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PRO MUJER

Institutional Assessment Report
Delivery Order No. 3
Task Order No. 9

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INSTITUTIONAL ASSESSMENT OF PRO MUJER

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Microenterprise Development Office
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ABSTRACT

This institutional assessment of Pro Mujer/Bolivia and its projects covers the organization's background, village banking methodology, and performance, with particular focus on its microfinance activities. The assessment also reviews the most recent business plan. It makes conclusions and recommendations regarding strengthening the organization and better assuring attainment of the targets set for the next three years. This assessment also includes an annex with a more detailed review of the adequacy of the accounting and MIS systems.

EXECUTIVE SUMMARY

PRO MUJER is a private, international non-profit organization established in 1991 to implement development programs for poor women. USAID/Bolivia, as part of its strategy to support economic growth through microenterprise finance, has provided support to PRO MUJER for the past several years. This report assesses PRO MUJER's strengths and weaknesses, human resources, management information systems, relationship with donor agencies, and capacity for expansion as well as the appropriateness of its current strategic plan, including expansion plans in other countries. The assessment was based on review of program statistics, financial information, previous evaluation reports, the latest strategic plan, and interviews with staff and donor agencies. It is also based on observations during field visits to regional offices and associations.

Credit and training program. The pillar of PRO MUJER activities is a credit and training program implemented through a network of 344 associations. The associations (similar to village banks) are community-managed credit and savings groups of 20 to 40 women that are established to improve members' access to credit, build a community self-help group, and help members accumulate savings. The associations are also used by PRO MUJER as a platform to provide non-financial services to women, especially training in reproductive health, family planning, and child care. These services are provided through four regional offices located in Cochabamba, El Alto, Sucre, and Tarija. The central office is located in La Paz. The staff is comprised of 52 employees, of which 27 are promoters and trainers.

Program success. The program's performance to date has been very good. From 1993 to March 1997, PRO MUJER grew from 59 associations and 2,500 members to 344 associations and about 13,000 members. The loan portfolio amounts to $1.0 million with arrears and default rates of 0.1 and 0 percent respectively. From 1995 to 1996, operating self-sufficiency rates increased from 18.5 to 50.0 percent; as of March of 1997, the rate is 92.7 percent. Program participants are among the poorest in the community. The initial loan amount ranges from $50 to $100; the average loan size is currently $180. Savings mobilizations by the community associations amounts to $650,000. The portfolio of the internal accounts is $279,500 with an arrears rate of 1.5 percent.

The program success is due to several factors. First PRO MUJER has a highly committed staff, effective teamwork, and high capacity to learn from and adapt to change. Second, it has a good management information system capable of timely and accurately providing needed information. Third, it has a decentralized management approach and a well-organized network of regional branches. Finally, it has a well-develop credit and training method that allows for rapid expansion, decentralized credit management, member's participation, and high repayment rates.

The program's success has enabled PRO MUJER to attract financing from the national and international donor community. CRS, GEMS, Partners for a Common Good, Plan International, PL-480, Apple, and USAID are among the current funding agencies. PRO MUJER has maintained a very good standing with donor agencies. Most rank the institution among the best they have worked within its ability to reach proposed goals and comply with reporting conditions set in the financial agreements.

The assessment found that the key to effective implementation of the expansion strategies is strengthening the financial skills of PRO MUJER's human resources. Most staff members have university degrees, but their educational background is overly concentrated in social areas. Except for the financial manager, all key positions are held by personnel with no financial or managerial background. As the program expands from 300 to near 1,000 associations, the lack of financial and managerial skills may adversely affect portfolio quality and profitability.

Areas for improvement. To successfully reach its goals, PRO MUJER needs to improve financial management, organization, staff training, and the credit method. The main recommendations are as follows:

- Improve the financial skills of the staff in general by focusing future hiring on personnel with financial qualifications. A key aspect is hiring a qualified financial manager.

