

A.I.D. EVALUATION SUMMARY - PART I

PD-AB6-091
82799

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 (ES# <u>DP-012/93</u>) <u>USAID/Bolivia</u>		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 <u>93</u> Q <u>3</u>		C. Evaluation Timing Interim <input checked="" type="checkbox"/> Final <input 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)
511-0596	Micro and Small Enterprise Development Project	08-31-88	09-30-97	12,700	8,999

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
1. Redesign the credit unions component of the project.		Liza Valenzuela	12-31-92
2. Close FEBOPI Agreement on 08-15-93 (original PACD).		Ernesto Garcia	08-15-93
3. Review monitoring indicators.		Valenzuela/Garcia	12-31-92

(Attach extra sheet if necessary)

APPROVALS

F. Date Of Mission Or AID/W Office Review Of Evaluation:			(Month)	(Day)	(Year)
			June	16	1993
G. Approvals of Evaluation Summary And Action Decisions:					
Name (Typed)	Project/Program Officer	Representative of Borrower/Grantor	Evaluation Officer	Mission or AID/W Office Director	
	Liza Valenzuela		Eugene J. Szepesy	Carl H. Leonard	
Signature	<i>Liza Valenzuela</i>		<i>Eugene J. Szepesy</i>	<i>Carl H. Leonard</i>	
Date	5/27/93		6/16/93	6/14/93	

A B S T R A C T

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

MICRO AND SMALL ENTERPRISE PROJECT

This project aims to help micro and small enterprises by strengthening three institutions dedicated to providing (a) training; (b) technical assistance; and (c) credit. The organizations are The Bolivian Foundation for the Development of the Micro Enterprise Sector (PRODEM); the Bolivian National Federation of Credit Unions (FENACRE); and the Bolivian National Federation of Small and Micro Enterprises (FEBOPI). FEBOPI is the umbrella federation for eight regional organizations, the Departmental Associations for Small Industry (ADEPIs). The project began in 1989. This mid-term evaluation was carried out by a team from Development Alternatives Inc., and was based on interviews with officials and members of the three institutions, ADEPIs, other knowledgeable officials, and review of project and related documentation. Major findings and conclusions are:

FEBOPI

This "umbrella" organization and its affiliated departmental organizations have become the recognized spokesmen for their sector, and key players in the dialogue with GOB to remove constraints to small business development. However, there has been little actual accomplishment in this area. FEBOPI runs an extensive training program, and has helped GOB organize successful trade fairs. However, FEBOPI needs to build a more effective service menu in order to increase its membership to become self-sufficient. The organization's reporting systems for providing information to USAID need major improvements.

FENACRE

This component of the project has not been implemented given the fact that FENACRE was insolvent. The recommendation is that FENACRE should become a purely representational organization, coordinating information to and from Credit Unions and lobbying on their behalf with the GOB. Credit Unions are capable of meeting the borrowing needs of the small and micro business sector, and of mobilizing deposits.

PRODEM

During the LOP, PRODEM was transformed into BancoSol, the first private sector bank in the hemisphere dedicated to lending to, and mobilizing deposits from, the small and micro business sector. BancoSol appears to be progressing satisfactorily, but needs continuing technical assistance in banking technology, especially to reduce transactions costs on small loans.

C O S T S

I. Evaluation Costs

Name	1. Evaluation Team Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U.S. \$)	Source of Funds
William Fisher	Development Alternatives	DHR-5448-Q-00- 9081-00	35,017	Project
Jeffrey Poyo	Development Alternatives			
Anne Beasley	Development Alternatives			
2. Mission/Office Professional Staff Person-Days (Estimate) <u>5 person/days</u>		3. Borrower/Grantee Professional Staff Person-Days (Estimate) <u>15 person/days</u>		

- 2 -

A.I.D. EVALUATION SUMMARY - PART II

SUMMARY

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

Address the following items:

- | | |
|--|--|
| <ul style="list-style-type: none"> • 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:
USAID/Bolivia

Date This Summary Prepared:
May 12, 1993

Title And Date Of Full Evaluation Report:
Evaluation of the Micro and Small Enterprise
Development Project in Bolivia

SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This is a midterm evaluation of the Micro and Small Enterprise Development (MSED) project, which was authorized in 1988 and began in 1989. The goals of the project are to promote rapid and sustained economic growth, and to bring about a more equitable distribution of income, in Bolivia. The purpose of the project is to stimulate the long-term, stable growth and development of Bolivia's small-scale enterprise sector. The project works with three Bolivian implementing organizations: the Bolivian Foundation for the Development of the Micro-enterprise Sector (PRODEM); the Bolivian National Federation of Small and Micro Enterprises (FEBOPI); and the Bolivian National Federation of Credit Unions (FENACRE). The MSED seeks to strengthen these three organizations to improve their ability to provide training, technical assistance and financial services to their members. Technical assistance is provided by Acción Internacional and the World Council of Credit Unions.

