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Final Report

**CHILE Women and Credit End of Project Report:
Institutional Support to Finanzas Internacionales y Nacionales para la Mujer (FINAM)**

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GENESYS

**END-OF PROJECT REPORT:
Institutional Support to
Finanzas Internacionales y Nacionales para la Mujer (FINAM),
Santiago, Chile**

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Women*

September 1992

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**The Agency for International Development's (AID)
Subcontract No. W-90-00-4 between The Futures Group (TFG) and
the International Center for Research on Women (ICF.W)**

The purpose of subcontract No. W-90-00-4 between The Futures Group (TFG) and the International Center for Research on Women (ICRW), funded by the Agency for International Development, was to build institutional capacity in Finanzas Internacionales y Nacionales para la Mujer (FINAM), the Chilean affiliate of Women's World Banking, to service the specialized credit needs of low-income women microentrepreneurs.

The original period of the subcontract was from January 11, 1991 through February 29, 1992. Most project objectives, as reported in Trip Report III (March 6, 1992), had been accomplished by the end of January 1992. However, due to unanticipated managerial and staffing difficulties between August and December 1991, FINAM's staff and management were very new in January. Although they had performed well in their brief tenure at FINAM, there was a consensus among FINAM, ICRW, USAID/Chile, and TFG that additional technical assistance over the next few months would help to consolidate the gains made during the previous two months. FINAM was facing an especially critical period because it had just been awarded a loan of \$500,000 by the Inter-American Development Bank (IDB) to substantially expand the credit program.

As ICRW had incurred some savings by hiring local rather than U.S.-based consultants, the decision was made to apply the remaining funds to extend ICRW's technical assistance through October 30, 1992. This was done by a no-cost extension to the subcontract (Amendment 4) which enabled ICRW to continue to provide the technical services of our Santiago-based credit consultant, Jane Winslow, from May 1-September 30, 1992. Specifically, Ms. Winslow's tasks were

1. To provide technical advice to FINAM to substantially expand the credit program with funds provided by the (IDB).
2. To advise FINAM on integrating lessons learned from the constraints analysis study, especially, in setting up an office in a low-income area of Santiago.
3. To assist FINAM in developing a personnel policy manual.
4. To advise FINAM on defining the respective roles and functions of FINAM's board and management.
5. To work with the President and the board and management of FINAM to operate within the definition of their respective roles and functions.
6. To work with FINAM to encourage a larger number of board members to become more actively involved in FINAM's development.

A summary of FINAM's accomplishments to date and in relation to the end-of-project indicators is provided below:

1. **Progress and financial reports showing all completed technical assistance and training provided to FINAM:**
 - o **FINAM submitted three quarterly progress and financial reports covering the periods March-May 1991, June-August 1991 and September-December, 1991, and a final report in March 1992.**
 - o **FINAM's staff training program, discontinued mid-year because of staffing problems, was revived for the new staff and revamped in accordance with their needs. It was completed in March 1992.**
2. **Completed constraints analysis study and workshop: A draft of the constraints analysis study was completed in October 1991 and a workshop held November 12, 1991. Based on comments provided by ICRW the consultant, Ms. Pardo, revised the draft and submitted it in July 1992. Three hundred copies were made available to FINAM for distribution.**
3. **Design for the structure of the credit program and operating norms and procedures: In January 1992, FINAM prepared a Credit Manual that described the structure of the credit program and the operating norms and procedures for the disbursement of individual credits. A companion manual has been prepared for the disbursement of group credits.**
4. **Implementation of the credit program and application of lessons learned from training and constraints analysis:**
 - o **Implementation: By the end of September 1991, FINAM had loaned out the total amount of \$44,000 available from A.I.D. for the revolving fund. It had made 97 loans. Since then, until IDB funds became available in February 1992, the credit program functioned by relending funds from loan repayments. As of August 31, 1992, FINAM had made a total of 779 loans, 572 of which were made in 1992.**
 - o **Constraints analysis: A key lesson learned from the constraints analysis was the importance of locating an office in a low-income neighborhood where potential loan clients reside. FINAM has applied to several donor agencies for funding to open office in three low-income neighborhoods of Santiago. Although it was unable to obtain funding for this proposal from USAID, it is optimistic about receiving funding from other donors.**