- Implement a staff training program that upgrades the staff's financial skills. Training must be accompanied by periodic performance evaluations based on pre-defined indicators and targets related to program performance (growth, portfolio, repayment rate), efficiency (staff productivity, cost per beneficiary, cost per dollar in portfolio), and profitability (self-sufficiency, subsidy index, return on portfolio, return on capital).

- Monitor financial performance monthly. Financial statements should be accompanied by an analysis of a pre-defined set of financial indicators that measure capital adequacy, assets quality, efficiency, profitability, liquidity, and growth.

- Update internal control policies and procedures and train staff to apply them. Once manuals and guidelines have been thoroughly disseminated among field staff and regional offices, internal controls and operational audits should be instituted. An internal auditor must be hired to closely monitor compliance.

- Eliminate the co-directorship of PRO MUJER Bolivia by officially appointing Carmen Velasco as the sole executive director.

- Review the current organizational structure to better define positions, lines of authority, and hierarchy. This process should include review and update of job descriptions and responsibilities as well as staff selection and evaluation policies.

- Integrate the accounting and credit components of the MIS to make information processing more efficient. The system should allow for accounting by program to separate credit from non-related programs. It should also allow for more flexibility in the credit operations.

- Implement a well-defined training package aimed at improving the staff's managerial and financial skills. Training must not be sporadic, but conducted continuously to upgrade field staff skills.

- Establish additional incentives to savings mobilization, portfolio growth, and on-time repayment, namely (1) a loan loss reserve fund to capitalize the groups, protect the savings and improve management of the associations; (2) profit distribution at the end of each loan cycle, as opposed to retaining all profits as savings; (3) loan amounts determined by three performance indicators, number of installments paid on time, attendance, and savings.

- Implement a performance-based monetary incentive system for the staff based on productivity and quality of the portfolio aimed at improving on-time repayment and overall efficiency.

- Focus the regional offices and field staff on increasing productivity. Given that salaries generally represent a high percentage of the total costs, program profitability will be improved by higher staff productivity.

- Base program expansion on saturation of geographical areas. Add new areas only after existing ones have reached saturation or near saturation. Focal centers should only be opened in locations with large concentrations of potential clients where scale could be greatly facilitated and, most important, unit costs per client could be reduced (time, transportation, and other travel-related costs).

- Limit PRO MUJER's involvement in the plans to expand PRO MUJER to other countries. The staff is already assisting the efforts in Nicaragua and planning to do the same in Ecuador. Both initiatives may take away time and human resources that are needed for PRO MUJER's own expansion plans in Bolivia.

The assessment concluded that the goals set forward in PRO MUJER's strategic plan and Implementation Grant Program proposal are reasonable and attainable. Growth pace in the past several years of an average of 120 associations per year indicates that the program could create 913 groups in five years. The goal of achieving self-sufficiency by early 1998 is clearly attainable. Nonetheless, the institution needs to detail in the strategic plan how it would reach these goals while maintaining high portfolio quality and profitability.

This report includes the following sections:

- **Section I: Overview of PRO MUJER's Program and Services.** Summarizes information about PRO MUJER's activities.

- **Section II: Institutional Assessment Findings and Analysis.** Gives an overview of the procedures used to do the assessment. Reviews PRO MUJER, its performance, and its strengths and weaknesses according to the questions laid out in the consultant's scope of work.

- **Section III: Review of the Strategic Plan and Progress in Carrying It Out.** Covers the five-year plan developed before the consultant's visit and the relationship with financial institutions and the adequacy of reporting systems.

- **Section IV: Conclusions and Recommendations.** Summarizes the findings and makes recommendations for strengthening PRO MUJER and better assuring achievement of the targets set for the next three to five years.

In addition, Annex A presents a supplementary financial analysis of PRO MUJER, and Annexes B, C, and D present information on financial indicators and organizational structures.

