

PD-ABS-127
104532

AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES OF AMERICA A. I. D. MISSION
TO EL SALVADOR
C/O AMERICAN EMBASSY.
SAN SALVADOR, EL SALVADOR, C. A.

ACTION MEMO FOR THE MISSION DIRECTOR

FROM: Mary C. Ott, SO1 Team Leader
SUBJECT: Close-out Report of the Microenterprise Innovation Program
(Cooperative Agreement No. 940-0406-A-00-5246) with Catholic
Relief Services (CRS).

In accordance with ADS 203 Managing for Results: Monitoring and Evaluation Performance, and USAID/El Salvador Policy (MOM 680 and 770), attached is the Close-out Report for the Microenterprise Innovation Program with Catholic Relief Services (CRS). Completion date was February 28, 1999.

RECOMMENDATION: That you approve the attached Close-out Report.

Approved J. L. Ellis
Disapproved _____
Date March 7, 2000

Attachment: Close-out Report

Drafted by: SLDuarte, SO1 date 2-17-00
Cleared by: BPaige, OCG date 2-25-00
FBreen, CONT date 2/24/00
North, SDO date 2/11/2000 w/ corrections
DMcFarland, DDIR date 3-6-00

u:\sduarte\docs\mipI\pacr

Office of the Controller
REVIEWED
SS 02/22/2000
DATE Cully 2/22

MICROENTERPRISE INNOVATION PROGRAM
COOPERATIVE AGREEMENT No. 940-0406-A-00-5246
CLOSE-OUT REPORT

Summary of the Project

In December 1994, five Non-Governmental Organizations (NGO's) interested in improving administrative capacity for credit projects and avoiding duplication of efforts, developed strategies, goals and objectives for coordination which resulted in the development of a Microenterprise Strengthening Proposal. Catholic Relief Services (CRS), on behalf of the five participating NGO's, prepared a proposal for submission to the Global Bureau, Economic Growth Division, Office of Microenterprise Development, for financing under the PRIME Fund, one of three components of the Global Bureaus' Microenterprise Improvement Program. After some changes, the proposal and final LOP funding level of US \$600,000 was finally approved by USAID/W on July 17, 1995.

A Cooperative Agreement was signed between CRS, a U.S. PVO, and USAID/El Salvador on September 28, 1995 to implement the Microenterprise Innovation Program (MIP). The original completion date was September 28, 1998. Two no-cost extensions were granted. Final completion date was February 28, 1999.

The original entities participating under this Cooperative Agreement were the National Secretariat of the Family (SNF), Support Center for Microenterprise (CAM), Catholic Relief Services (CRS), Integral Communitarian Foundation (FINCA\El Salvador), and Association for Entrepreneurial and Female Assistance (OEF).

In the following years, the Cooperative for Assistance and Relief Everywhere (CARE EL SALVADOR), the José Napoleón Duarte Foundation and two programs from the European Community: the Program for the Development of Microenterprises in Marginal Zones (FOMMI), and the Program for Employment Creation in the Informal Sector of San Salvador (GENESSIS) joined the group.

Two dropped out during the life of the Project, FINCA\El Salvador and FOMMI.

In June 1998, the MIP was subject to an external assessment performed by independent consultants Iris Villalobos Barahona, Ligia Orantes Aguirre and Erick Ulloa.

The main achievements of the Project were providing an opportunity for teamwork and interchange of ideas among the diverse microlending institutions. An exchange of experiences took place and a certain level of trust among the participating institutions have been developed. The Credit Bureau started functioning during MIP I and assistance to develop a financial monitoring system also took place.

The indicators included in the Cooperative Agreement were very broad. Since the indicators to be reported to Washington were defined by the Mission in 1997, they did not match exactly with those reflected in the C.A.. The results of this Project have been reported through the narrative in the R4, but not through the official outreach indicators (such as number of new active borrowers, number of loans under \$300, etc). The impact of MIP is

more at the level of the microlending institutions rather than at the level of the end-users. Specific results are outlined on the next pages.

