

PID-ABF 136
8/24/92

A.I.D. EVALUATION SUMMARY - PART I

1. BEFORE FILING 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 <u>USAID/EL SALVADOR</u> (ES# _____)		B. Was Evaluation Scheduled in Current FY Annual Evaluation Plan? Yes <input checked="" type="checkbox"/> Slipped <input type="checkbox"/> Ad Hoc <input type="checkbox"/> Evaluation Plan Submission Date: FY ___ Q ___		C. Evaluation Timing Interim <input type="checkbox"/> Final <input checked="" type="checkbox"/> Ex Post <input type="checkbox"/> Other <input type="checkbox"/>	
D. Activity or Activities Evaluated (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report.)					
Project No.	Project /Program Title	First PROAG or Equivalent (FY)	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
519-0304-A-00	SMALL AND MICROENTERPRISE PROGRAM	1985	6/30/92	N/A	

ACTIONS

E. Action Decisions Approved By Mission or AID/W Office Director		Name of Officer Responsible for Action	Date Action to be Completed
Action(s) Required			
1. Additional support will be provided to PROPEMI via a follow-on project to be implemented in FY 93 PID Approval PP Approval		RMAGuirola and RWherry	1/93 5/93
2. AID will meet with PROPEMI to review evaluation recommendations and conclusions.		RMAGuirola	6/92
3. Project design team will take into consideration evaluation findings and recommendations in the development of a follow on effort.		RMAGuirola and RWherry.	

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation:				(Month)	(Day)	(Year)
G. Approvals of Evaluation Summary And Action Decisions:						
Name (Typed)	Project/Program Officer	Representative of Borrower/Committee	Evaluation Officer	Mission or AID/W Office Director		
	<i>James Stephenson</i>	<i>Alvaro Guatemala</i>	<i>Karen Freeman</i>	<i>John Sambraile</i>		
Signature	<i>Rosa Ma. de Guirola</i>	Director PROPEMI	<i>[Signature]</i>	<i>[Signature]</i>		

ABSTRACT

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

This interim evaluation of the Program for Small and Microenterprises (PROPEMI), carried out in El Salvador seven months prior to the project completion date, reviewed the progress made toward fulfilling the stated project goal and purpose of increasing profitability and promoting expansion of small and micro-enterprises. Specific objectives were the creation of jobs, "graduating" beneficiaries to the established financial system, and attaining self-sufficiency as a project. To date, the average number of jobs created per beneficiary is 35% higher than expected and average beneficiary earnings are 220% higher. However, the number of beneficiaries reached is only 40% of the expected figure and only 2.5% have "graduated" to the established financial sector instead of the projected 10%. As training is no longer a mandatory requirement to obtain a loan, the rate of loan placement has more than doubled within the past 18 months. Self-sufficiency can be attained if PROPEMI increases net earnings by four times the present amount. Information for the evaluation was gathered through interviews with A.I.D. and PROPEMI officials as well as the review of relevant project documents. More significant data was generated using a 95 question random selection survey that was conducted of 224 of the 2,021 beneficiaries. It was found that the credit activities are indeed contributing toward the fulfillment of the stated project goal and purpose, but this is not true of training and technical advice activities as over 50% of the credit staff's time is dedicated to the latter activities. Survey results also demonstrated that small-enterprises not only generated more employment opportunities than micro-ones but also paid higher salaries.

The main recommendations for the project are:

- concentrate on small enterprise lending;
- de-emphasize training and post-credit technical advice;
- increase maximum loan size limits.

The main lessons learned are:

- a credit demand survey may be needed at the design stage (not a demographic study);
- the selected credit institution should "match" the target group;
- fewer eligibility rules should be imposed if the implementation involves a new credit institution.