SECTION I
OVERVIEW OF PRO MUJER'S PROGRAM AND SERVICES

USAID/Bolivia, as part of its strategy to support economic growth through microenterprise finance, has provided a variety of support to PRO MUJER over the past four years. The program has received funds from the Monetization Program, redirected PL-480 Title III, and Apple and indirect money through NGO programs (PLAN International and CRS). USAID/Bolivia requested an assessment of PRO MUJER's overall program, its institutional strengths and weaknesses, human resources, management information systems, relationship with donor agencies, capacity for expansion, and current strategic plan, including expansion plans in other countries. The assessment was based on review of program statistics, financial information, previous evaluation reports, the latest strategic plan, and interviews with staff and donor agencies. It is also based on observations during field visits to regional offices and associations.

PRO MUJER's programs. PRO MUJER is a private, international non-profit organization established in 1991 to implement development programs for poor women. Currently, the organization carries out four programs in Bolivia: (1) credit and training, (2) pre-employment training and job referrals, (3) family planning, and (4) research.

Credit and training is the primary program of PRO MUJER. The method used is a hybrid of village banking and Grameen Bank associations. As of March 1997, the program is implemented through a network of 344 associations. The associations are community-managed credit and savings groups of 20 to 40 women that are established to improve members' access to credit, build a community self-help group, and help members accumulate savings.

Loan procedures. PRO MUJER provides seed capital to these associations, which then use the money to lend to their members. First loans for individual members range from $50 to $100. Members are charged an interest rate of 4 percent per month on the declining balance. The loans require no collateral. Instead, all members sign the loan agreement to offer a collective guarantee and attend weekly meetings. Maturity on loans is typically four months (16 weeks) during the first two years, and thereafter can be increased to six to eight months. Payments are made in weekly installments (1/16 of the obligation) in those groups under the four-month term, and biweekly or monthly for those under longer terms. Members' weekly installments are accompanied by mandatory savings equal to 20 percent of the loan amount.

Subsequent loans are determined by the amount of savings a member has been able to accumulate over the previous four months. Members taking out a first loan of $50 should therefore save $10 over a period of 16 weeks and be eligible for a second loan of $60. Loan amounts have a ceiling of $600. Savings stay in the association and are normally used for making loans to members and non-members (internal account). No interest is paid on savings. Instead, members receive a share of the profits from the group's re-lending activities or other investments. Profit distribution is based on the amount of savings each member has accumulated. The association determines the terms and regulations (including interest, maturity, and eligibility) for loans made with members' savings.

Administrative Committee. The association's savings and lending activities are managed by an Administrative Committee comprised of a president, treasurer, and secretary. In general, committee responsibilities include conducting meetings, approving loans, supervising loan repayment, receiving savings and deposits, and lending out or investing savings. To facilitate management, the members are divided into five-member solidarity groups, each managed by a coordinator. By transferring much of the loan administration and decision making to the groups, PRO MUJER seeks to minimize transaction costs for the borrower, administrative costs for the institution, and defaults.

Credit promoters. The associations are directly monitored by a credit promoter who is selected from the communities and, in most cases, from the associations. The promoters attend every group meeting. They are responsible for facilitating meetings and providing guidance to the committee on loan management. An "educator" (trainer) provides group training and supervises the work of two to three promoters. Each promoter is responsible for 18 to 20 associations.

Non-financial services. The associations are used by PRO MUJER as the platform to provide non-financial services to women, especially training in reproductive health, family planning, and child care.

Locations. PRO MUJER services are provided through four regional offices located in Cochabamba, El Alto, Sucre, and Tarija. The central office is located in La Paz. The staff is comprised of 52 employees, of which 27 are promoters and trainers.