The evaluation report recommended conducting a second phase Project. After months of working together and on behalf of the participating NGO's, CRS submitted a proposal to USAID on September 8, 1998 requesting a one-year extension to the existing activity. The main objective of this second phase was to achieve self-sufficiency for the Credit Bureau. The proposal also included specific activities to develop a Credit Information System and some training activities. The final proposal submitted to USAID on January 19, 1999 was approved as a follow on Project in the amount of \$250,000 under the Rural Financial Markets Project (No. 519-0435)

A. Goal and Purpose of the Project

The Project was to contribute to the goal of broad-based economic growth in El Salvador through research, training, coordination, and information sharing activities.

The purpose of the Cooperative Agreement was to provide funds to enable the Recipient to conduct a program of assistance to improve services to clients of credit projects in El Salvador. The purpose would be achieved by: 1) increasing institutional capacity to efficiently provide financial services; 2) improving monitoring, information and impact systems; and 3) creating and exploiting new microenterprise markets.

B. Project Components

The Project had four components: 1) improve the capacity of five organizations participating under the Project to monitor and evaluate the social and financial impact of credit; 2) conduct research to locate and exploit new microenterprise markets, identify rural credit demand and evaluate the capacity of the organizations to manage sustainable and efficient credit programs; 3) coordinate Project activities and transfer of information, technologies; and 4) administrative support.

C. Analysis of the Present Status of the Project

By the end of the Project, great expectancies had been placed in the self-sustainability of the Credit Risk Bureau, one of the main accomplishments of the Project. The institutions were still learning to work with each other and adapting to this type of relationship, since they all have different methodologies, interests and situations. The plan is to separate the Bureau from CRS management to make it an independent organization that would allow all participating institutions to feel more comfortable with sharing their information.

II. FINANCIAL STATUS

As of 01/31/00 the activity's pipeline is zero. This includes \$532,083 already expended and \$67,917 in accruals, according to the following chart:

| | PROJECT ELEMENTS | OBLIGATIONS TO DATE | EXPENDITURES | ACCRUALS | PIPELINE |
|---|-----------------------|---------------------|----------------|---------------|----------|
| 1 | OPERATIONAL COST | 253,436 | 253,436 | 0 | 0 |
| 2 | OVERHEAD | 56,896 | 56,896 | 0 | 0 |
| 3 | CONSULTANCIES | 155,104 | 155,104 | 0 | 0 |
| 4 | CAPITAL EQUIPMENT | 66,303 | 66,303 | 0 | 0 |
| 5 | OTHER DIRECT COSTS | 43,261 | 344 | 42,917 | 0 |
| 6 | EVALUATION | 25,000 | 0 | 25,000 | 0 |
| | PROJECT TOTALS | 600,000 | 532,083 | 67,917 | 0 |

According to CRS, they have spent the full \$600,000.00. Any differences appearing in the present day financial records are due to the fact that CRS works with letters of credit, therefore the information is posted in our system through AOCs (advices of charge), months after the expenditures take place.

Original estimated counterpart contribution: US\$ 156,926.
 CRS was to contribute a portion of its indirect costs, \$65,030, and \$56,896 in cash, and the participating institutions \$35,000 in kind.

Total Counterpart Contribution provided: US\$ 165,837.47
 This amount corresponds to approximately 105% of the CRS original estimated counterpart contribution.

III. PROJECT ACCOMPLISHMENTS

A. Brief Review

A major result of this effort is the new way the different NGO's are working in coordination, identifying common trouble spots and jointly addressing issues that may have never been possible to address as individual institutions. The executive directors meet at least once a month to discuss project implementation and goals.

In general, the results of the Project are:

- a) Design and implementation of the Credit Bureau for NGO's in seven MIP institutions (database of 5,800 delinquent clients);
- b) Completion of the diagnostic of the management information systems;
- c) Installation of the Evaluation and Impact System in 4 MIP institutions;
- d) Development of training sessions;
- e) Served as liaison with other institutions regarding research, lobby, technical assistance and forums for the sector;
- d) Completed eight sectorial and other studies.

