. PfP/L needs to advance the Saveway methodology in this respect.

At present, the Saveways cost approximately eight times more to service than can be earned from their rolled-over savings deposits. This is completely unusual because it takes time to invest in organizational infrastructure before it performs at a high level. But PfP/L needs to control more the investment cost of the Saveway program. How much will be invested for how long in forming a Saveway group? PfP/L does establish a target which it expects agents to collect on a monthly basis from each Saveway group. But this is an overall target which is not based on setting goals for and tracking each group's savings performance. The productivity and cost-effectiveness of the savings program can be increased in several ways. One is to ensure that farm families receiving loans save regularly, which is presently not a criteria for loan selection. (There are no margin requirements for agricultural loans.) Another is to cull out the "political Saveways"---ie., those groups who are motivated more by envy of what a neighboring village has than by true savings discipline. A third is to set and track performance more closely by agent and by individual Saveway. A fourth is to increase community management and decision-making, eventually to the point where PfP/L's key to the community safe is relinquished and the community itself completely administers the program and brings its savings to PfP/L. Right now there is no concept of PfP/L devolving itself and turning management over 100 percent to the group, and therefore no methods to work toward such graduation. PfP/L needs to pause and consider how it will deal with 300 Saveway groups rather than the 96 it currently tends. It then needs to retool itself in line with the scope and efficiency it wants to arrive at.

Management Training

Although PfP/L used to provide management consultancy to individual small business persons, it has effectively stopped doing this since 1987. If USAID and/or PfP/L consider that there is still a need or demand for this, a suggestion is to abandon the extension format of visits to individual places of business in favor of periodic, short, group seminars on topics of greatest need. This is the only type of management training format that has proven to be affordable by PVO financial intermediaries who are serious about reaching financial self-sustainability. For examples of this, PfP/L can look to some high volume PVO lending agencies in Latin America, particularly those affiliated with Accion International such as ADEMI in the Dominican Republic or GENESIS in Guatemala City. The learnings about management training parallel what has been discovered about microenterprise credit: the service has to be very efficiently packaged, given on a group basis without expensive individual customizing, and

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user fees and user responsibility are necessary.

Monitoring, Evaluation and Reporting

The present management information system (MIS) of PfP/L essentially collects savings and loan information from five field regions and compiles it into total program statistics, which are presented to USAID quarterly along with figures on expenditures. Even if no growth were contemplated by PfP/L, the present system is weak both in what it chooses to indicate and in leading to effective analysis. It is basically the system of a PVO that is intent on reporting numbers of services being delivered without examining whether and to what extent the agency is becoming more productive, cost-efficient, and financially self-sustaining.

The evaluators found that PfP/L has or could make without much difficulty disaggregated data which would indicate performance toward vis-a-vis such goals. What it most lacks is a qualified analyst on the management team. The evaluation's conclusion is that it is better to hire this expertise rather than attempt to retrain and improve the motivation and skills of the person who should be performing this responsibility (the deputy general manager). In addition, assistance is needed by PfP/L to redesign its MIS so that it focuses on and yields information that will be useful to managers about how the agency is performing. PfP/L is about to automate and switch over to branch rather than centralized accounting. The MIS should be redesigned as part of this change, and also in view of the fact that the high rate of growth that is projected for PfP/L over the next several years will transform the scale at which it operates and necessitate a monitoring of things it is not now concerned with. For example, in the future as assets become much larger, PfP/L must be concerned with maintaining the US dollar value of those assets, something it does not now monitor. These financial aspects are discussed in detail in Chapter 6.

Some of the things that a future MIS will have to do which the present one does not is <u>compare</u> performance. Why, for example, do some rural Saveways mobilize much more savings than others and what needs to be done to make the less dynamic ones more active? In the future, data and analysis will need to compare and judge staff productivity and the cost-efficiency of big expense items like transport. Right now PfP/L reports on the numbers of visits. That is the kind of data that must be combined with something else to make a composite indicator such as "dollars saved or loaned per visit per agent" in order to have management usefulness. Also, the way to judge performance is not just to compare regions or agents at one point in time, but to track and show the progress made by a region or agent (or whatever the unit being analyzed) <u>over</u> time. PfP/L must do more of this longitudinal analysis.

During the course of the evaluation, it was discovered that PfP/L's post-loan evaluation system has collapsed into disuse. This needs to also be reestablished, both for purposes of control and monitoring impact and appropriateness of loan policies and methods. It is not necessary to do a post-loan interview with every borrower. But there should be a sampling in a panel design that touches on all regions, and reflects all types and sizes of loans.

The following indicators should be included in the new MIS:

- differences in Saveway performance
- Liberian inflation and PfP/L's charging interest rates that approximate it
- arrears--volume, age, region, sex and type
- analysis comparing the performance and cost effectiveness of regional branches
- indicators and analysis of staff productivity; cost efficiency and impact
- preservation of the US dollar value of PfP/L assets
- absorption of loan funds according to projected patterns and rates
- progress toward financial equilibrium

IV. EXPANSION TO BONG AND LOFA COUNTIES

Rational and Prospective Benefits

PfP/L's expansion to Bong and Lofa counties is an ambitious though logical move for it both from a financial and political perspective. It will also increase scarce financial services in the agricultural breadbasket region of Liberia.

As can be seen from map 2 of the proposed project expansion area, Bong and Lofa are contiguous counties to Nimba. Expansion would follow Liberia's principal road grid. PfP/L will move its main office from Yekepa in the north of Nimba to Ganta, which is more central to the expanded project area and also the center of the indigenous local economy. No major problems with ethnicity are foreseen with this expansion. The clans are not the same as those in Nimba, but they co-exist peaceably and many of the PfP/L staff have family in Bong and Lofa. In late 1989 PfP/L will open an office in Gbargna and concentrate on developing the area between Gbargna and Ganta to the north, and Gbargna and Suacoco to the south. In late 1990 it will open an office in Zorzor of Lofa County and concentrate on developing to the south along the main road network.

Although there are still more farmer organizations that PfP/L can work with in Nimba, it will operate in all of the major markets and towns and its network of field agents covers the areas where most of the rural population lives. It is cost-rational to expand toward Bong. The move will also enable PfP/L to broaden its constituency beyond Nimba County, which will make it stronger politically.

Demand for Credit and Absorptive Capacity in Bong and Lofa Counties

The formal banking situation in Bong and Lofa Counties parallels that of Nimba. There are no commercial banks. The Agricultural Cooperative Development Bank made no agriculture loans in 1988 and thus far in 1989 and both the ACDB and the NHSB have liquidity problems to lend to small business persons.