C O S T S

I. Evaluation Costs

1. Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
Name	Affiliation			
Jorge A. Morelos Checchi and Company Consulting, Inc.		PDC-0085-I-00- 9060-00	\$ 58,726.87	519-0177

2. Mission/Office Professional Staff

Person-Days (Estimate) 135 days

3. Borrower/Grantee Professional

Staff Person-Days (Estimate) 8 persons

A.I.D. EVALUATION SUMMARY - PART II

S U M M A R Y

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

Address the following items:

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

Mission or Office:

Date This Summary Prepared:

Title And Date Of Full Evaluation Report:

USAID/EL SALVADOR

As stated in the evaluation scope of work, the goal of the Program for Small and Microenterprises (PROPEMI), which was launched in August of 1985, is "to improve access to, and availability of credit for small and microentrepreneurs. The purpose is to provide support to FUSADES, for the development of the Program for Small and Microenterprise, which provides credit and technical assistance to Small Businessmen and Microentrepreneurs in El Salvador and to increase the profitability of, and promote the expansion of Small and Microenterprises, thereby generating employment and fostering economic growth".

The central task of this interim evaluation, initiated some 8 months prior to the project activity completion date of June 30, 1992, was to assess the progress made by PROPEMI, through training, technical advice and credit, toward fulfillment of the above stated goal and purpose. Also addressed were PROPEMI's objectives of graduating entrepreneurs to the established financial system and achieving self-sufficiency as an institution. In addition to the customary steps of reading background documents and interviewing relevant individuals, a survey was conducted of 244 project beneficiaries to determine the impact of training, technical advice, and credit on employment and earnings.

There were three project design elements: program development (operating expenses); a \$4.5 million revolving credit fund intended to supply the initial credit needs of project beneficiaries; and technical assistance (inclusive of training activities). The \$1.3 million made available by the Agency for International Development (A.I.D.) to help pay PROPEMI's operating expenses, as well as the revolving credit fund, had been fully disbursed as of May 1991. The agreement between A.I.D. and PROPEMI with respect to the revolving fund, which has been amended twice, describes several expected outputs and beneficiary characteristics, including:

- the fund would have colones (¢) 57.5 million by June 1992;
- a total of 5,750 individuals would receive loans;
- an average of one new job would be created per loan recipient;
- beneficiary earnings would increase by an average of 10%;
- at least 10% of beneficiaries would be "graduated" to the established financial system after having their initial credit needs supplied through the fund;
- 40% of the beneficiaries would be women.

S U M M A R Y (Continued)

Following is a comparison of actual outputs to date with these expected output targets.

SUMMARY OF MAIN OUTPUTS TO DATE (NOV. 10, 1992)

	<u>Achieved</u>	<u>Target</u>
1. Amount of the Fund (in millions of colones)	36.0	57.5
2. No. of individuals that received loans (2,670. total loans)	2,021.	5,750.
3. Percentage increase in earnings of beneficiaries	32 %	10 %
4. No. of new jobs generated	2,790.	5,750.
5. No. of people "graduated" to the established financial system	52	575
6. % of women beneficiaries	42 %	40 %

The minimum loan size of most of the established financial system in El Salvador is \$5,000., while PROPEMI's minimum loan is \$1,000. This parameter, plus several loan eligibility requirements (such as the former mandatory training requirement) and the operational niche given to PROPEMI that was based on the findings of a 1985 survey, explain why the impact of the lending has not been greater.

Technical assistance as defined by PROPEMI relates basically to training, assistance in preparing credit applications, and to credit follow-up or supervision. Very few of the survey respondents stated that technical advice had contributed to increases in their earning or employment. No other private sector program in El Salvador is as extensive as PROPEMI's administrative training program for small and microenterprises, which offers five core courses in accounting, costs, administration, marketing & sales and investment projects. The program has reached over 5,000 individuals. However, training is not critical to assure success of the credit component, and neither is training critical for the loans to have a direct impact on employment or on increased earnings.

During the past two years, PROPEMI's total income has grown faster than its total costs. About 66 % of total costs are related to salaries and fringe benefits. The credit component is the only activity that can lead PROPEMI to true self-sustainability. However, in order to reach self-sustainability, PROPEMI needs to have a loan portfolio of approximately \$75 million, given the current budgeted level of expenses of \$3.1 million and taking into consideration inflation and bad debt reserves. This leaves a contribution margin (to cover expenses) of 4 percentage points of the 20 % that is currently charged for loans. At present, PROPEMI has \$36 million available for lending, and about \$27 million of these represent its current outstanding portfolio. Delinquency is presently 12.4% of the outstanding portfolio.

