

A I D EVALUATION SUMMARY - PART I

PD-ABR-130

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

100678

IDENTIFICATION DATA

A Reporting A I D Unit Mission or AID/W Office EL SALVADOR (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 for the evaluation report)

Project No	Project / Program	First PROAG or Equivalent	Most Recent PACD (Mo/Yr)	Planned LOP Cost (000)	Amount Obligated to Date (000)
CA-519-0318-A-00-0352-00	Microenterprise Development Project	8/31/90	2/28/98	\$10 million	\$10 million

ACTIONS

E Action Decisions Approved By Mission or AID/W Office Director	Name of Officer Responsible for Action	Date Action to be Completed
NONE Action(s) Required		

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/Grantee	Evaluation Officer	Mission of AID/W Office Director
Signature	MOTT/S L DUARTE <i>MOTT</i>		A C MEJIA <i>Acmeja</i>	KENNETH C. ELLIS <i>K Ellis</i>
Date	7/6/99		1/6/99	1/8/99

2

ABSTRACT

H Evaluation Abstract (Do not exceed the space provided)

The Foundation for International Community Assistance (FINCA) is an international PVO promoting the economic and social development of the poorest segment of society, especially women, through El Salvador, using a methodology field tested in Latin America and more recently in Africa Central Asia and the United States. This methodology involves the creation of village banks that are peer groups of 20-40 members. Some affiliates of FINCA, including Centro de Apoyo a la Microempresa (CAM) in El Salvador, have also provided larger individual solidarity group loans (\$230 to \$3 400) to microentrepreneurs with existing businesses and assets for guarantees. On August 30 1990, USAID/El Salvador and FINCA signed Cooperative Agreement No 519-0318 A-00-0352-00 the Microenterprise Development Activity for \$10 million to assist CAM. The goal of this Cooperative Agreement was "to increase income and productive employment opportunities for microenterprises thereby enabling them to better contribute to and share in the benefits of economic growth." The purpose was "to establish a new viable sustainable Salvadoran institution for providing microentrepreneurs with increased access to financial and non-financial services."

In December 1997, a summary evaluation of the activity was undertaken by a team of three specialists from Weidemann Associates and its subcontractor Development Associates. The team used a range of methodologies including document review, site visits interviews and a survey to (1) assess the progress made to achieve the objectives of the Cooperative Agreement and (2) make recommendations for next steps in advancing the development of the CAM.

The evaluation team's report states that CAM with technical assistance from FINCA, was undertaking and planning many actions to improve its operations and to achieve sustainability. Although beneficiaries who responded to the survey were generally positive about the economic impacts of the lending program the team expressed concern for the lack of graduation and low average loan size.

The team made several recommendations for improving the FINCA/CAM microenterprise program including changes in policy and strategy in the techniques of microenterprise lending, techniques for improving the CAM's financial sustainability organizational changes that would strengthen its operations and interactions with FINCA. Recommendations for USAID emphasized interventions to strengthen CAM through staff training client training and upgrading skills of CAM's General Assembly and Board of Directors. The team cited several "lessons learned" from the FINCA/CAM activity: (1) expatriate control of a project from a base outside the project country may lead to miscommunications and misunderstandings between local and expatriate project partners; (2) reliance on an expatriate (U S) project team raises project costs and increases the proportion of project costs used for management administration; and (3) reliance on and/or affiliation with an international organization connected with numerous similar credit and/or savings projects may improve the quality and amount of technical assistance available to a local credit/savings institution.

COSTS

I Evaluation Costs

1 Evaluation Team		Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (U S \$)	Source of Funds
Name	Affiliation			
Dwight Bunce	Development Associates	AEP-I-00-6005-00-808	\$56,926	Project No 519-0318-A-00-0352-00
Nancy Natilison	Weidemann Associates			
Lucy Creevey	Weidemann Associates			
2 Mission/Office Professional Staff Person Days (Estimate) 1/48		3 Borrower/Grantee Professional Staff Person-Days (Estimate) 1/15		