Also, meetings were held for interchange of points of view and information transfer. Forums and training seminars on software management and two national conferences on microenterprise were held. Quarterly bulletins for information exchange was produced and a Documentation Center was created.

B. Achievement of Project Purpose

According to the Cooperative Agreement the End-of-Project expected results were:

1. 56,500 beneficiaries indirectly benefited.

By February 28, 1999, credit information provided by the MIP institutions showed that there were 34,463 active customers being served by participating Credit Institutions. In general, we can say this specific result was reached considering an estimated four family members are indirectly benefited per each loan.

The overall portfolio did not show a great increase of active clients. More than that, some institutions showed fewer clients at the end. One of the reasons for this is that some institutions, following best practices, implemented write-off exercises. For instance, in June 96, the CAM showed a decrease in active clients from 30,000 to 16,566 after their first write-off exercise. Another case is FINCA/El Salvador, another member that faced financial problems mainly in their Housing Program and decided to leave the MIP. FOMMI, the European Community Program, also dropped out. In the case of CRS, it made an important change in its portfolio. Originally, it was supposed to work with twelve counterparts. In 1997, it initiated a new credit program called ENLACE, in alliance with only five of the former twelve CRS counterparts.

In general, the results of this effort are more qualitative than quantitative. The intention of the Executive Directors of the participating microlending institutions has been mainly to improve the quality and variety of the offered services.

2. Computerized financial information systems operational in five microlending institutions.

The Project elaborated a diagnosis of the portfolio information systems of the MIP institutions. Elements necessary for the planning of the systems improvements in the areas of software and hardware were provided, taking into account the respective needs of each organization studied.

OEF, SNF, CRS, CAM and FINCA received technical assistance and equipment in order to improve their credit control systems. Neither software nor licenses were bought. The Project funded a programmer in each institution during the life of the Project.

Two systems underwent a diagnostic study. The first one took place in 1997 and it was performed by CONSISA. The diagnosis elaborated an analysis of each institution's situation and it focused on the type of equipment each institution had and what needed to be replaced. The second one was carried

out in February 1999 by TECNYSOFT. It updated the information systems of GENESISS Foundation, Duarte Foundation, OEF and SNF. The results have been useful to plan the migration of data to other computerized systems according to the needs of each organization. Among the weaknesses encountered were the lack of integrated information between the portfolio, finances and accounting systems and limitations in hardware and software regarding Y2K compliance.

3. Centralized credit bureau database operational for beneficiaries for five microlending institutions. The database will control and reduce loan duplicity and delinquency among each agency's clients.

The Credit Risk Bureau (CRB) was designed as an information system, accumulating data on delinquent borrowers. Focusing on customers with credit records since 1996, the database was able to accumulate 37,300 registers by February 1999. This achievement involved a process of collection, processing, interchange and consultation of the information among the participating institutions. Sharing of information started in 1996. The CRB as an independent self-sufficient institution is expected to exist during the second part of this effort.

Eight programmers of the MIP institutions were trained in the use and management of the CRB. Manuals were developed. Equipment was bought and the consultation program was installed in MIP institutions. Quarterly reports were submitted.

4. Five microenterprise development studies were conducted in coordination with participating microlending institutions.

a. A Nation-wide study on Credit Demand (December 1996),

b. An analysis on the processing and sales of food products (a study of the following sub-sectors: bakery, dairy products and processed meat).

c. Technical and Economic Feasibility Study of a Sausage Processing Plant.

d. Feasibility study to convert wood-burning ovens to liquid gas ovens in small bakeries. REDES, CIS, CARE, FOMMI II, AMPES, MIP and Tropigas participated in this study.

e. Marketing Study of the Salvadoran Microenterprise, which included a diagnosis of the most important marketing problems faced by 166 microentrepreneurs of the subsistence sector.