All credit activities are carried out in accordance with the accounting rules followed by the national financial system. The accounting system is cash based and applies established norms for El Salvador. A budget control manual exists that includes A.I.D. rules and norms. There is also an internal rotating auditing system, and external audits are carried out in accordance with the financial system rules.

The evaluation team recommends that A.I.D. continue to support PROPEMI; however, it is first necessary for the directors of FUSADES and PROPEMI's Commission to reconsider PROPEMI's priorities taking into account the conceptual and operational changes recommended in this report. It is recommended that future efforts be concentrated on lending activities focusing on small enterprises instead of micro-businesses, and that training and post-credit technical assistance be de-emphasized.

There are 22 "action" recommendations presented in various chapters of the reports, of which the following are most important:

- . Small enterprises should be the main target of the credit program;
- . Enterprises having up to ₡1 million in assets should be eligible to receive loans;
- . The maximum loan size should be raised to 2 % of total available loan funds;
- . Lending should target certain activities that are linked to other FUSADES programs (e.g. agricultural diversification);
- . New financial intermediation systems (e.g. factoring) should be introduced in El Salvador;
- . Passive promotion such as billboards and mobile public address channels should be utilized instead of door-to-door promotion;
- . Geographic coverage should be expanded through use of commissioned agents;
- . Certain eligibility rules should be eliminated.
- . Loans under ₡10,000 should not be processed like larger loans;
- . An internal cost study should be undertaken to find ways to streamline operations;
- . A 1% commission for loan processing should be charged;
- . Training fees should be increased by 50%;
- . A computer based management information system should be installed;
- . A new research and development unit should be supported to carry out sectoral studies, introduce new financial intermediation instruments in El Salvador, and establish a permanent process for monitoring the impact of project activities.

There are six important "lessons learned" cited in the report, as follows:

1. A credit demand survey (not a demographic study) should be carried out at the project design stage.
2. The surveyors and/or designers of the credit demand survey should be senior credit specialists.
3. The selected credit institution should "match" the characteristics of the target group.
4. The type of human resources needed to conduct the credit program should be identified during the design stage, along with the external technical assistance required to upgrade their skills.
5. If the project involves a new credit institution, it is best not to impose too many eligibility rules on loan applicants before the institution has developed its portfolio.
6. The permanent monitoring of the impact of the project activities should be instituted at the beginning of the implementation stage.

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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.)

COMMENTS

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

The Mission's experience with this project has been generally good. PROPEMI reached the population expected; they met several project goals and utilized AID funds one year ahead of the project PACD. PROPEMI is generating sufficient income to cover operating expenses, but faces decapitalization by inflation unless corrective measures (expand portfolio, adjust interest rate and commission structure) are taken. The small and micro-business subsectors of the Salvadorean economy were recognized as critical to the country's economic recovery. These small and microbusiness never shut down their operations during the 11 years of a civil war in El Salvador, to the contrary they have continued to employ people and keep the economy of the country going.

This program provided the SME with the technical assistance and the financial resources needed, therefore, they are actually expanding their operations nationwide, generating employment and fostering economic growth.

The survey performed by Checchi and Co., was important because it gave the Mission a better picture of how the SME community really is in the 90's as compared to how it was when the program started back in 1985. Definitely the key of for the excellent results of this evaluation was the opportunity the interviewers had to dialogue with PROPEMI's beneficiaries from different parts of the country.

The Peace in El Salvador has been signed and has opened a new path for PROPEMI. There is an emerging salvadorean population entering the private sector. PROPEMI will be a great asset since they are already active in 8 departments in El Salvador. The Mission will continue to work with this organization since it is vital for the new PRN. PROPEMI will be encouraged to reach SME in ex-conflictive zones (109 Municipios identified in the PRN). However, as the evaluation mentioned, PROPEMI has a weakness; the lack of a adequate management information system. A system independent of the FUSADES Central information system, will be needed in order to handle data promptly and efficiently, especially regarding loan portfolio and clientele. A.I.D. officials will continue to maintain close communication with PROPEMI's officials in order to see that this unit be implemented.

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