SECTION II
INSTITUTIONAL ASSESSMENT FINDINGS AND ANALYSIS

A. Institutional Assessment Process

This institutional assessment of PRO MUJER is based on reviews of program statistics, financial information, evaluation reports, strategic plans, proposals, and other written material. It involved interviews with main donor agencies and daily sessions with key personnel including the co-directors, the financial manager, and the operational manager. During these sessions, the consultants discussed with staff programmatic, organizational, and financial issues. Among the most relevant issues were the strategic plan for 1997-2001, expansion plans in Bolivia and other countries, the capacity of human resources to meet expansion goals, and strategies for achieving operational self-sufficiency and controlling delinquency.

Sessions were also held at the field level with regional managers, educators, promoters, and accountants during visits to the regional offices. Sessions with field staff focused on credit monitoring, delinquency control, self-sufficiency strategies, and credit method improvements. The field trips included visits to associations, discussions with the committees and members, and review of their books. The assessment also takes into account some observations during these field visits, particularly regarding staff rapport with beneficiaries and level of commitment to the program.

A more detailed assessment of the accounting and management information systems (MIS) was done by Chemonics consultant James Hochschwender, who systematically went through forms, procedures, and reports and spot-checked information generated. Those findings are reported in Annex A.

B. Findings and Analysis

The framework for the assessment was the questions listed in the scope of work. However, the following analysis does not follow the sequence of those questions. To make it easier to comprehend the findings, past and current performance is presented first, followed by review of strategic plans and projected targets for the next five years.

B1. Past and Current Performance

PRO MUJER has shown remarkable growth over the last three years with outstanding performance of its credit and training program. While other activities have grown as well, the credit and training program is clearly where resources have been generated and the energies of the organization have been focused. Exhibit II-1 (page 4) summarizes financial and other key statistics for 1994 through 1996. Over this period, assets grew by 50 percent per year and the loan portfolio increased by 623 percent, from $146,571 to $1,059,890, while the number of staff increased from 27 to 52. The financial performance improved from $18,137 interest income in 1994 to $263,594 in 1996 and covered half the costs of the credit and training program.

In reviewing past and current performance, certain strengths and weaknesses became apparent in the operations, staff, systems, and organization. The findings and those strengths and weaknesses are summarized below and discussed in detail in the sections that follow.

Exhibit II-1. PRO MUJER Financial Statistics (U.S.$)

Factor	1996	1995	1994
Total assets	2,208,530	1,422,736	900,882
Current assets	2,071,553	1,340,688	837,641
Liabilities	1,276,662	942,655	802,925
Patrimony	931,868	480,117	97,957
Gross Portfolio	1,059,890	388,278	146,571
Loan loss reserve	31,797	11,243	0
Portfolio at risk	-	-	0
Operating expenses*	548,185	548,129	364,964
Financial expenses	-	-	0
Interest income	263,594	103,394	18,137
Average portfolio	724,084	267,425	73,286
Total employees	52	33	28
Total credit promoters	27	18	14
Number of associations	317	153	59
Number of clients	13,256	5,940	2,075
Active loans	9,246	4,319	1,957

Source: Audited financial statements.
* Operating expenses have been adjusted to include only those expenses related to the microfinance operations.

B2. Program and Organizational Strengths

- An excellent record in providing and recovering loans to disadvantaged women. PRO MUJER has created more than 100 new associations a year while maintaining a 100 percent repayment rate.

- Devotion to refining and standardizing the credit method. The result is a model that continues to reach poor women and keep high portfolio performance while the organization expands rapidly.

- Highly committed staff with a good rapport with the clients.

- Loyal staff as reflected by low staff turnover.

- Teamwork that facilitates learning and adapting the organization as necessary.

- The "learning organization" culture fostered by the two principals, who both have a background in education and training. This is evidenced by the program evolving from charging no interest to charging a cost covering rate, creating "focal centers" to continue working with the most disadvantaged women while keeping costs down, and evolving from an assistance to a more financial approach to management.

- A well-operating network of branch offices and focal centers (new meeting facilities located in strategic target areas) that, with decentralized operations, greatly facilitates the program's scale-up.