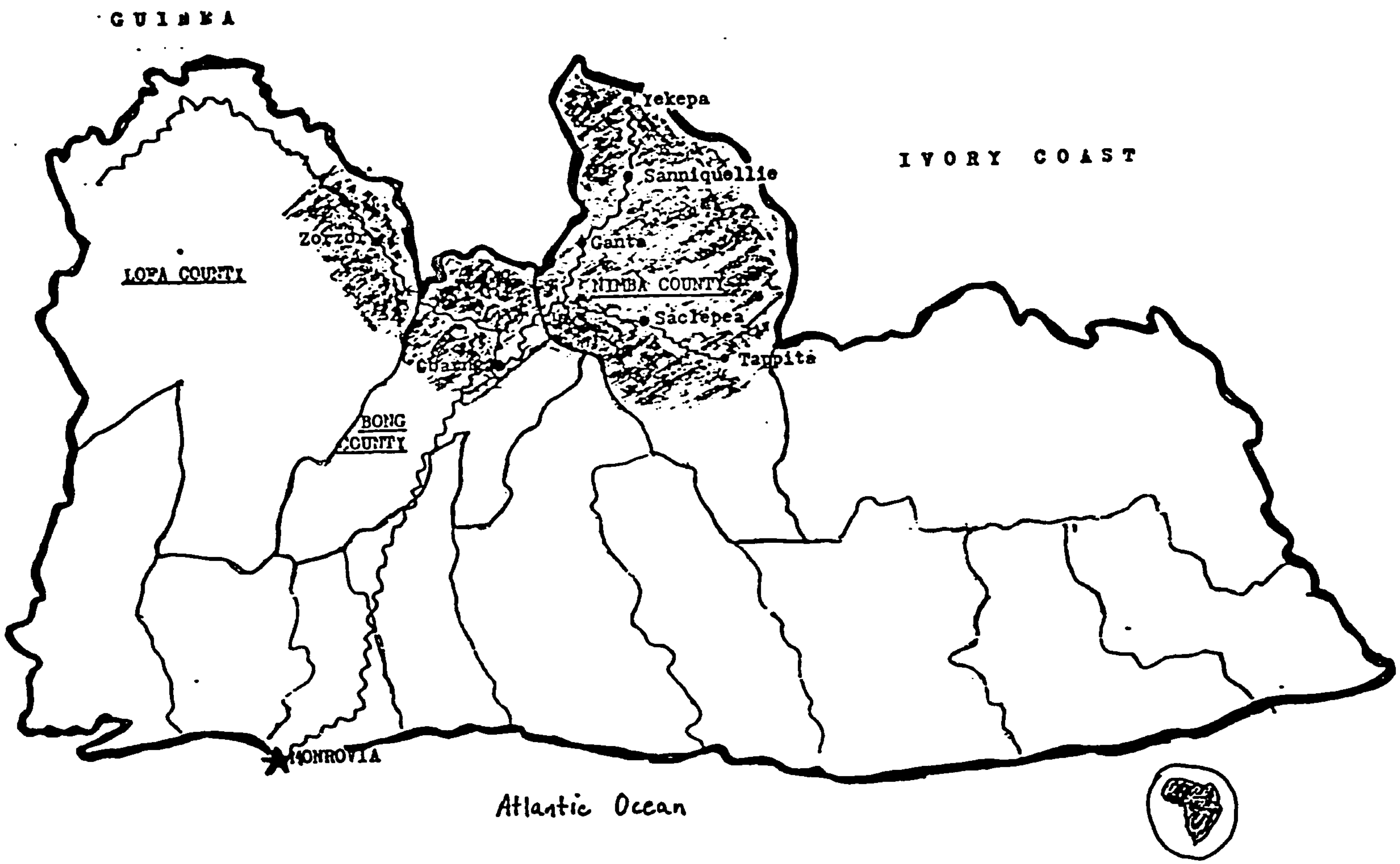
The largest grassroots organizations in these counties are agricultural cooperatives, of which many more exist in Bong and Lofa than they do in Nimba. In Lofa, there are approximately 40 small cooperatives of less than 3,000 members and 4 large ones with more than 5,000 members each. These large cooperatives each market in excess of L$600,000 of coffee and cocoa to the LPMC yearly. Likewise in Bong County there are 8 district cooperative which are apex marketing organizations to farmer groups at the village level. Their annual sales have averaged around L$180,000.

A lot of the cooperatives have problems with corruption. There has also been very high rates of default on loans made to them by the ACDB. These cooperatives are also not being tended to as actively by the Lofa and Bong Agricultural Development Programs as PfP/L and the NCRDP do with farmer organizations in Nimba. In short, there is more grassroots infrastructure in these two other counties, but PfP/L has to be more careful in choosing whom it will work with.

PfP/L is disappointed with the recent history of agricultural lending in Bong and Lofa. However, its analysis is that much of the problem was due to the lender. The ACDB did not go out and check conscientiously who had what production capacity. They required high collateral, which caused producers to incur debt in order to borrow from the ACDB. There was a long transaction time, and loans often arrived with a hefty discount after bank officials took their cut off the top. ACDB was not vigilant about collection and did not get out enough into the field. PfP/L's methods are based on a much closer relationship with local organizations and leadership. Ten percent of collateral in the form of savings is also required. PfP/L vigorously enforces the policy that no group can have more credit without 100 percent repayment of previous loans. PfP/L's strategy for expansion to Bong and Lofa is to be selective and identify a few responsible and dynamic apex cooperatives with which to work. It does not intend to expand without first establishing a non-abusive borrower-lender relationship which can serve as a model to others. The thing to monitor is how long this relationship takes to establish, and whether PfP/L can absorb all of the credit funds that are projected. (See Chapter 6). PfP/L has not done a detailed assessment as yet of local organizations and loan demand in Bong or Lofa, although it believes these amounts can be absorbed in

Map 2. MAP OF LIBERIA

MAP OF EXPANDED PFP/L FINANCIAL SERVICES -- 1989-1992



/~/ = main road system

/≈/ = project area

view of the fact that they would be split among three counties. A formal assessment of demand should be presented to USAID by PfP/L at the time of expansion.

The following application of loan funds is projected: 15 percent to small business ($3000--$10,000); 15 percent to micro business ($3000); 25 percent to market women's associations; and 45 percent to farmer associations. USAID should monitor the absorption of the credit funds, their application and repayment rates. Grant disbursement should be stretched out over a longer period of time if problems are encountered.

Reorganization of PfP/L for Expansion

Another question which the evaluation was asked to analyze is whether PfP/L has the management capability for expansion and/or how capability will be developed to match increases in both area and size of operations.

PfP/L is proposing to relocate its main office to Ganta and consolidate and manage its operations from three branches in Nimba. It intends to create another branch office in Bong County in late 1989 and another in Lofa in late 1990. Field agents in Bong and Lofa would be managed by their respective supervisors and overall activities in these two counties would be managed by an expansion coordinator. This latter person's job will be to create the web of institutional relationships (with county and municipal government, BCADP and LCADP, clan leadership, agricultural cooperatives, market women associations, the business community, etc) that are key for PfP/L to establish itself in these new areas. The Expansion Coordinator will also oversee the proper introduction of services and the creation of responsible lender-borrower relationships.

In contrast to the centralized administration of savings and loan transactions which PfP/L has now, each of the branches under the new arrangement would have a Saveway officer, a credit officer and an auditor/inspector. These old and new organizational structures are shown in charts 4.1 and 4.2.

PfP/L plans to make four changes to increase and develop its management capacity. The first is to reassign its present coordinator of Nimba field operations to become the expansion coordinator. While this is good for expansion because this field manager is very skilled, it raises the question as to whether PfP/L has someone equally capable and familiar with the agents, clients, and villages in Nimba to replace the present field manager. Fortunately, the answer is yes that PfP/L does have another field leader of comparable experience and stature among the field agents to step into this key position. The management of field activities ought to proceed smoothly as long as the responsibilities for Nimba

Chart 4.1 PRESENT PFP/LIBERIA ORGANIZATIONAL STRUCTURE

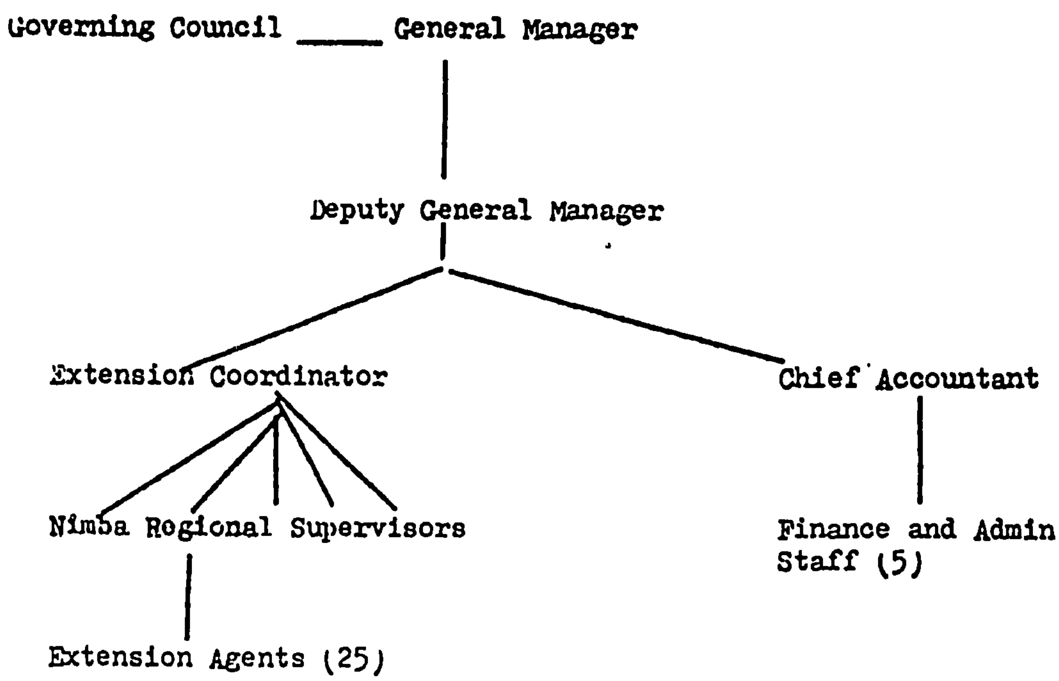
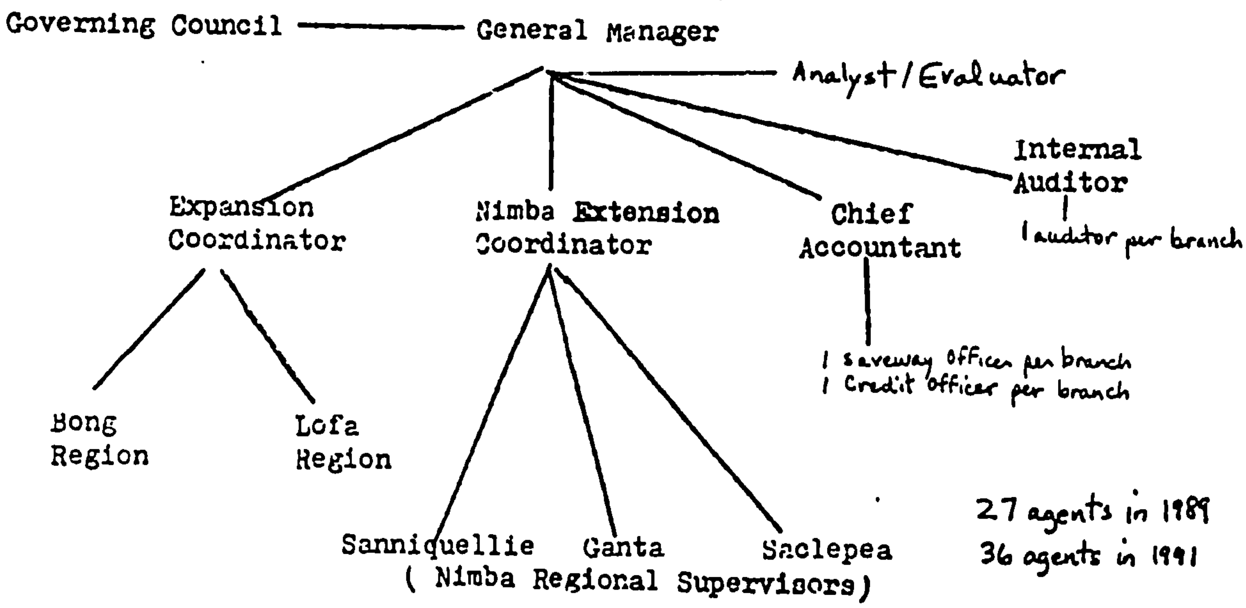