5. **FINAM was expected to have quarterly functional audits throughout 1991 and a full financial audit at year-end. The functional audits, designed to assist FINAM in identifying problems with and improving its financial and credit systems and procedures, were performed by Price Waterhouse in July, September, and December, 1991. The final financial audit was completed in February 1992.**
6. **The project requirement to assess FINAM's compliance with AID's PVO eligibility criteria was dropped at USAID/Chile's request.**
7. **Completion of an evaluation plan and management information system: FINAM installed information systems for accounting and credit in November 1991 and January 1992 respectively. The staff has gradually improved its skills in manipulating and using the two systems. Part of staff the training program was designed to improve skills in this area.**
8. **A staff at FINAM trained to administer the credit program for low-income women entrepreneurs: The Credit Manager hired in November 1991 was already well-trained and experienced in lending to low-income entrepreneurs, having worked previously at Corporacion de Promocion para la Pequeña Empresa (PROPESA), the organization conducting FINAM's training. The rest of the credit analyst staff received training under this project in individual and solidarity group lending. Four new credit analysts hired in 1992 already had considerable experience as they also came directly from PROPESA.**

Additional details on the status of the project are provided below.

End-of-Project Status

The staffing and managerial crisis that arose in August 1991 due to the resignation of the General Manager and other key staff at FINAM was essentially resolved by December 1991 (Trip Report III). This was primarily due to assistance provided through this project to recruit new managers, postpone training, and computerize financial management. The deployment by ICRW, in October 1991, of Jane Winslow as a Credit Consultant at FINAM was instrumental in keeping the credit program afloat and in smoothing the transition to the new management which included, among other staff, a General Manager and a Credit Manager.

Management and administration

FINAM's management, a critical indicator of the strength, stability, and sustainability of an institution, improved substantially under the leadership of the new General Manager, Ms. Veronica Moggia, appointed in November 1991. FINAM made significant progress in improving morale, providing leadership, and improving systems and procedures. Measures included:

- o Improvements in staff morale and increased participation in decision-making through daily and monthly meetings for division managers.
- o Development of a strategic plan to establish long-term goals and make financial projections for 1992. The operating losses projected for 1992 compelled management to think strategically about the need to generate additional funds to cover these losses.
- o The development of an organizational chart and job descriptions for each position on the organizational chart. Evaluation procedures have been designed and implemented.
- o With funds provided under this project, FINAM's accounting system was significantly upgraded through computerization. The credit monitoring system was also computerized early in 1992.

Some concerns outstanding at the start of 1992 in relation to management were as follows:

- o The need to cover the projected operational losses that were estimated at \$50,000-100,000 for 1992.
- o FINAM's intention to cover these losses by expanding the number of fee-based services for which it was ill-equipped given the size and qualifications of its staff and other resources.
- o A potential credibility problem because of advertising too widely and generating the demand for services that it was not entirely in a position to deliver.
- o A lack of separation between board and management functions that is evidenced by the President's very close supervision of FINAM's day-to-day activities and very limited autonomy for the General Manager. The problem is exacerbated by the weakness of the board, most of whose members take little interest in the organization.

FINAM has made progress in addressing these concerns as follows:

- o FINAM obtained \$40,000 from FOSIS (a government development agency) to cover the operating deficit which, at the end of June, was estimated at \$50,000. FINAM will be eligible for additional funding from FOSIS in December 1992 and expects to apply again to cover the remaining projected deficit.**
- o In June 1992, FINAM established an entrepreneurial development project to provide, on a fee-for-service basis, intermediary services to assist middle-class businesswomen access local financial institutions. As the project incurred losses instead of generating revenues, it was discontinued as of August 15, 1992. Management has taken the decision to focus on the microenterprise credit program.**
- o By strengthening the credit analysis staff through additional hires of experienced personnel and training and by streamlining credit delivery systems, FINAM has been able to keep up with the demand for loans and has improved its image.**
- o With the technical advice of Ms. Winslow, several measures have been taken to clarify and better define the respective roles of President and General Manager and generate greater participation of board members. They include:**

--Development of a personnel policy manual which has been put before the Executive Committee of the board although it has not yet been approved because some members wanted changes.