PURPOSE OF THE EVALUATION

The purpose of the evaluation are to (a) explore key management questions to permit, if necessary, adjustments in project implementation; (b) review the monitoring and evaluation system to ensure that it is able to provide USAID project managers with the information they need to measure project progress; and (c) derive lessons learned from the project that might be useful for design and implementation of future similar projects.

FEBOPI

1. FEBOPI's achievements include: Raising government and public awareness of the problems faced by the small and micro business sector; becoming the recognized spokesman for this constituency; designing and implementing a training program in basic business skills through its eight affiliated regional (departmental) organizations known as ADEPIs; completing research into policy constraints facing the sector, and participating in the policy dialogue with the GOB vis a vis amelioration of these constraints; helping to organize two national trade fairs to exhibit small business and microindustrial products; and providing technical assistance to help make the ADEPIs institutionally stronger.

2. On the negative side: Membership represents only a fraction of the potential constituency, and has recently declined to approximately 1,100 (due in part to an increase in dues); no substantial policy reforms have taken place; the organization has not yet developed services that address the two most pressing needs of the small and microindustrial sector: (1) in-shop technical assistance, including technology assessments, preparation of business plans and help with arranging credit; and (2) direct intervention to help member companies make contact with prospective customers and close sales.

3. While FEBOPI has made progress, it is not yet an "established" institution. To achieve this status, it will have to concentrate on building a solid menu of services that members and prospective members will perceive to be relevant to their most pressing needs. It will then have to aggressively market these services to its constituency. The two strategic legs upon which this reorientation of mission stands are: (1) helping members to upgrade their products; and (2) helping members to sell their products.

4. The Evaluation outlines a number of ways in which existing services could be expanded or their impact maximized. It also recommends study of four new services: (1) Pooled Production and Sales Service, in which groups of 15-20 small entrepreneurs form companies to obtain contracts they are unable to obtain as small individual operators; (2) a Domestic Backward Linkages Program, in which FEBOPI plays the role of sales agent or "honest broker" between its members and larger Bolivian companies to help create commercial relationships; (3) an International Subcontracting Program, designed to create sales by small and micro enterprises in selected sectors to overseas buyers and/or manufacturers; and (4) creation of a Buyer Guide and Buyers Referral Service, designed to bring small and micro enterprises to the attention of both domestic and overseas buyers, with FEBOPI providing hands-on assistance in sample preparation, price quotations, etc.

3

5. FEBOPI does not have an adequate Management Information System, which is why its reports to AID are often incomplete and late. The Evaluation recommends a series of performance indicators which could be of value to FEBOPI and from which information required by AID could more easily be extrapolated.

6. FEBOPI has prepared a Self-Sufficiency Plan for presentation to AID. It includes (a) creation of an export promotion organization; (b) establishment of a "raw materials bank"; (c) staging two trade fairs annually; and (d) introduction of a "credit card" for members and a "discount card" for members to use in purchasing raw materials. The Evaluators find some of these ideas worth studying, but are concerned about (a) identifying the human resources requirements for implementation, and (b) over-optimistic projections of the amount and timing of revenue generation.

7. Attracting and retaining members is the key to the future health (and self-sustainability) of this organization. To achieve this, the organization needs to develop a menu of services that prospective members will perceive as responsive to their most pressing concerns. The evaluation recommends such a service menu, accompanied by an intensive marketing campaign to recruit new members.

8. FEBOPI's funding from AID is due to end in December, 1992. The Evaluation sets out a number of future options for AID's consideration. But the Evaluators strongly recommend that a decision on future funding be deferred until the results of the membership campaign can be assessed.

Lessons Learned

1. Project designers should avoid using language that leads to unrealistic expectations. It is desirable to err on the side of conservatism, especially in particularly difficult subject areas such as microenterprise development.

2. Beneficiary organizations lead to put off development of self-sufficiency plans until they are faced with the imminent prospect of actually achieving self-sufficiency. At that point, they are likely to grasp at straws. A time-table and methodology for self-sufficiency planning should be part of every new project that contemplates self-sufficiency. Self-sufficiency programs should not be proposed only because they generate revenue; they should materially contribute to the achievement of the organization's mission and be responsive to members' perceived needs. USAID and beneficiary organizations should allow more time for development and and verification of self-sufficiency programs.

FENACRE

1. The FENACRE component of the MSED Project suffered from very serious design problems that undermined the ability to implement the project as described in the Project Paper. The institutional analysis carried out in the design stage was inadequate, and thus represented distorted conclusions about its financial health. FENACRE's insolvency surfaced in the external audit conducted in fiscal 1989.

2. The purpose of supporting credit unions in the ADEPIs was to strengthen these business associations through access to an income stream from the credit union. By distorting the incentives of credit union membership, it undermined their viability (the only purpose for joining the ADEPI was to obtain credit). This element of the original design was discontinued.