A I D EVALUATION SUMMARY - PART II

SUMMARY				
<p>J Summary of Evaluation Findings - Conclusions and Recommendations (Try not to exceed the three (3) pages provided) Address the following items</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none; vertical-align: top;"> Purpose of evaluation and methodology used Purpose of activity(ies) evaluated Findings and conclusions (relate to questions) </td> <td style="width: 50%; border: none; vertical-align: top;"> Principal recommendations Lessons learned </td> </tr> </table>			Purpose of evaluation and methodology used Purpose of activity(ies) evaluated Findings and conclusions (relate to questions)	Principal recommendations Lessons learned
Purpose of evaluation and methodology used Purpose of activity(ies) evaluated Findings and conclusions (relate to questions)	Principal recommendations Lessons learned			
Mission or Office USAID/EI Salvador	Date This Summary Prepared December 22 1998	Title And Date Of Full Evaluation Report Final Evaluation of the Microenterprise Development Project of El Salvador/February 25, 1998		
<p>A Purpose and Methodology The evaluation had two purposes</p> <ol style="list-style-type: none"> 1 To assess and provide feedback to USAID on the progress made to achieve the objectives of the Cooperative Agreement and 2 To make recommendations for next steps in advancing the development of the CAM [Centro de Apoyo a la Microempresa] <p>The information from the evaluation is to help FINCA, the CAM and the USAID Mission discuss possible future collaboration to advance the CAM's continued development</p> <p>The evaluation team obtained information from a variety of sources Using the services of subcontractor FUNDASALVA a survey was conducted of clients of the Village Bank and Microenterprise Programs The questionnaire was based on the one utilized in the midterm evaluation thus permitting comparisons over time as well as those within the current groups Within the established budget for the evaluation additional funds were allocated in December 1997 to FUNDASALVA in order to attain statistically significant numbers size in key cells in the stratified sample of respondents These surveys provide new information pertinent to the impacts of the project on beneficiaries</p> <p>Other topics in the evaluation were researched by using existing documents by conducting interviews with key informants and by carrying out field visits Given the breadth of the statement of work for the evaluation despite the total of eight work-weeks for the three evaluation team members the time that could be devoted to any one topic was limited and the team emphasized the issues of highest priority for the Mission</p> <p>Key informants included CAM clients management and staff and one of the Hub/FINCA consultants USAID interviewees included those with current and previous responsibilities for the project Site visits were made to CAM offices in San Salvador Cojutepeque and Santa Ana and to village bank meetings in Santa Ana and San Martin Both USAID and CAM made documents readily available to the evaluations teams</p>				
<p>B Purpose of Activities Evaluated</p> <p>FINCA International is an international PVO promoting the economic and social development of the poorest segment of society especially women through El Salvador using a methodology field tested in Latin America and more recently in Africa Central Asia and the United States This methodology involves the creation of village banks that are peer groups of 20-40 members who receive three critical services 1) working capital loans to finance self employment (typically from \$ 50 to \$ 300) 2) a mechanism to promote savings 3) a community-based system that is based upon mutual support and seeks to encourage self-worth Some affiliates of FINCA, including CAM in El Salvador have also provided larger individual and solidarity group loans (\$ 230 to \$ 3 400) to microentrepreneurs with existing businesses and assets for guarantees</p> <p>The Cooperative Agreement between FINCA and USAID/EI Salvador was for \$ 10 million The goal of this Cooperative Agreement was "to increase income and productive employment opportunities for microenterprises, thereby enabling them to better contribute to and share in the benefits of economic growth" The purpose was "to establish a new viable, sustainable Salvadoran institution for providing microentrepreneurs with increased access to financial and non financial services" Over the past seven years FINCA has worked with locally-hired employees in house and independent experts in microenterprise lending to carry out this mandate</p> <p>In 1991, through the funds provided by USAID under the Microenterprise Development Activity FINCA created the Centro de Apoyo a la Microempresa (CAM) a legally registered Salvadoran NGO with four regional offices to manage the village bank and the microenterprise loan portfolios as well as to provide training services In July 1994 a major embezzlement was discovered in the Regional Office of San Miguel Immediate actions were taken to prosecute guilty parties and get CAM "back on track" attempting to minimize damage to its organization As of August 1997 CAM had 17,033 active clients, an outstanding loan portfolio of \$ 1 44 million, and had reached 58% financial self-sufficiency (using FINCA's estimates for the rate of inflation)</p>				

4

SUMMARY

C Conclusions and Principal Recommendations

As of February 1998 CAM with technical assistance from FINCA, was undertaking and planning many actions to improve operations and to achieve sustainability. The following recommendations were developed in the evaluation or merited particular mention.

1 Microenterprise Lending If the Microenterprise Program is to continue, a number of steps should be taken.

- a) Correct the system so that savings from another client are not applied toward past due loans and adjust reserves and write-offs accordingly.
- b) Ensure that the methodology is appropriate to avoid continued problems in delinquency. The changes made in 1996 have not resulted in improved portfolio quality.
- c) Ensure that the cost per unit lent in this program is competitive with the costs for the village bank program.
- d) If the loan approval process is to be de-centralized extreme caution must be taken to ensure delinquency problems do not reappear.

CAM should carefully examine the potential benefits of eliminating the Microenterprise Lending Program.