Chart 4.2 PROPOSED PfP/LIBERIA ORGANIZATIONAL STRUCTURE TO ACCOMMODATE EXPANSION



are separated from expansion and vice versa. It is an overload for a single person to be called upon to do both.

A second change that is recommended is to abolish the generalist position of deputy general manager and replace it with a technical specialist position of financial analyst/evaluator. The present deputy general manager does not direct experience with field operations or in financial administration, nor has he carved out a niche in the area of planning and analysis. As PfP/L grows, it needs more heavy duty technical expertise in the area of financial analysis, planning and projections, management information systems, program accounting, etc. This person must be computer literate and must be able to take the disparate information flowing into PfP/L and organize and analyze it in a way that management can see how it should be managing. This analyst should be the one with responsibility for monitoring asset management and progress toward financial sustainability and suggesting ways to increase it.

A third change is to have a team of auditor/inspectors (one per branch) whose job it will be to preserve the integrity of financial services and detect corruption or malfeasance. This is a change strongly advocated by the PfP/L general manager who has applied to Peace Corps to supply five volunteers who will act in these positions.

The last important change is to automate PfP/L's financial management and savings and loan administration and train its personnel (chief accountant, accountant, credit and saveway officers) in automated accounting and computerized data base management. This will take some time, because there are several systems that have to be automated and because almost no one has computer skills (although there is a keen desire to learn if and when PfP/L acquires computers). This automation is key to reducing PfP/L's transaction time and cost, and for purposes of control and analysis.

Let us return to USAID/Liberia's question as to whether PfP/L is capable of expansion and of absorbing a US $2.4 million increase over the next three and a half years. The management of this PVO has proven itself to be dedicated and dynamic over the past few years; but they still have much to learn in terms of banking services. This is true especially as they reach a scope of operations where financial administrative systems must function efficiently or the institution will shake apart like a motor when revved far beyond its capacity. The other aspect of PfP/L is that its top management structure is thin. If something happens to one of a few key people who run PfP/L, or particularly if they succumb to corruption, it would be a serious blow to the organization. The answer to USAID's question is: yes, PfP/L management is capable of growth if they receive further training and technical assistance in automation and development banking. With commensurate expansion in management skills and systems, PfP/L's managers will stay motivated. Malfeasance occurs at high levels of a PVO intermediary not because of greed, but because someone cannot cope and feels hopeless that a capacity adequate to manage their situation will be created.

V. DEVELOPING PfP/L'S ORGANIZATIONAL VIABILITY

Growth is necessary but insufficient for development. It results in the latter only when there are mechanisms and processes to solve the contradictions created by growth. As PfP/L poises itself for a period of high growth in savings and loan operations, in order to be financially and organizationally viable it must have a personnel development strategy to cope with the pressures of growth.

At the field level, the productivity of agents and supervisors must increase, and they need training that will enable them to work smarter for the same effort. At the management level, PfP/L needs to fill its gap for a financial analyst/evaluator. The skills of the other members of the management team must also be strengthened to analyze, plan and monitor operations and to use computers. A third level is the PfP/L Governing Council which should be strengthened to lead rather than follow the organization's changes. This is not a matter of training alone. PfP/L's board needs to be restructured to lessen the high proportion of government officials who continually rotate and are thus not an element of continuity on the board. Lastly, PfP/L can benefit greatly from a certain kind of international affiliation. This agency is changing from a PVO that delivers highly subsidized services to a development bank. In Liberia, PfP/L has no peer models of a similar size and clientele. Nor are there highly experienced advisors available to it locally to guide the policies, systems and structures of development banking.

PfP/L Staff Training

Both field and administrative staff can use periodic training about money handling, forms of financial abuse and maintaining PfP/L's integrity. For the protection of the employees as well as the agency, this is a subject about which it is necessary to maintain a high level of consciousness and organizational loyalty.

The administrative staff need one kind of training to improve their productivity and the field staff another. The administrative staff require computer training to automate bookkeeping. The field staff can profit from time management, planning and goal setting, how to make and track indicators of productivity, and financial analysis of small scale projects. PfP/L may wish to organize a very streamlined series of business management seminars and designate a small group of its agents who work primarily with micro and small business people and urban market women to run them.

What PfP/L requires is regular, periodic staff training. In August, 1989, 30 PfP/L staff members received an unusual training. They journeyed to the Philippines for a six week course in development banking paid for by USAID. This is a wonderful opportunity, and it is much needed. At the same time, it must be recognized as a 'once only' event. Future training will be shorter, locally based, more frequent and less costly.

Changes in PfP/L's Management Structure

This evaluation recommends that PfP/L replace its generalist Deputy General Manager whose compensation is relatively high and contribution to the organization low. A generalist administrator is not what is needed in PfP/L's thin management structure. It is recommended that a financial analyst/evaluator be hired who has the technical expertise to operate a financial management and program management information system and to keep PfP/L on a track toward financial self-sustainability. This analyst should be computer literate, as well as a good writer. USAID/Liberia snould advise on the selection process and insure that the person hired has the requisite technical qualifications and experience.

Recomposition and Strengthening of PfP/L's Governing Council

Two thirds of PfP/L's Governing Council consist of positions allocated to government ministries, parastatals or banks. The difficulty with assigning a council seat to a government agency is that there is a lack of continuity and organizational understanding among members. PfP/L also needs to have a board that is more consistent with its status as a private organization and that gives certain constituencies such as private business, PVOs and the clienteles PfP/L serves additional representation. Historically, the PfP/L Governing Council has had little training to develop itself and improve policy-making and strategic planning skills. It is recommended that there be technical assistance in helping the Governing Council to reconstruct itself and strengthen policy-making. On the Page that follows is a list of the present board members and a summary of suggestions for modernization.

As PfP/L grows it will need to resolve many questions about staffing, salaries, benefits, revenue policies, etc. It will be a more viable organization if there is co-veiling decision-making between the Governing Council and the General Manager. As it stands now, the General Manager is left by default with too many responsibilities and PfP/L's management structure is at great risk because of this.

Affiliating PfP/L with an International Organization

This is desired by PfP/L and has several merits. Within reasonable boundaries, it can help PfP/L procure commodities in the United States. It can supply highly experienced technical personnel such as those to help with the management information system and computerization. It can affiliate PfP/L with other peers who also do development banking and are pursuing financial breakeven models. As USAID turns its attention more toward developing other PVOs in Liberia, this affiliate agency may be a source of management experience for PfP/L. Of course, this international affiliate would have to be one that is technically experienced, respectful of indigenous decision-making, and cost efficient.