The Project also contemplated the elaboration of marketing planning methodology and the development of a forum to present the diagnosis results as well as basic software to elaborate projections and to control sales. This software was developed by the IBC consulting firm.

Other studies were:

- A study on institutional sustainability of the MIP members. The MIP members were not totally satisfied with the results of this study. A deeper analysis would have been desired.

-A Technical and Financial Feasibility study of the Credit Risk Bureau, by UCA (October 1998).

-A study on an "Independent Administration of the Credit Bureau," by Guillermo Bolaños (Feb. 99).

The following two studies were not originally contemplated in the MIP Project but were carried out due to demand institutions for additional information from the MIP institutions:

-A study for the creation of a nation-wide credit supply data, by Luis Sanchez Zimmerman and Rodrigo Goitia.

-An Environmental Impact Study for microenterprises, in coordination with and financed by CRS and PROMICRO.

5. System to measure overall socio-economic impact of microenterprise credit projects developed and implemented.

HECO CONSULTORES designed the Impact Evaluation System (IES) as an impact evaluation methodology for the credit programs targeting the microenterprise sector. It consisted of a series of economic indicators in the case of the enterprise, and social indicators in the case of the customer and their family group (40 in total).

The survey was designed and conducted. Staff was trained and the program for the evaluation was installed in each MIP member institution.

6. Two microenterprise development conferences held to disseminate Project achievements.

In October 1997, the first "Conference on Salvadoran Microenterprise" took place.

In October 1998, the second conference was organized in coordination with FOLADE, an international organization. Two hundred and fifty people from different countries attended the invitation.

IV. EVALUATIONS AND AUDITS

A. Status of Evaluations

The evaluation of the Microenterprise Innovation Program was carried out by external evaluators Iris Villalobos Barahona, Ligia Orantes Aguirre and Erick Ulloa and submitted to the Mission in June 1998. It was based on the review of documents generated in the Project execution process and interviews with Project personnel and with the microlending institutions' directors. The evaluation methodology was oriented towards measuring the level of fulfillment of the activities, components and the impact at the level of Project purpose and overall Project goal.

Different weaknesses were pointed out in the evaluation. Each MIP director took measures regarding their institution. The general conclusion was that the purpose and overall goal proposed in the Cooperative Agreement were too broad in relation to the products generated by the Project. The Project has strengthened the institutions, allowing them to give better services but can not be precisely measured. Results are more qualitative than quantitative.

The evaluator's recommendations were:

1. Financing of a second stage of the MIP Project. Within this second stage, the priorities are considered the search for self-sustainability in the coordination process, the consolidation of the credit bureau database and the implementation of the results of the studies.

2. In order to strengthen the leadership of the participating microlending institutions, the strategic component should be considered in future coordination efforts. The operative part should be delegated to the coordinator so that the MIP Board does not tire in investing energies and time in aspects, which could be assumed by the coordinator.

A second stage of the Project was approved. A one-year follow-on financed under Activity 519-0435, Rural Financial Markets for the amount of \$250,000 is in progress (MIP II). The Mission recommended concentrating efforts on the Credit Risk Bureau. Activities regarding the credit information systems and training and information interchange were also accepted but no more support was approved for research and studies or for the documentation center.

Other than MIP II, USAID/El Salvador will not take any further key actions or decisions based on the final evaluation findings and recommendations of Microenterprise Innovation Program (MIP, 940-0406).

B. Audits

CRS as a US PVO is subject to A-133 audits. Since the relation with the counterpart institutions is still ongoing under the follow-on, should any issue arise, it will be solved between CRS and USAID/ES accordingly.

In February 1999, a financial review was performed by USAID/CONT of the funds provided to CRS under the Micro 2000 and MIP activities, upon request of the Project Manager. It covered the twelve-month period ended 12/31/98. There were some findings that CRS is already taking care of. For instance, the accumulated counterpart contribution shown on the final report submitted by CRS is already in accordance to adjustments made, taking into account the remarks obtained during the USAID financial review.