Financial sensitivity analysis should be carried out under varying assumptions for the two Programs (Village Banking and Solidarity Groups and Individual loans) concerning operating costs, interest income and loan write-offs. Some of the scenarios could include the impacts of discontinuing the entire Microenterprise Program on the funding of the Village Banking Program, that is Microenterprise loan repayments (or sale of the portfolio) could fund a faster growth of the Village Bank Program. Perhaps rigorous analysis will suggest that CAM should specialize in what it does best: Village Banking.

2 Financial Sustainability of CAM The following recommendations are made to help achieve the financial sustainability of CAM.

- a) CAM should finalize its five year strategic plan and use it as a management tool to measure performance on a regular basis.
- b) In order to become sustainable CAM must increase its loan portfolio while maintaining quality. Careful assessment of the microenterprise program is needed to analyze its profitability vis-a-vis the village bank program. CAM should carefully analyze the cost per colon lent in each program to justify its continued efforts in the microenterprise program given its high delinquency rates.
- c) Staff productivity needs to increase to industry standards. CAM has to increase the productivity of its credit officers.
- d) Costs must be contained especially personnel costs. CAM should be careful not to permit salary increases or incentive plans to erode the progress it has recently made in this area. As the portfolio grows more field staff will be hired but CAM will have to make a concerted effort not to increase the administrative staff above its desired ratio.
- e) In order to fund the projected growth CAM will need to obtain loans or capital recognizing that the former may substantially increase its expenses if it has to borrow at market rates and pay FINCA for a guarantee. Sources of these funds remain vague and lack of viable options could halt CAM's growth and prevent it from becoming financially sustainable.

3 Future Mission Assistance to CAM To the extent that the USAID Mission in El Salvador wishes to continue promoting microenterprise development in El Salvador in the late 1990s it could increase its communications with the FINCA/Hub office and decision-making that affect CAM.

Avoiding duplication of effort with the FINCA regional Hub office the Mission could directly provide assistance to the CAM in several areas. Mission assistance could strengthen CAM as an organization without increasing CAM's own administrative costs thus contributing to financial and organizational sustainability. The following paragraph suggests areas in which the Mission could consider assisting CAM.

- a) Staff Training The Mission could assist CAM to conduct a training needs assessment and subsequently provide the training.

SUMMARY

b) Client Training As a cost cutting measure CAM's regional training staff was eliminated and their duties assumed by promoters and regional supervisors. As in the case of CAM's training of its own staff, some of the client training could be provided through a subcontract with a (specialized) Salvadoran organization. The Mission may be able to fund some of the non-staff costs of client training.

c) Training of the CAM General Assembly and Board of Directors With recent changes in its by-laws CAM must provide training and work assignments for candidates for membership in the General Assembly. The Mission may cautiously consider any proposals of CAM in this regard.

D Lesson Learned

For those embarking on microfinance projects, consideration could be given to the following points:

a) Expatriate control of a project from a base outside the project country may lead to miscommunications and misunderstandings between local and expatriate project partners.

b) Reliance on an expatriate (U S) project team raises project costs and increases the proportion of project costs used for management and administration.

c) Reliance on and/or affiliation with an international organization connected with numerous similar credit and/or savings projects improves the quality and amount of technical assistance available to a local credit/savings institutions.

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)

Final Evaluation by Weidemann Associates, Inc (February 27, 1998)

COMMENTS

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

The Evaluators recommendations regarding the role of FINCA International were the following

1) CAM should periodically assess its affiliation status with FINCA International, comparing costs to benefits, such as access to technical assistance, the Village Bank Capital Fund, and the pertinent information about microfinance in other countries

2) At this stage, the CAM Board of Directors should examine the benefits of its affiliate status with FINCA

USAID/ES has always expressed concern about the composition of the General Assembly and of the Board of Directors of the CAM The General Assembly is weak, and the majority of members are the original village bankers from Santa Ana The CAM Board of Directors consists of three FINCA members who are U S citizens and live in the United States

The affiliation fee the CAM pays to FINCA has also been a topic of discussion on various occasions because the CAM must pay to FINCA 1% of each loan disbursed, whether the loan is good or is unrecovered The value (cost/benefits) of this affiliation for the CAM has not been analyzed in detail

Once the national institution has been created, the U S partner should back off so that the new NGO becomes independent Maybe when a new NGO, is being created, a more dominant role for the external sponsor is necessary but as the institution matures, it should become a fully Salvadoran institution In the case of the CAM, there is an inherent conflict of interest on Board decisions since, for instance, a suggestion to review the Affiliation Fee by the Executive Director may not be welcomed by the FINCA members This should be rectified immediately

USAID hopes to continue to have a working relationship directly with the CAM in future activities, but would seek a direct relationship