Chart 5.1 PfP/Liberia Governing Council

PRESENT PfP/LIBERIA GOVERNING COUNCIL

Ministry of Agriculture

Ministry of Planning & Economic Affaris

Ministry of Local Government & Internal Affaris

Ministry of Justice

LAMCO J.V. Operating Company
- 2 seats
(joint Private/Public Venture)

Agriculture Cooperative & Development Bank (ACDB)
(Govt. Bank)

Small Enterprise Financing Organization (SEFO)
(Govt. Parastatal)

Nimba County Rural Development Project-NCRDP
(joint Liberia/German Govt.)

Mt. Nimba Transport Co. (MONITCO)
(Private Enterprise)

Young Men's Christian Organization (YMCA) (Private non-profit)

US Agency for International Development
(non-voting)

PfP/L General Management

CONCEPTS FOR GOVERNING COUNCIL MODERNIZATION

1. Represent Beneficiaries (eg. Market Women, Farmers cooperative, Small Enterprise)

2. Base Representation of GOL on key Ministries
   - Agriculture
   - Local Government
   - Planning

3. Increase representation of private business and banking sector

4. Set number of Governing Council members at 12 to be divided proportionally among beneficiaries, GOL, donors and private sector.

5. Hire organization development expert to devise modernization plan with PfP/L Governing Council & Management

6. Conduct annual & development Strategic planning session with the board.

VI. FINANCIAL ANALYSIS AND PROJECTIONS

Historical Analysis

This historical analysis is limited to the past three and a half years because PfP/L has evolved over time from an agricultural extension agency to a small business training agency to a financial intermediary. For this reason and since some data are either not available or classified differently, comparison with the period before 1986 is not very useful.

The key historical fact to note is that PfP/L has evolved from a small business extension program in 1986 that supplied its services free of charge to a financial intermediary today. PfP/L began loan operations in 1983 and savings operations (formation of Saveway Clubs) in 1984. Thus it has adopted these financial services to the local cultural context over several years. However, it had never made financial services the focus of its program until 1987.

Financial Policies

Profitability. As a non-profit development agency, PfP/L does not have a goal of making a profit on its financial operations, but it does aim to be able to break-even and cover local operating expenses with local earnings. Since PfP/L is evolving from a free small business extension service to a financial intermediary, it has a policy of breaking-even as something that will be accomplished over several years, ie., as an intermediate goal. Even so, PfP/L's plans are not precise for when it is going to attain this goal and what intermediate targets it should meet for size of operations and local earnings.

Capital Contributions. There are three sources of capital: PfP/L equity, savings, and contributions from USAID. The latter has predominated.

Throughout its 15 year history, PfP/L has had several donors including the GOL and the LAMCO Mining Co., but the main source of capital and of operating funds has been USAID. The USAID/Liberia Mission receives Economic Support Funds (ESF) in addition to conventional Development Assistance monies, although there are current restrictions on spending it to finance GOL projects. Among PVOs, few have the organizational maturity, accounting systems, and experience with USAID that PfP/L does. Only two Liberian PVOs, PfP/L and CHAL, have the size and scope of operations to provide services to thousands of beneficiaries over a widespread area. The presence of ESF, the relative lack of alternative absorptive capacity, and the importance of the financial services provided by PfP/L explain why USAID funding has played such a dominant role.

It is neither PfP/L's nor USAID's policy for dependency to continue without limit. Projections call for PfP/L to break-even and eliminate the need for operational subsidy by 1994. Savings will play an increasing role in providing loan capital. Potential to absorb more capital will depend on PfP/L's success in creating grassroots savings and loan infrastructure in Lofa and Bong Counties. Whether and how much capital may come from USAID depends on PfP/L's potential for impact relative to other projects.

Liquidity. PfP/L maintains a nine percent reserve. Since it is not a bank, it is not subject to GOL reserve requirements, which are 50 percent in public banks.

Interest Rates and Terms. PfP/L charges the highest interest rates permissible under Liberian law, but its effective interest rates (interest plus additional charges) are not as high as commercial banks. In 1989, PfP/L's loan charges are as follows:

Table 6.1

Client	Interest	LIF	Probate	Avg Term
Sm Bus	15%	3%	1%	12 mo
M/W	15%	Nil	Nil	4 mo
FDA/CMA	13%	3%	1%	6 mo
Indiv Farm.	15%	3%	Nil	10 mo

The LIF (loan Investigation fee) and the probate fee are flat charges. The large loans mentioned above, which are classified under Small Business, are charged at a rate of 10 percent p.a. and have an average term of three months.

Loan Portfolio Performance

As of the first quarter, 1989, on-time loan repayment was:

$$\frac{\text{Total Collected}}{\text{Total Collectable}} = \frac{\text{L\$243,780}}{\text{L\$294,926}} = 83 \text{ percent}$$

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(This data is taken from PfP/L credit journals. These journals contain postings that do not reconcile exactly with the statistics reported quarterly by the PfP/L Finance Office). Arrears are divided among four types of borrowers.

Table 6.2 Arrears by Loan Type
(in Liberian dollars)

Loan Type (A)	Amount Collectable (B)	Arrears as % of (B) (C)	Arrears (D)	On-time Repmt (E)
Small Bus.	182,120	28%	50,372	72%
Market Women	20,920	28%	5,923	72%
Farmer Groups	37,000	27%	10,165	141%*
Indiv. Farmers	54,906	19%	10,165	81%

Source: PfP Liberia 1989 First Quarter Report

* includes $15,294 advance payment
Some borrowers such as farmer groups pay ahead of schedule, which is why the statistic for "on-time repayment" exceeds 100 percent.

Table 6.3 Arrears by Age
(in Liberian dollars)

Loan Type	0-3 Months	3-12 Months	12-24 Months	24+ Months	Total
Small Bus	20,149	22,163	3,022	5,037	50,372
Market Wm	3,139	2,073	592	12	5,923
Farmer Gps					0
Farmers	10,165				10,165
Arrears	33,453	24,236	3,614	5,049	66,352

Source: PfP/L Credit Journals, as of March 30, 1989. The credit journals can reflect payments that have not been posted as yet, which may partially explain the discrepancy with Table 6.2.

With intermediaries that have lent for several years, one checks to see whether old arrears are a problem. As Table 6.3 shows, it is not. Fifty percent of the arrears are of a very short term nature. PfP/L considers something that is less than 3 months late to be in a "grace period" and does not impose a late penalty.

In terms of risk of default, PfP/L considers agricultural loans to pose the least risk. In Nimba, these loans are to market coffee and cocoa, and the marketing is done through farmer organizations that remit PfP/L's loan payment before compensating the farmers. The difficulty of agricultural loans is that the Liberian Produce Marketing Corporation often pays late, which delays payment to PfP/L. If a farmer defaults, PfP/L refuses to make any package loan for the following season to the entire Farmer Development Association (FDA) or Clan Marketing Association (CMA) until the default is paid.

Loans to small business persons and market women present more risk because up to now they have been to individuals, many of whom are mobile and harder to track down for collection. In the future, Market Women Association loans will be collateralized by MWA group savings. PfP/L is also considering raising the present savings reserve requirements on small business loans from 10 percent to 25 percent in order to cover the risk of default on late repayments.

There were arrears problems with the small business and market women loans in 1988. That was not due to scofflaw behavior, but reflected the fact that the field agents had poor transport in 1987 and were not getting to borrowers to collect.

PfP/L does not regularly calculate a statistic on the age of arrears. In its quarterly reports it lists only the percentage of payments for each loan type which are on-time. As its loan volume increases, PfP/L credit officers must improve the reporting of this key statistic. A table should be constructed showing the amount of arrears by loan type and the amount and percentage of arrears for the total portfolio. Age of arrears should also be reported regularly.

Financial Condition

Income and Expenses

Actual loan income has been on the low side for the following reasons:

- Interest charges are below rates charged by banks and other sources of credit (susu, money clubs)

- Interest is calculated and levied (though not paid) at the time the loan is negotiated. Frequent delays in payment reduce PfP/L's return

- Penalty charges of 3 percent of the past due amount are hardly ever levied
- The interest rates on large loans are too low
- According to the National Bank of Liberia, domestic inflation ran at 9 percent in 1988 and will probably reach 14 percent or more in 1989

The result is that, although official interest charges are as high as 19 percent of volume (not including delinquency charges), actual rates are around 17 percent. Even if PfP/L were to stay at its present size, its rates are low.