- An MIS providing timely and accurate accounting and credit reports.

- A set of operation's manuals that provide a regulatory and procedural framework for PRO MUJER operations. These include manuals for personnel, acquisitions, inventory control, accounting, MIS, training, credit, and promotion. They also bring a level of standardization needed for expanding operations.

- A fine reputation among clients and a strong demand for credit services.

- Proven track record in reaching or surpassing program goals set in agreements with donor agencies and its own strategic plan. The program has met goals for increasing beneficiary outreach, the program itself, cost reductions, and self-sufficiency.

- A fine reputation among national and international donors in Bolivia, which helps attract funding.

B3. Program and Organizational Weaknesses

- Deficiencies in the management and internal controls of associations' internal account and in control of delinquencies.

- High operating costs for the increasingly competitive microcredit environment.

- Dependency on donor funding to cover operating costs.

- Lack of a well-defined institutional strengthening strategy aimed at maintaining quality while expanding.

- Need for upgrading financial management skills and practices throughout organization.

- Need for further refinement of the MIS to eliminate inefficiencies and better use information.

- Need for establishing organizational lines of authority and responsibility in keeping with a larger organization.

- Lack of internal controls and audits

- Lack of systematic staff training and development.

- High administrative staff/field staff ratio.

C. Credit and Internal Accounts

Although the performance of the credit and training program has been exemplary, close scrutiny revealed several ways to improve efficiency and prudence. Increased productivity of staff and the loan funds are needed to reduce costs. Credit and savings management in the community associations needs strengthening to achieve continued growth with high portfolio performance. In particular, the management of the internal account (generated from the members' savings) has a direct effect on arrears. These eventually become arrears to the external account (PRO MUJER loans), which must be covered with the members savings. Depletion of savings because of default can cause conflict within groups, members to drop out, and an association to disintegrate.

Focal centers. A recent change in the credit method was the use of focal centers mentioned above. These have not yet been implemented in all its regions. They enable promoters to hold meetings with several groups simultaneously and should contribute to significant increases in field staff productivity. This seems an appropriate avenue to follow. However, implementing these centers in regions serving more rural populations will be challenging.

Credit management. For the first time, as of March 31, 1997, PRO MUJER is facing arrears in one of its regions, El Alto. Although only 0.2 percent, as of March 31, 1997, it indicates that in an expanding program with increasing competition, high loan repayment cannot rely on direct monitoring alone. The organization will need to establish measures and policies to strengthen credit management at the group level. Specific deficiencies found include unregistered loan payments, missing signatures, excessive time lapses between meetings and bank deposits, and some signed blank withdrawal slips.

The preparation of status reports of the association portfolio and arrears needs improvement. Neither the group nor the promoter prepares this status, on the internal and external accounts, by the end of group meetings. Although some groups and promoters do it informally, there are not specific formats to collect that information. Instead, both rely on the arrears reports prepared by PRO MUJER in the regional offices and received by the group at the next meeting. The arrangement works well for those groups meeting weekly as not much time lapses between meetings. However, for those meeting biweekly or monthly, an arrears of 15 days could too easily become one of 30 days. Even worse, an arrears of 30 days could become one of 60 days. Again, arrears is not presently a problem for PRO MUJER, but the experience in El Alto indicates that it could become one if preventive measures are not implemented.

Experience to date proves this point. In 1996, under pressure by the associations, PRO MUJER introduced some flexibility to the loan terms and conditions for the oldest groups. Among the most important, frequency of meetings was reduced from weekly or biweekly to monthly and loan terms were extended from four to eight months. In sum, groups wanted larger loans but also longer terms to repay them. However, the flexibility has not worked as expected. Three out of the four groups in arrears in El Alto received loans under the new conditions. Promoters report that some members have difficulty paying larger loans in fewer but larger installments. Part of the problem may be that the qualifying criteria are group age and loan size rather than group maturity and managerial capacity. No arrears for an entire cycle could be a additional benchmark for moving into biweekly and monthly meetings.