--Ms. Winslow has attempted to get a clearer definition of the respective roles and responsibilities of the board and management by attempting to work with the two principle actors, namely, Ms. Ovalle, the President, who represents the board, and Ms. Moggia, the General Manager. Although Ms. Winslow has worked hard at trying to persuade Ms. Ovalle to recognize the need for a separation of responsibilities, she has met with limited success so far. In August 1992, following a period of three months in which Ms. Ovalle consented to give Ms. Moggia more autonomy, Ms. Ovalle was not willing to make any further concessions. Ms. Moggia then proposed that, instead of reporting to the President, she should be responsible to a committee of board members. This proposal was not accepted.

--In an effort to get board members more involved in FINAM's activities, an Executive Committee was formed in June. Since then, the Committee has been restructured. Four board members have been put on the Committee while Mr. Libano and Ms. Winslow have been taken off and Ms. Moggia's attendance is to be

determined on a meeting by meeting basis. While the inclusion of board members could be a change for the better, the virtual exclusion of Ms. Moggia is problematic.

Credit program for low-income women

The credit funds made available under this subcontract were all loaned out by September 1991, just slightly behind schedule. Since then, FINAM has been relending funds as earlier loans are repaid. A total of 226 loans had been made by January 1992 at which time the default rate was 3.8%, down from 9.2% registered in October 1991. Much of the credit was due to the leadership provided by the new Credit Manager, Ms. Gabriela Paredes, who assumed her position in November 1991. Other accomplishments of the credit program include:

- o The establishment of procedures for identifying late payments and making the credit analyst responsible for ensuring repayment;
- o Development of a manual for credit policies and procedures, simplification of the loan application form, and the requirement that credit analysts rather than clients complete the form;
- o Improvement of the filing system for loans;
- o Installation of a credit program information system in January 1992;
- o Improvements in the management of the credit program, including better guidance and closer supervision of credit analyst staff.

In January 1992, FINAM was awarded a \$500,000 loan by the IDB for onlending to women microentrepreneurs. This opened up important new opportunities for the organization and represented a significant challenge because it required considerable expansion of FINAM's ongoing program.

FINAM appears to have risen to the challenge, having steadily expanded the volume of loans, especially since April, as shown in Table 1. As of August 31, 1992, FINAM had made a total of 779 loans, 572 of which were made in 1992. Key factors contributing to the expansion were seasonality, an active promotional campaign, and successful implementation of solidarity group lending. Ninety percent of the loans were made to new borrowers and the rest to those applying for their second or third loans.

**Table 1. Microenterprise Division: Summary of Loan Accumulations
as of August 1992**

Month	No. of Loans
Allocations for 1992	
January	18
February	19
March	10
April	30
May	95
June	118
July	129
August	153

Total allocations as of 8/31/92	572
Accumulation 12/31/91	207

Total of historic accumulation 8/31/92	779

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Additional accomplishments of the credit program since January of this year are as follows:

- o FINAM's total lending through August 31 amounted to over \$250,000 significantly exceeding the projected amount of \$140,000.**
- o The overall default rate on loans declined to less than 2 percent while the default rate on loans made this year was less than 1 percent.**
- o The group lending program is well underway with 50 percent of loans made over the past three months going to members of solidarity groups.**
- o Credit analyst staff has been expanded and FINAM now has 6 analysts--all of whom are well-trained and experienced in making loans to small entrepreneurs.**

Staff training

The original training program negotiated with PROPESA was only partially completed by August 1991 when the organization experienced significant staff changes. Training was resumed in December 1991 to help FINAM:

- 1. Improve the technical proficiency of the accounting staff in adapting and using the computerized accounting and credit systems;**
- 2. Improve the credit staff's capacity in group lending;**
- 3. Enable the General Manager to learn from PROPESA's experiences in operations, administration, financial management, and strategic planning.**

The training was completed in March 1992 to the satisfaction of FINAM staff (Annex 1).