It must be noted that delays in the repayment of loans are not symptomatic of a bad loan portfolio. The provision for bad debts is unrealistically high since it is based on an average "repayment rate" of 83 percent. Loss experience is low as installments get paid within a short time of their due dates.

PfP/L's largest single expense item is staff expense. Given that PfP/L operates a manual system which incorporates several redundancies for control purposes, the staff, though hardworking, are not as productive as they could be. With the planned computerization of the accounting system and decentralization of Nimba' operations, productivity can be expected to rise. for this reason, staff size in the future will not increase proportionately as operations grow.

PfP/L has historically been unable to generate internal income sufficient to cover expenses and this gap has remained wide, although it has slowly narrowed. The following figures show PfP/L internally generated income as a percentage of operating expenses, annualized for 1985 to 1987:

Table 6.4
PfP/L Income as a Percentage of Expenses

1984	1985	1986	1987	1988
8.1	12.5	13.9	21.1	25.5

PfP/L's balance sheet is strong mainly on account of the fact that it is the beneficiary of substantial grant funds. It is liquid having, as at 12/31/88, a deposit run off ratio of 0.64. This measures its ability to meet savers' withdrawal demands from available liquid assets.

Since, as a practical matter, grants are retained by PfP/L, grant fund balances may legitimately be considered to be net worth. Thus, PfP/L has a low financial leverage or debt to equity ratio which, as at 12/31/88, measured 0.44.

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From a strict interpretation of its balance sheets, PfP/L's financial condition is good due to the grant income it has received. However, this has been a highly subsidized organization for many years. It can be observed that PfP/L is leaning in the direction of financial sustainability, but it cannot be observed that there are clear plans and targets for attaining it completely. Its mentality is still one of a PVO that distributes services paid for with subsidy rather than a bank. For this reason it will be very important for PfP/L to obtain a financial analyst, set a clear and detailed strategy, and monitor regularly its progress toward this goal.

Profitability

Cost Efficiency

In the past three years, PfP/L has evolved from a small business advisory service to a financial intermediary. Not enough data is available to allocate costs precisely among cost centers, so a simple model was used which assigned 50 percent of costs to savings activities and 50 percent of costs to loan activities. It is hard to separate the two because although time may be spent forming village savings clubs, it is this infrastructure which enables PfP/L to make group loans.

During the period under review, PfP/L has performed very well in the area of service delivery, consistently increasing its levels of savings and loans as illustrated by table 6.5.

Table 6.5
Volume of Savings and Loans
(L$ 000)

	1986	1987	1988
Gross Savings	107	179	318
Loans	254	434	707

These figures reflect hefty increases in the number of savers, from 1,300 at the start of 1986 to 6,300 by mid 1989.

Agricultural and market women loans have increased, but the bulk of growth has been channelled to small and micro business. Some commercial loans as large as $50,000 and more have been made. While large loan activity is not PfP/L's main mission, from a banking standpoint it has served to use excess liquidity and generate quick profits.

PfP/L has been able to accomplish this rapid growth while keeping overall costs stable over the past three years, thus resulting in improved cost efficiency:

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Table 6.6
Costs Per Dollar Saved and Lent
(L$ 000)

	1986	1987	1988
Operating Costs	532	508	530
Cost of $1 Saving	2.49	1.42	0.83
Cost of $1 Loan	1.05	0.59	0.37

The net effect of this is that PfP/L's unit cost of providing its main services, savings and loans, has decreased considerably. Assuming that one half of operating costs are allocable to each, the cost of generating $1 in gross savings has decreased from $2.49, a clear loss, to $0.83 in 1988. The cost of providing $1 of loan has likewise decreased from $1.05 to $0.37.

Given that PfP/L operates a manual system which incorporates redundancies for control purposes, the rate at which it has improved its cost effectiveness is commendable. However, although progress has been made in steadily reducing its costs per unit of money handled, PfP/L is not as cost-efficient in absolute terms as high performing financial intermediaries elsewhere in the world. There are two main reasons for this. One is the cost of creating organizational infrastructure for savings and credit, which largely did not exist in Nimba. This type of social investment adds substantially to the cost of a program and requires several years to amortize.[1] The other main cost is running a motorized service. Some economizing on transport is certainly possible, but it is the price one pays for extending financial services out to the villages (versus serving those who are wealthy and big enough to use town banks).

With future calculations of cost efficiency and return on investment, PfP/L should continue to examine what is gained from savings operations relative to its cost, versus what is gained from lending operations relative to its cost. Savings infrastructure takes longer to build, but can PfP/L consolidate its Nimba operations and make them more cost efficient? Can it reduce the ratio of visits per savings volume? PfP/L should refine the financial model used in this evaluation to examine these questions in the future.

[1]Refer to the comparison of cost structures of rural financial intermediaries in S.T. Chew, Credit Programs for Small Farmers: A Project Manager's Reference, Washington, A.I.D. Evaluation Special Study 47, June 1987.

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The Risk of Devaluation and Inflation

Part of the evaluation assignment was to analyze what the effect would be of USAID injecting US $2.4 million into PfP/L over the next three and a half years. This rate of disbursement was determined by USAID's internal programming. Rates of growth for the 1989-91 period were fixed according to USAID targets, but rates of growth beyond that period for savings mobilization and growth of the loan fund were estimated conservatively. Even using conservative estimates, one can see from the figures below that the financial scale of PfP/L will change significantly.

Table 6.7
Projected Loan Fund Size
(1989 US$ 000s at 8 percent interest)

1989	1990	1991	1992	1993	1994	1995	1996
966	1464	1947	2867	3250	3186	3178	3240

(Figures are taken from cashflow projections in Appendix A.)

Can PfP/L manage this size of a loan fund? Today they do not have the experience and, more importantly, the systems to manage a multi-million dollar loan fund. But this is not beyond their capacity to obtain with the package of personnel, management systems, and training recommendations made in this evaluation. Thus prospects are reasonable that they can grow into the capacity to manage this. Heed carefully, however, the final conclusions to this chapter about viability.

Leaving aside for a moment questions about the rate of growth, the effect of this capitalization will be to make PfP/L a sizeable financial intermediary with the responsibility of protecting more than $2.5 million of equity. The strategy for financial management under such circumstances is far different than a PVO with a small loan fund. It will make PfP/L much more susceptible to what is happening in the national and international economy.

PfP/L's vulnerability to the macro-economy is occurring right at the time that these problems are worsening appreciably. The most serious problem is the weakening of the Liberian dollar. Although the official exchange rate remains at L$1 to US$1, in the past year the black market rate has dropped from L$1.25 per US$1 to L$2.50. Officially the National Bank of Liberia recognized a 9 percent rate of domestic inflation in 1988, but the rapid drop in the black market value of the Liberian dollar suggests this is a low estimate. Current rates of inflation are thought to exceed 20 percent.

Although no one has a crystal ball to predict Liberia's economic future, it is not out of the realm of possibility for these trends to worsen until a devaluation and/or change in government occurs. Economic-cum-political elites are reluctant to devalue and lower the book value of their assets. They also benefit from an overvalued currency because less needs to be extracted locally to pay for imports. It also costs an incumbent regime a great deal of political popularity to devalue. Yet a very destabilized economy causes political instability. When there is a change in government, legal or extra-legal, the possibility is highest that a currency devaluation to restabilize the economy will occur. A West African example of this is Nigeria in the mid-1980s where inflation and a weakening currency created frustrations and pent-up pressure for devaluation. A military coup toppled the Shagira government, and devaluation occurred. The point is that devaluation is becoming a serious risk to a financial intermediary that holds assets in Liberian currency, especially because it could occur with little or no warning. These inflationary and devaluing pressures are present and increasing in the Liberian economy.

Asset Management Techniques in an Unstable Economy

Just as an athlete changes his playing style when going from Class A baseball to the major leagues, so too must PfP/L adjust its management strategy in light of more assets and bigger risks. The purpose of this section is to discuss briefly asset management tactics against devaluation/inflation, although it is not intended to dictate PfP/L's strategy. Six financial analysts were consulted to prepare this, including: Robert McPheters, West Africa risk management analyst for the World Bank; David Befus, professor of international finance and development banking at Westmont College and Thunderbird School of Management; Sonia Salsman, financial analyst of Accion International, a major US PVO financial intermediary; Larry Reed, program director of Opportunity International, another major US PVO financial intermediary; Rene Jarquim, of experience with the Inter-American Development Bank, and John McGill, formerly of the World Council of Credit Unions. Tactics include:

- Maintaining assets in a Foreign Currency Account which is used as a guarantee fund for a local line of credit. This is the financial management tactic most frequently used in situations of strong inflation and/or seriously weakening local currency. In Liberia it would consist of this:

  <u>US$ Guarantee Fund</u>

  PVO   BANK

  <u>Credit line of L$</u>

  Borrowers (who pay bank interest and PVO cost)

In a discussion of loan guarantee funds in <u>Guidelines for Working With Commercial Financial Intermediaries</u>, the A.I.D. Bureau for Private Enterprise recommends that a loan guarantee fund leverage some of the bank's assets. However, they note that if a bank is merely an administrative mechanism for loans selected and supervised by another entity such as a PVO, than a loan guarantee fund can guarantee n high percentage or even all of the bank's participation.