Arrears rates. As shown in Table 1 in Annex A (see page A-10), the arrears rate for the external account (loans from PRO MUJER to the groups) was 100 percent through December 1996. As of March 1997, the arrears rate (portfolio-at-risk rate) is 0.25 percent [1] of a portfolio of $953,463. Exhibit II-2 (page 7) shows the aging of those arrears. The balance is the outstanding balance of the loans in default.

[1] The balance in arrears of Bls 12,184 ($2,352) is the outstanding balance of the loan. As of April 1997, this balance decreased to Bls 8,701 ($1,680) as a result of collection efforts.

Exhibit II-2. Arrears by Age as of March 31, 1997* (Bls)

1 to 7 days	8-14 days	15 -20 days	29-60 days	60 days+	Total
	1,250	0	2,301	8,633	12,184
	0.03%	0%	0.05%	0.17%	0.25%

*U.S. $1.00 = Bls 5.18.
Source: PRO MUJER's statistics.

The arrears rate for the internal account (the group's own credit fund comprised of the members' savings) as of March 31, 1997, was 1.5 percent. This suggests the strength of the model PRO MUJER has developed, but also reinforces the need for stronger controls in the associations. There is no loan loss reserve for internal account loans. There were no standard methods for determining loan size in the internal accounts. Though consistent with allowing groups to make their own rules, this could result in a group violating the successful microcredit principle of gradually increasing loan size based on borrower performance. Without such guidelines, aggressive members could bully their way into a larger loan and default, with all the subsequent consequences. The one control that PRO MUJER has imposed is that the association may not lend more than 50 percent of its savings. This may be more stringent than necessary depending on how well the group manages itself and its assets.

Until 1995 there was no loan loss reserve in PRO MUJER. The savings in the associations was considered a substitute for that reserve. However, new external auditors in 1995 convinced management that a reserve would be appropriate, and so 3 percent of the outstanding portfolio was set aside. To date, PRO MUJER has not had to use the reserve to write off loans.

Also of note regarding the internal accounts, at present little incentive exists for association members to save beyond the required amounts. This is because profits from earnings on loans are retained in the internal account rather than distributed.

Recommendations for how to deal with each of these issues are presented in Section III.

D. Influence of Non-Financial Service on Overall Credit Performance

In addition to credit and training, PRO MUJER has implemented activities in three other areas: reproductive health, pre-employment training, and research. Fully supported with grants, together they represent only 11 percent of the total program expenditure. However, the fact remains that these programs are unrelated to credit. As a result, they use up management time and resources that could be used more efficiently in improving the credit operations. This multiplicity of programs affects the institution's image as well since it dilutes PRO MUJER's identity as a credit provider and affects specialization.

To maintain the PRO MUJER directors' preference for an integrated approach, it may be more appropriate to end direct provision of an array of unrelated services and instead delegate the provision of those services to specialized agencies.

E. Financial Management

Financial management has improved significantly over the last three years. Exhibits II-1, II-3, and II-4 (see pages 4 and 9) all show clear evidence of that improvement. However, there is room for significant improvement in managing the organization, particularly aspects of its financial systems.

Despite substantial improvements over the past years in accounting and credit management, PRO MUJER lacks a financial approach to management. The result has been high operating costs, low portfolio productivity, and high dependency on external funding. Exhibit II-1 shows the financial statistics for 1994 through 1996. Exhibit II-3 uses the data in Exhibit II-1 to compare PRO MUJER's main financial indicators with that of the microfinance industry standard.[2]

Operating costs. Costs for the credit operations are high. As of December 1996, the cost per dollar in portfolio amounts to $0.48,[3] far above the microfinance industry standard of $0.20 or less. In the increasingly competitive microfinance environment of Bolivia, PRO MUJER will not likely be able to charge enough to cover costs at these levels. Total costs as a percentage of the average portfolio amount to 70 percent versus the industry standard of 30 percent or less. Part of the reason is that PRO MUJER is reaching a lower level of client than the industry average (loans start at $50). In theory, over time the average loan size should naturally increase as more and more clients take larger repeat loans. In reality, clients' tendency to take the maximum amount they are allowed to decreases overtime. In addition, competition from internal loans (which could be used for non-productive purposes) negatively affects the average loan size as well.