V. SUMMARY OF KEY LESSONS LEARNED

A. For a project to be funded by USAID/Washington and managed by USAID/El Salvador, communication and coordination between the two parties is one of the most important components. The responsibilities and oversight should be clearly defined.

B. When different institutions will participate under the same project, each of them has to have a clear understanding of the purpose of the project and their participation. Institutions should share common interests and commit themselves to the fulfillment of the goals. Each member should feel a direct commitment to the project.

C. Not all projects can be measured by the same indicators, specially when expected results are based on broad activities not well integrated and indicators are more on the financial area and very specific. Considering that many institutions were involved since the beginning, more focused and integrated activities were necessary.

D. Adjustments or project reorientation for the achievement of planned goals and/or concentration of efforts in fewer areas could have led to obtaining better results in less time.

The contractor's report reflect the following lessons learned:

E. "The decision-making process related to different aspects of the project assumed by the MIP Board took place by consensus or by majority vote. This aspect allowed the appropriation of the project by its member partners, as well as the renovation of commitments to work on joint ventures." At the end of the three years, a better coordination had developed.

F. "The tactical levels of the operation were the most systematized by the project and regulated by the Board by the means of its monthly meeting. A strategic level was taken during the last phase of the project, identifying priorities according to accumulated abilities and to common interest within its member partners." This exercise was very productive because the different institutions were able to express their perspectives and to suggest changes/reorientation of activities.

G. "The institutional profiles were important during the development of confidence and institutional ties. On the other hand, the leadership of people involved in this coordination effort allowed a substantial and detailed decision-making process, allowing a full debate within a framework of respect for the game rules established."

H. "Confidence within the partner institutions was achieved with some resistance when it involved the sharing of information related to the partners' operations." A good coordination and the development of trust are critical elements for the achievement of planned goals in this type of effort.

I. "The assessments of the strategies should have taken place at least once every year in order to carry out further adjustments to the project taking

into account both, the changing environment as well as the partners' satisfaction. The budget should have also been adjusted in order to emphasize strategic activities with greater impact."

VI. RECOMMENDATIONS

USAID concurs with the recommendations made by the external consultants, which are quoted as follows:

A. "A relevant point to consider is that in the coordination process a diversity of institutions are presented, which represent a variety of approaches, methodologies and objectives for which it is fundamental to consider which are the common interest points of the members. The need for MIP to adapt itself more and more to the changes in surroundings and in the institutions is emphasized as a way of guaranteeing the level of interest of the participating institutions."

B. "It is fundamental to give a more active decision-making role to the project coordinator, focusing the MIP Board's efforts towards a vision of strengthening the coordination process on the medium and long term. Responding to the changes in the surrounding context is visualized as a priority with the objective of maintaining the interest of the participating microlending institutions in the process. It is convenient to contemplate the possibility of negotiating some of the project components with the financing agency in order to be able to respond to the changes in context and the priorities of the microlending institutions."

C. "Recommendations to improve the functioning of the MIP include the following:

- Define the executive and operational role of MIP.
- Strengthen commitments of the participating microlending institutions for the development of the project.
- Design a strengthening strategy of the facilitating team of MIP.
- Strengthen interchange and evaluation spaces of the MIP project members.
- Review the operative structures of MIP and the implementation strategies according to the project components, seeking contemplation of the different program areas."

D. "Regarding the studies realized by the MIP Project, they are considered to be of a good technical level and contribute important elements to improve service to the clients. But it is important to point out that in order to achieve a greater impact, it is necessary to reinforce the dissemination of the study results and to design an implementation plan within each of the MIP microlending institutions. The MIP Board should give follow-up, so that the coordinating body is strengthened. Study results at the implementation level were limited."

VII. POST-PROJECT MONITORING AND FOLLOW UP ACTIONS

An additional year was granted to the MIP under Activity 519-0435, Rural Financial Markets, and regular monitoring will be performed during the life of this Activity.

Drafted by: SLDuarte, SO1 SLD Date: 2-17-00

u:/econopub/docs/mippacr