Even if PfP/L cannot convert all of its present equity, held in Liberian dollars to US dollars, the analysts recommended that at a minimum it hold the new additions to the loan fund disbursed by USAID in a US$ loan guarantee fund. In fact, PfP/L is already making arrangements to do the equivalent of this with the Chase Manhattan Bank in Liberia. Other recommendations are to:

- Carefully Time Capital Infusions into the Loan Fund. If all of the foreign currency cannot be shielded, and some must be converted to local currency, another tactic is to never put in more than what is immediately needed, so that capital is not sitting idly devaluing.

- Raise Interest Rates to Approximate Inflation. If there is a legal ceiling on interest, disguise it in the form of fees, margin requirements, etc. Commercial banks recoup fully for inflation and so do private money lenders. Inflation may not be the same for all borrowers. It will be higher for small business people buying and selling imported goods than it will be for the small farmer purchasing local foodstuffs. So there is cause to have different interest rates for different sizes and types of loans. But the interest rates of the PVO intermediary should approximate what banks or informal lenders would charge.

- Use Adjustable Interest Rates. This is a tactic appropriate to hyper-inflation. If local banking laws do not permit flexible interest rate loans, a way to get around this is to make extremely short loans which can be called back every month and a new rate set. Inflation is currently not running at such hyper levels, but if it explodes in this way, this is a possibility.

- Lend Assets Rather than Money. Suppose someone wants a transport loan. The intermediary can buy the pickup and lease it on a monthly basis. At the end of the loan period the asset can be sold to the borrower at a discount. Assets like machines or vehicles hold their value during periods of devaluation/inflation better than money, and the intermediary can charge more in a lease-purchase agreement than in a loan.

- Take Payment in Real Goods. This tactic is especially suitable for agricultural clients who can pay in cash crops like coffee or cocoa. To do this the intermediary has to have storage facilities and security against pilfering. This tactic thus has certain infrastructure costs. Prospects should also be reasonable that the real goods will

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hold steady or increase in value versus suffering a decline.

- Peg Loans to US$ Values, Including Amounts Repaid. This tactic may not be feasible for the smallest farmers and market women, but it could be used with larger market women, small businesses and commercial loans.

- Convert savings Deposits to Foreign Currency or Arrange Commercial Interest-Bearing Accounts in the Face of Serious Devaluation/Inflation Threats. A short term loss will be suffered in doing this, but this tactic is appropriate if the value of local currency is declining at a very accelerated rate.

- Move the Existing Loan Fund Equity from Local to Hard Currency. Rather than change USAID US$ disbursements, use L$ from the loan fund and reimburse the US$ loan guarantee fund. Pay staff, rent, gasoline and all other local expenses from the loan fund. Make a deal with other local PVOs with USAID US$ disbursements to sell them local currency.

Unfortunately there are few detailed guidelines for non-formal financial intermediaries in these risky devaluation/inflation contexts. However, if some of the PVO lenders who have lost major assets were to identify their mistakes, a few errors emerge repeatedly. One is lack of consciousness about the threat of inflation/devaluation and not taking sufficient steps to protect equity. Another is underestimating the time it takes to recover the loan fund and convert it to foreign currency. A third is becoming misled and complacent about inflated numbers, and not having indicators that reflect the real purchasing power of local money, such as how much hard currency it buys.

Dr. McPheters of the World Bank observes that in conditions of a crumbling local currency and rising inflation, what is most important is not making a profit or, in PVO terms, breaking even and covering costs with revenues at a fast rate. What is important is to lose as little of one's assets as possible until there is a major turnaround in economic policy (which often is brought about by regime change).

Projections for Breaking-even

Preliminary cashflow projections examined a five year rate of disbursement versus the 3.5 year period proposed by USAID Liberia. The five year period was considerably less advantageous financially and in terms of numbers of beneficiaries. Although PfP/L was aware of the high growth rate in the size of the loan fund, it nonetheless considered it feasible to absorb that amount of loan capital. Although USAID/Liberia preferred a Project Activity Closing Date (PACD) of September, 1992 for its own internal programming reasons, it agreed to monitor closely how the funds were being absorbed (30 percent by small and micro business; 70 percent by market women organizations and small farmers), arrears rate, and disbursement rates. Given this set of factors, the PACD of September, 1992 was accepted. No additional USAID funds were programmed beyond this point. A sensitivity analysis was done to determine whether PfP/L could break even financially, and if so, at what rate of interest (table 6.8).

Because of the devaluation/inflation risks discussed earlier, projections were done in US rather than Liberian dollars. Using a hard currency increases the reliability of projections. For this financial analysis, an inflation rate of 5 percent was assumed (the current US rate). After taking into account modest increases in operating expenses, the budget was inflated by five percent each year to take this into account in the projection. The full cashflow projections are given in Appendix A. Projections were done for interest rate charges of 8 percent, 10 percent, 12 percent, 14 percent and 16 percent. Bear in mind that what the interest rate in a weak local currency is greater than what it is in a hard currency. An interpolation of the differences between US$ interest rates and L$ interest rates will be given shortly so that readers can judge what these US$ rates mean in local terms.

Table 6.8 shows that PfP/L must charge an interest rate of 14 percent in USS if it is going to break even in the next five years. In terms of US$, PfP/L charged an effective interest rate of slightly less than 8 percent in 1988. One can see from the 8 percent projection that if PfP/L continued to charge thiS rate, it would never come close to financial equilibrium by 1997 or considerably beyond that, This bolsters the argument expressed earlier that what PfP/L currently charges is too low.

What interest rate should PfP/L charge? Of course one must consider the goal of reaching the break-even point. Local market rates and what borrowers can afford to pay, especially the smallest and poorest of them, must also be taken into account. Here is where one must consider the interpolation of US$ interest rates in L$ terms.[2] Table 6.9 shows what the rate would be under different rates of Liberian inflation. Fifteen percent is what the approximate rate is in 1989, but whether and how fast it will increase becomes a guessing game.

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[2]To interpolate between the two currencies, the following equation was used:

$$\frac{1 + \text{L\$ interest rate}}{1 + \text{Liberian inflation}} = \frac{1 + \text{US interest rate}}{1 + \text{US inflation}}$$

Table 6.8: SUSTAINABILITY SENSITIVITY

PfP SURPLUS AT DIFFERENT EFFECTIVE INTEREST RATES

(in 000s of USD)

	1989	1990	1991	1992	1993	1994	1995	1996
8%	-419	-445	-420	-287	-263	-267	-274	-284
10%	-400	-414	-378	-223	-187	-187	-189	-192
12%	-381	-383	-334	-155	-104	-96	-89	-80
14%	-358	-346	-280	-72	0	22	47	76
16%	-342	-318	-238	-7	84	120	162	213

Table 6.9.
Equivalent L$ Interest Rates to US$ Interest Rates at Different Levels of Liberian Inflation

US$ interest	15% inflation	20% inflation	25% inflation	30% inflation
8%	18%	23%	28%	33%
10%	20%	25%	30%	35%
14%	23.6%	28.6%	33.6%	38.6%
16%	25.%	30.5%	35.5%	40.5%

In terms of Liberian financial markets, although the Liberian National Bank has established an interest rate ceiling of 13.6 percent, effective interest rates charged by commercial banks in Monrovia on commercial loans approach 30 percent. During the field study for the evaluation, several small producers were asked what they paid for loans from money clubs and informal lenders. Some market women who used loans for working capital cited a flat 25 percent per month on the amount borrowed. Other villagers who borrowed from money clubs of closely related kinfolk and neighbors said that what was charged depended on the circumstances of the borrower: those with food or health emergencies paid much less. PfP/L needs to periodically investigate what formal and informal intermediaries are charging and adjust its rates accordingly. The rates of commercial banks and moneylenders approximate and recoup for inflation much more accurately than accepting the official inflation rate released by the government.