Outstanding loans and productivity. The number of outstanding loans per promoter is 12 (a total of about 336 individual loans) versus a desirable level of 15 or more. Staff productivity, on the other hand, is good. The number of clients per staff is 177 in comparison with the industry standard of 150 or more. Similarly, the number of clients per field staff is 340 in contrast to a standard of 250 or more.

Portfolio yield. The portfolio yield is low, as shown by a rate of 38 percent in contrast with an effective interest rate of more than 60 percent. The low rate of return is mainly due to the fact that while groups repay their loans on time to PRO MUJER, they cannot receive the next loan if their internal accounts present arrears. As this happens more often than not, there is a time gap between the end of a loan cycle and the beginning of the next.

Deficient liquidity management worsens the situation of idle funds. PRO MUJER produces good and timely financial statements. Yet there is no regular analysis and follow-up on key financial indicators to measure capital adequacy, assets quality, efficiency, and profitability.

Exhibit II-4 (page 9) shows PRO MUJER's financial situation when the costs of capital and inflation are considered. The operating self-sufficiency in 1996 was 49.5 percent. The required level of portfolio yield to fully cover the operating and financial costs was 91 percent, given costs as percentage of portfolio of 79 percent and an actual portfolio yield of 39 percent.

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[2] Microcredit industry standard as developed and defined by Fundación Jose Maria Covelo, a USAID-funded Honduran PVO, which provides financial technical assistance to five NGOs. The Covelo system is presented in Annex B.

[3] As of March of 1997, this cost was down to $0.47.

Exhibit II-3. PRO MUJER Financial Indicators 1996 (U.S.$)

Indicator	1996	1995	1994	Microfinance Industry*
Capital adequacy				
Capital adequacy	68%	91%	95%	>10%
Reserve sufficiency	261%			>100%
Assets quality				
Portfolio at risk	1%	0%	0%	<12%
Productive capacity	47%	27%	16%	>70%
Loan loss rate	0%	0%	0%	<5%
Credit service	47%	27%	16%	>60%
Management				
Productivity	255	180	74	>150
Operating efficiency	75%	251%	795%	<30%
Credit efficiency	12	9	4	>15
Efficiency				
Operating self-sufficiency	50%	18.5%	5%	>90%
Financial self-sufficiency	45%	17.8%	5%	>75%
Return on capital	18%	10%	0%	>10%
Return on portfolio	38%	39%	0%	
Cost per dollar in portfolio	$0.48	$1.74	$3.97	$0.20
Cost as % of average portfolio	75%	251%	795%	30%
Liquidity	3.4	10.9	17.5	>2
Growth				
Increase in number of clients	123%	123%	123%	>20%
Net increase of portfolio	172%	172%	172%	>25%
Increase in the number of associations	107%	107%	107%	>20%

*Based on Fundación Covelo's financial evaluation system.

The subsidy index, the difference between the required and actual yield is 52 percent. The figures for the years 1994 through 1997, however, indicate a positive trend toward financial self-sufficiency with this indicator growing from 0 to 43 percent over the four years. As of March 31, 1997, PRO MUJER's financial self-sufficiency further improved to 47.6 percent.