Technical assistance

Ms. Jane Winslow, ICRW's Credit Consultant, has been working with FINAM in an advisory capacity since October 1991. Her major tasks until January 1991 were to fill in the management gap created by the departure of the General and Credit Managers in August 1991 and to support and advise the new managers when they came on board. Her success in fulfilling these tasks prompted FINAM to request an extension of her services to help them consolidate the gains made at FINAM during December and January. As noted above, Amendment 4 to the subcontract enabled Ms. Winslow to continue to provide technical advisory services to FINAM from May-September 1992. Her accomplishments during that period are reflected in the institutional strengthening that has

occurred in 1992 which is reflected throughout this report. A tribute to her success is Ms. Ovalle's interest in continuing to employ her as a consultant for the rest of the year after funding for this project ends.

Market study and constraints analysis

A draft of the market study and constraints analysis, completed in October 1991 by Ms. Lucia Pardo, conducted in three stages in selected low-income neighborhoods of Santiago, demonstrated that the market for credit among low-income women entrepreneurs is basically untapped. Moreover, the factors discouraging women from actively seeking credit, while significant, are not insurmountable. Transactions costs, for example, can be lowered by having a credit office within the communities in which the women live and work. Similarly, women's fear of being rejected when they make loan applications can be overcome by better informing them of the conditions under which the loans are made available and of the ways in which they can meet guarantee requirements. It was well-received by participants at a workshop for representatives of governmental, nongovernmental and donor agencies that was held in November 1991. The study was particularly timely as interest is growing in Chile in the informal sector and microenterprise activities among both government and non-governmental agencies.

Ms. Pardo revised her study, based on comments received at the workshop and from USAID/Chile and ICRW. It was completed in July 1992, and at FINAM's request, 300 copies were made available for use in its public relations efforts.

Audits and personnel recruitment

Price Waterhouse completed the quarterly functional audits of FINAM in July, September, and December 1991, and the end-of-year financial audit for 1991 in February 1992. After the first audit, Price was asked to monitor and report on FINAM's progress in implementing recommendations made in the previous quarterly audit. The audits were useful in highlighting bottlenecks in administration such as lack of proper accounting, credit and information management systems. With project assistance, the problems were overcome. FINAM installed computerized financial, credit, and information management systems that have contributed significantly to streamlining procedures and improving efficiency. The financial audit, completed in January 1992, was reviewed by FINAM in February, and finalized shortly thereafter.

With assistance provided by this project, Price Waterhouse also helped to recruit the new General Manager, Ms. Veronica Moggia, and the new Credit Manager, Ms. Gabriela Paredes, who were hired in November 1991 to replace the previous managers who resigned in August 1991.

Conclusions

Although FINAM faced serious managerial difficulties during the past year, it has succeeded in overcoming most of them and has put in place the basic structures, staff, policies and procedures needed to meet the objectives of the AID project, namely, that of building institutional capacity to implement a credit program for low-income women microentrepreneurs.

Since February 1992, FINAM has also succeeded in expanding its credit program substantially in order to lend out the \$500,000 made available through the IDB. It has managed to keep the default rate on its loans below 2 percent--a notable accomplishment. It has done so while building its staff and management capabilities virtually from ground zero. FINAM's receipt of a grant of \$40,000 from FOSIS to cover part of the operating deficit for this year, and the possibility of additional funding to cover the rest, are encouraging signs for its financial stability.

Some problems, however, remain unresolved. The most serious is the continued management of the organization by the President of the board and the undermining of authority of the General Manager that this implies and which appeared to be the source of the staffing and managerial difficulties that caused the crisis in August 1991. An important element in the institutional success of FINAM in the future will depend on how this problem is resolved.