Conditions for Financial Sustainability

Will PfP/L become financially self-sustaining with this USAID grant? There is a possibility for this if it is able to manage growth, preserve assets and charge an interest rate equivalent to 14 percent in US$. Thus the conditions that have to be fulfilled in order to breakeven are: 1) PfP/L attain targets projected for financial services; 2) the value of assets are preserved; 3) that the budgets prepared for this period are accurate in estimating costs and inflation; and 4) PfP/L is able to raise loan income.

Even if performance targets are fulfilled, there is also the very real possibility that Liberian economic conditions may worsen and affect PfP/L's performance in a negative way, This could make continued subsidy necessary for capital and perhaps even operating expenses beyond September, 1993.

In judging whether PfP/L should receive further subsidy, USAID would have to compare its costs and benefits versus alternative projects where funds could be placed. In this kind of comparison, PfP/L should stack up very well. It already has a wide base of popular support among many small savers and borrowers in Nimba County, which can be expected to grow considerably larger with expansion to Bong and Lofa Counties. So long as PfP/L manages reasonably well, it would appear that this economic infrastructure is worth subsidizing for its widespread development benefits until better times come along.

The Role of Savings

In terms of its present income, PfP/L today must be considered primarily as a lending institution. It is true that PfP/L has expanded greatly the number of savers in the past three years. On the other hand, its policies do not do all that they could to encourage savings. No interest is paid. There is slow disbursement of withdrawals, and competition with informal mechanisms is not taken very seriously.

Conclusions About PfP/L

Viability

The managers of this development agency, both within PfP/L and USAID must take three kinds of viability into account. An obvious one is financial viability, with the goal being for PfP/L to provide a sufficient volume of services that its earnings will cover its costs. A second kind is developmental viability. PfP/L's mission is to provide services to thousands of small borrowers and savers in order to widen participation at the base of the rural economy. It may not be feasible to charge an interest rate of 14 percent in US dollars (a real interest rate near 30 percent in L$) and still be able to lend to the weakest socio-economic sectors. A third kind is management viability. The conclusion of this evaluation is that this is the most priority of the three kinds of viability for PfP/L to attain. Growth in the volume of lending and/or pressures to serve larger numbers and areas should not be excessive for developing the capacity of PfP/L management personnel and systems. Where systems and the people operating them are expanding in capacity, there will be hopefulness that they are capable of managing growth. What is necessary to prevent is the opposite syndrome: excessive growth, management hopelessness, corruption, and human resources being lost to the organization when the malfeasance is discovered.

Future Risks and How to Monitor Them

One risk is a high growth rate. Just like an engine can virtually shake apart if revved too highly, so too can a PVO intermediary like PfP/L begin to disintegrate if it cannot manage such an increase in operational size and territory. If there is too much emphasis on pushing loans out the door and too little staff to recollect, an indicator of disintegration will be much higher arrears. Whether the increased funding can be absorbed as projected and on-time repayment are two key indicators of PfP/L's ability to cope with growth.

A second risk is PfP/L's ability to develop and adjust its financial management to this new scale of operations. This new scale must manage several million dollars of assets and protect them from inflation and currency fluctuations. An indicator of management performance will be whether PfP/L can preserve the value of assets in US dollar terms. To monitor this, PfP/L should calculate the value of its assets in US$ and report this on a quarterly basis. Other indicators are PfP/L'S ability to gather and analyze information about how closely actual earnings match projected earnings and the extent to which it is covering costs.

A third risk is PfP/L's success in organizing Saveways, market women's associations and farmer associations. Transaction costs can be greatly reduced by making these groups more responsible for managing their own community savings and loan services. This is happening in Nimba, and the extent to which it can be repeated in Bong and Lofa remains to be seen. Percentage of loanable funds going to groups and on-time repayment of group loans are key indicators of this.

VII. CONCLUSIONS

Evaluators who arrive for a brief, intensive study spot the risks and gaps of an implementation effort, because that is what analysis is geared to revealing. A final tally, however, must add a qualitative perspective of what an agency has achieved and what the significance of its development benefits are that cannot be counted or expressed in dollar terms.

PfP/L is poised on a tremendous opportunity to increase its financial scale, become national in operations, and emerge as a development bank. The two big risks of this are whether PfP/L's personnel and management systems can develop at a sufficient pace to handle high growth, and what will happen in the Liberian economy and whether PfP/L can preserve its assets despite destabilization.

Although PfP/L field staff and management personnel must increase their productivity and financial management skills significantly in the period ahead, a look back shows that they have been doing this to a remarkable degree over the past three years. They demonstrated character and problem-solving resilience in weathering the collapse of the US PVO with whom they had been affiliated for 12 years, and sudden autonomy in 1987. When few funds were available for transport, they kept the program functioning in 1987. They also managed well a dynamic expansion in the number of savers and territory covered in 1988-9. These factors balance on the positive side with USAID/Liberia's concern about PfP/L absorptive capacity.

It must be acknowledged that much of the agenda for future development pointed out in the evaluation came from PfP/L staff themselves. "We have to learn better how to analyze." "We need to know what information to collect and how to prepare and report it in a way that shows us what management decisions we should be making." "We expanded the Saveway program in Nimba, we've now got to consolidate it." "We need to work smarter, not harder." These comments and others reveal no lack of desire to grow in productivity and management skills. Often a certain frustration and loneliness was voiced by PfP/L staff that they were not as connected as they felt they needed to be to development banking practitioners elsewhere with whom they could compare implementation and learn. While acknowledging need for greater banking expertise, the PfP/L staff also noted that they are the only ones with the motivation to extend services in this important agricultural breadbasket area of Liberia, and to go out into the villages and be close to the small scale economic activity of savers and borrowers.

In analyzing the successes and failures of PVOs as financial intermediaries, Henry Jackelen observed that examples like the Grameen Bank in Bangladesh and the Badan Kredit Kecamtan in Indonesia which serve many thousands of producers demonstrate the powerful impact on the economic lives of the poor that equitable and dependable access to financial services can mean. Jackelen theorizes that what prevents most PVO intermediaries from attaining the magnitude of impact of a Grameen or BKK is their inability to attain bank-like outlooks and efficiency. He observes that PVOs frequently add the huge task of training micro-entrepreneurs and developing small scale economic activity onto the complex endeavor of establishing a bank. For trying to tackle both of these, most PVOs accomplish neither with wide scope or proficiency.[3] PfP/L is indeed on the road to attaining a huge scope of impact in rural Liberia. It is not confused about mounting a large micro-enterprise training effort: PfP/L knows its niche is financial intermediation. What is at stake, however, is whether PfP/L can develop the financial management infrastructure, trained personnel, and rigorous discipline about controlling costs and charging realistic rates that will enable it to fulfill its enormous potential.

3. Henry R. Jackelen, "Microenterprises as Bankable Clients: Successes and Failures" paper delivered at the Williamsburg Conference on Small Enterprise Development, December, 1987.

APPENDIX A. ACCOMPANYING FINANCIAL PROJECTIONS AND INFORMATION

Assumptions Underlying the Cashflow Projections

A. The projections are done in current US dollars. (1989)

B. L$2 = US$1.

C. Targets for savings and loan operations follow benchmarks established by USAID for 1989-1991. Although ambitious, PfP management thinks they are possible to attain. Savings targets increase by 30% per annum thereafter. Withdrawls are 40% of gross savings. Reserves are 15% of net savings, therefore savings funds rolled over into the credit fund are 85% of net savings.

D. Interest in US$ rates is 2% on savings.

E. Bad debt expense is 3% of the loan volume.

F. US inflation is 5% and continues to hold at that rate. Expenses for all other items than interest and bad debt are inflated by this rate annually.

G. Assumes loans reflow once a year.

F. Assumes expansion to Bong County starts in 1989 and comes on stream in 1990. Assumes expansion to Lofa County starts in 1990 and comes on stream in 1991. Also assumes Yekepa central office moved to Ganta and five regional branches established.

FINANCIAL PROJECTIONS HAVE MUCH LESS RELIABILITY WHERE THERE IS AN UNSTABLE CURRENCY AND/OR HIGH INFLATION. IF A DEVALUATION OCCURS IN LIBERIA AND/OR INFLATION GREATLY EXCEEDS 15-25%, THESE PROJECTIONS SHOULD BE REDONE, EVEN THOUGH THEY ARE IN US DOLLARS.