3. As a result of FENACRE's financial crisis, the external technical assistance has been concentrated at the Federation level. This assistance has concentrated on directing the dismantling of the deposit mobilization program with the public, and organizing trips to convince the credit unions of the benefits of state regulation. External technical assistance should concentrate on efforts to assist credit unions with the development of a detailed business plan for the Federation.

4. This component of the project must be re-designed to become an institutional strengthening, rather than a credit project. However, the technical assistance effort must be directed toward the credit unions rather than the Federation. The Federation must be significantly downsized to become a simple representational and lobbying institution, stripped of its intermediation functions. The project should seek to coordinate activities with the German Technical Assistance (DGRV) in order to maximize the efficient use of resources in order to strengthen the credit union system.

Lessons Learned

1. Recent experience in Bolivia demonstrates that credit unions can be very successful in the mobilization of their own loanable funds. However, they require assistance in upgrading their financial intermediation technology. Greater emphasis should be placed on institutional strengthening based on deposit mobilization rather than on external credit.

S U M M A R Y (Continued)

2. Credit unions currently provide the micro and small enterprise sector with complete financial services (deposit and loans). However, the recent hyperinflationary experience has distorted the structure of their balance sheets toward investment in fixed assets that need to be liquidated.
3. Project design teams must be required to provide a high level of in-depth financial analysis of institutions such as FENACRE. Superficial analysis leads to serious misrepresentation of true financial health.
4. When a second level representational organization such as FENACRE takes on functions of a financial intermediary, it develops objectives of its own, divorced and many times in conflict with its members institutions. The political structure of control creates serious conflicts of interest, undermining its role as a financial intermediary. Therefore, these functions should be separated from the political control structure.

PRODEM

1. PRODEM's transfer of its offices to BancoSol is progressing smoothly. Conversion by stages has permitted the development of a positive consensus by all levels of PRODEM personnel towards the formation of a new "for-profit" bank. The transfer of managers, staff and offices from PRODEM to BancoSol should not adversely affect the USAID project over the next fifteen months because the day-to-day business of making loans is a decentralized process and a tested system of procedures and controls is in place.
2. BancoSol needs to focus immediately on developing its plan to mobilize voluntary savings. It should begin by designing a simple, brief marketing study to collect uniform information on current savings patterns of prospective clients. This survey should be administered soon so that a savings promotion campaign can be well underway before the compulsory savings/compensating balance program is phased-out next year.
3. Acción technical assistance has contributed to the development of PRODEM's institutional culture in which the development of interpersonal skills and personnel motivation are key. This assistance has contributed to PRODEM's ability to provide credit to increasing numbers of people while maintaining almost negligible delinquency.
4. The project evaluation and monitoring system should include regular analysis of PRODEM/BancoSol financial statements to assess the health of the organization. It is recommended that PRODEM/BancoSol proceed with the design and implementation of a computerized system for tracking over time certain financial/economic indicators to measure the progress of microenterprises receiving credit. Much of this information is already recorded on loan application forms and it would be useful for donors, investors and PRODEM/BancoSol to be able to follow the progress of businesses they are supporting. The design of this system has already begun.

Lessons Learned

1. The solidarity group methodology has worked well in PRODEM. It seems an appropriate methodology in Bolivia especially for microentrepreneurs in commerce and very small producers. The key has been to permit the dynamics of organization to function freely without bureaucratic control or unwanted interference from the lending organization. Microentrepreneurs form their own groups. PRODEM's only requirement is that individuals in a group live close by, and that their production or credit needs be at a similar level. If conflict arises in a group, individuals are free to restructure their groups. The result has been low delinquency, and group members may pay the quota of a member who is unable to make payment. Nevertheless, as microproducers grow and need larger loans, PRODEM/BancoSol may want to consider diversifying its methodology and giving individual loans.
2. PRODEM's institutional culture, which includes team management, has been a key factor in its ability to grow and evolve into a bank. This culture is characterized by teamwork, participatory decisions, development of inter-personal skills and commitment to the organization's mission. The delegation of authority and the use of a credit committee formed entirely by field advisors to make loan decisions are reasons why the transition from an NGO to a bank has been smooth and business has been able to continue as usual during the transition period.
3. USAID should take a flexible approach to institutional development as it did in the case of PRODEM. Although the conversion of PRODEM to a bank regulated by the Banking Superintendency was not part of the original project design, USAID supported this decision of PRODEM's management and provided advice and assistance to facilitate the transition. The result is an organization which is stronger and has more resources to serve the microenterprise sector.

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.)

1) Evaluation Report.

COMMENTS

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

The evaluation fulfilled the expected demands established in the Scope of Work and was useful to the Mission in making important implementation decisions such as not continuing with additional support to FEBOPI after the PACD. Other important contribution was the reinforcement of Mission's decision to re-design the FENACRE component of the MS&D project and use the unexpended credit funds to become an institutional strengthening, rather than a credit project. Following an evaluation recommendation, the Mission proceeded to contract a study to determine the most appropriate method to calculate employment generation.