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Table A.1 FINANCIAL PROJECTIONS - 8% INTEREST RATE SCENARIO
(000s of 1989 USD)

	1989	1990	1991	1992	1993	1994	1995	1996
Gross Savings	300	550	800	1,000	1,300	1,690	2,197	2,856
Net Savings (60%)	180	330	480	600	780	1,014	1,318	1,714
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Reflows	353	813	1,184	1,539	2,357	2,587	2,324	2,057
New Capital	460	371	355	818	230	-263	-267	-274
Lendable funds	966	1,464	1,947	2,867	3,250	3,186	3,178	3,240
Loan Income	77	117	156	229	260	255	254	259
Other					50	100	150	200
Grant - USAID	690	700	1,138	517				
- GOL	100	100	100					
- Other								
Total Income	867	917	1,394	746	310	355	404	459
Inte Exp - Saving (2%)	4	7	10	12	16	20	26	34
Bad Debts (3%)	29	44	58	86	97	96	95	97
All Other Exp	464	511	508	418	460	506	556	612
Total Exp	497	562	576	516	573	622	678	744
PfP Inc - Exp	-419	-445	-420	-287	-263	-267	-274	-284
Inc less Exp	371	355	818	230	-263	-267	-274	-284

Table A.2 FINANCIAL PROJECTIONS - 10% INTEREST RATE SCENARIO
(000s of 1989 USD)

	1989	1990	1991	1992	1993	1994	1995	1996
Gross Savings	300	550	800	1,000	1,300	1,690	2,197	2,856
Net Savings (60%)	180	330	480	600	780	1,014	1,318	1,714
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Reflows	353	813	1,203	1,589	2,449	2,743	2,556	2,369
New Capital	460	390	386	860	294	-187	-187	-189
Lendable funds	966	1,484	1,997	2,959	3,406	3,418	3,490	3,637
Loan Income	97	148	200	296	341	342	349	364
Other					50	100	150	200
Grant - USAID	690	700	1,138	517				
-GOL	100	100	100					
- Other								
Total Income	887	948	1,438	813	391	442	499	564
Inte Exp - Saving (2%)	4	7	10	12	16	20	26	34
Bad Debts (3%)	29	45	60	89	102	103	105	109
All Other Exp	464	511	508	418	460	506	556	612
Total Exp	497	562	578	519	578	629	688	756
PfP Inc - Exp	-400	-414	-378	-223	-187	-187	-189	-192
Inc less Exp	390	386	860	294	-187	-187	-189	-192

Table A.3

FINANCIAL PROJECTIONS - 12% INTEREST RATE SCENARIO
(000s of 1989 USD)

	1989	1990	1991	1992	1993	1994	1995	1996
Gross Savings	300	550	800	1,000	1,300	1,690	2,197	2,856
Net Savings (60%)	180	330	480	600	780	1,014	1,318	1,714
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Lendable savings (85%:	153	281	408	510	663	862	1,120	1,457
Reflows	353	813	1,222	1,640	2,544	2,906	2,802	2,705
New Capital	460	409	417	904	362	-104	-96	-89
Lendable funds	966	1,503	2,048	3,054	3,569	3,664	3,826	4,073
Loan Income	116	180	246	366	428	440	459	489
Other					50	100	150	200
Grant - USAID	690	700	1,138	517				
-GOL	100	100	100					
- Other								
Total Income	906	980	1,484	883	478	540	609	689
Inte Exp - Saving (2%)	4	7	10	12	16	20	26	34
Bad Debts (3%)	29	45	61	92	107	110	115	122
All Other Exp	464	511	508	418	460	506	556	612
Total Exp	497	563	579	522	583	636	698	769
PfP Inc - Exp	-381	-383	-334	-155	-104	-96	-89	-80
Inc less Exp	409	417	904	362	-104	-96	-89	-80

Table A.4 FINANCIAL PROJECTIONS - 14% INTEREST RATE SCENARIO
(000s of 1989 USD)

	1989	1990	1991	1992	1993	1994	1995	1996
Gross Savings	300	550	800	1,000	1,300	1,690	2,197	2,856
Net Savings (60%)	180	330	480	600	780	1,014	1,318	1,714
Lendable savings (85%)	153	281	408	510	663	862	1,120	1,457
Lendable savings (85%)	153	281	408	510	663	862	1,120	1,457
Reflows	353	813	1,242	1,691	2,642	3,076	3,062	3,067
New Capital	460	429	449	951	434	-14	5	28
Lendable funds	966	1,522	2,099	3,152	3,739	3,924	4,188	4,552
Loan Income	135	213	294	441	523	549	586	637
Other					50	100	150	200
Grant - USAID	690	700	1,138	517				
- GOL	100	100	100					
- Other								
Total Income	925	1,013	1,532	958	573	649	736	837
Inte Exp - Saving (2%)	4	7	10	12	16	20	26	34
Bad Debts (3%)	29	46	63	95	112	118	126	137
All Other Exp	464	511	508	418	460	506	556	612
Total Exp	497	564	581	524	588	644	708	783
PfP Inc - Exp	-361	-351	-287	-83	-14	5	28	54
Inc less Exp	429	449	951	434	-14	5	28	54

Table A.5 FINANCIAL PROJECTIONS - 16% INTEREST RATE SCENARIO (000s of 1989 USD)

	1989	1990	1991	1992	1993	1994	1995	1996
Gross Savings	300	550	800	1,000	1,300	1,690	2,197	2,856
Net Savings (60%)	180	330	480	600	780	1,014	1,318	1,714
Lendable savings (85%)	153	281	408	510	663	862	1,120	1,457
Lendable savings (85%)	153	281	408	510	663	862	1,120	1,457
Reflows	353	813	1,261	1,743	2,743	3,253	3,337	3,457
New Capital	460	448	482	1,000	510	84	120	162
Lendable funds	966	1,541	2,151	3,253	3,916	4,199	4,577	5,075
Loan Income	155	247	344	521	627	672	732	812
Other					50	100	150	200
Grant - USAID	690	700	1,138	517				
-GOL	100	100	100					
- Other								
Total Income	945	1,047	1,582	1,038	677	772	882	1,012
Inte Exp - Saving (2%)	4	7	10	12	16	20	26	34
Bad Debts (3%)	29	46	65	98	117	126	137	152
All Other Exp	464	511	508	418	460	506	556	612
Total Exp	497	564	582	527	593	652	720	799
PfP Inc - Exp	-342	-318	-238	-7	84	120	162	213
Inc less Exp	448	482	1,000	510	84	120	162	213

Table A.6 BALANCE SHEET - HISTORICAL

	6/30/84 MGMT CTRL	6/30/85 PRICEWAT	6/30/86 UNAUDITED	3/31/87 PRICEWAT	12/31/87 PRICEWAT	12/31/88 PRICEWAT
Cash & Bank	78	118	37	38	22	89
Savings Dep		7	63	85	41	33
Prepayments		19	14	8	1	3
Loans	164	55	179	235	352	770
(Res B Debts)	-73	N/A	N/A	-42	-74	-134
Accts Rec	32	35	39	47	67	29
Inventory		17	15	26	26	48
Investment			10	10	10	10
Fixed Assets	177	160	143	114	67	148
ASSETS	378	411	500	521	512	996
Accts Pay	23	27	24	34	24	115
Saveway	14	6	51	91	99	178
Other Deps	N/A	9	N/A	18	12	10
Liabs	37	42	75	143	135	303
Grant Funds	341	369	425	378	377	693
EQUITIES	378	411	500	521	512	996

Table A.7 STATEMENT OF REVENUES AND EXPENSES

	12/31/84 12 MONTHS MGMT CTRL	6/30/85 6 MONTHS PRICEWAT	3/31/87 21 MONTHS PRICEWAT	12/31/87 9 MONTHS PRICEWAT	12/31/88 12 MONTHS PRICEWAT	6/30/89 6 MONTHS UNAUDITED
USAID	508	276	595	15	555	413
USG in-kind			15			
GOL	64		155	253	74	145
EEC/ITDG		50	15	5	25	
LAMCO	12	12	31	12	56	15
Others						
Grants	584	338	811	285	710	573
Dep Int			2	1	3	
Loan Int		3	44	34	75	51
Loan Fees		2	11	8	22	18
Sundry	51	13	38	43	17	6
FA Lease		22	34	3	5	
Gain FA					13	
Income	51	40	129	89	135	75
REVENUES	635	378	940	374	845	648
Staff	242	139	504	172	266	145
Gen'l Admin	276	145	290	105	146	59
B Debt Prov	30	28	26	67	68	74
Deprec	68	30	59	18	34	20
Prof Fees	15	8	52	13	16	2
EXPENSES	631	350	931	375	530	300
SURPLUS	4	28	9	-1	315	348