Exhibit II-4. PRO MUJER Cost Structure 1994-1997 (U.S.$)

Year	Productive Assets(avg)*	Operating Income	Operating Costs+	Adjusted Capital Costs 12%	Required Productivity	Operating Self-suff	Financial Self-suff	Subsidy
1994#	73,286	-	369,361	8,794	378,155			
		0%	504%	12%	516%	4.9%	0.0%	-516%
1995	267,425	103,394	559,440	32,091	591,531			
		39%	209%	12%	221%	18.5%	17.5%	-183%
1996	724,084	281,939	569,359	86,890	656,249			
		39%	79%	12%	91%	49.5%	43.0%	-52%
1997**	1,006,677	117,970	127,218	120,801	248,019			
		12%	13%	12%	25%	92.7%	47.6%	-13%

* Average outstanding portfolio.
# Audited Statements did not show interest income.
+ Operating costs including loan loss reserve and depreciation of fixed assets.
**Data as of March 31, 1997.

Human resources. Part of the problem with the lack of financial approach to management can be found in PRO MUJER human resources. As discussed in more detail in Section G, the staff's background is predominantly social (sociologists, anthropologists, psychologists, social workers, etc.). The organization does not have a highly qualified financial manager, and all top managerial positions are held by staff with little or no financial education. The problem is compounded by the absence of a well-structured training program oriented to upgrade the financial skills of staff at all levels.

A more detailed review of the accounting system and financial statements is contained in Annex A.

F. Management Information System

The current computerized MIS system has been used since 1995. It is a FoxPro-based, fund accounting system developed by and purchased from another Bolivian NGO, IDEPRO. It came complete with manuals and training and is user-friendly. See Annex A for more details on the accounting and loan tracking systems. The system contains the types of information needed to effectively manage a microcredit operation, but not all that information is being presented in reports in a form that can easily be used to analyze performance and manage the organization.

Although the MIS provides the type and quality of reporting needed for running present levels of operations, its accounting and credit components are not integrated. Most data must be fed twice into the system, multiplying the level of effort needed for reporting and adding costs. Other problems specific to the credit software affect productivity and costs as well. For instance, the systems does not allow for returns to previous steps when preparing the loan application. In case of mistakes, the process must be restarted, thereby wasting time and resources. The system is not flexible enough to allow the use of discriminated interest rates or ways to compound them. At present, PRO MUJER has one transcriber (data entry staff) per region (four), with a current estimated processing capacity for 200 associations at each region. This capacity could substantially increase if the system's present redundancies are eliminated (see Annex A for a detailed review). One positive factor is that PRO MUJER has in-house resources to further develop its MIS system.

The MIS generates financial statements by the 10th of the month by cost center (regional office) and fund. Financial statements by cost center would contribute to the scale-up and self-sufficiency goals as it enables the organization to track profitability and changes in the financial position of each regional office. The system also generates portfolio performance information and program statistics by regional office and promoter. The disaggregated information will allow for close monitoring of productivity and portfolio performance by promoter and for redirecting goals, staff training, and supervision accordingly.[4]

G. Human Resources

Effectiveness of staff. The staff is highly motivated and committed to PRO MUJER objectives. They interact effectively with clients as indicated by high repayment rates and low group drop out rates as well as by direct observation by the consultant in association meetings.

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[4] See Annex A. The system can already provide this information, but PRO MUJER management and staff need to better utilize it.

The commitment has created stability, teamwork and capacity to adapt to changing needs. Staff number 52, including 27 field workers (credit promoters and trainers). Staff turnover is very low (less than 5 percent per year), and 75 percent of the personnel have been in the organization for more than two years.

Regional office staff have a good grasp of the credit and training method. Accounting of day-to-day operations is done expeditiously and accurately. Each regional office is able to send financial statements by the 5th of each month to the central office. Each keeps up-to-date portfolio performance information by promoter, association and individual members. The offices of Sucre, Tarija, and Cochabamba have a 100 percent repayment rate. Reports to donors are submitted timely and accurately.

Financial skills deficiencies. On the other hand, except for the four accountants and the financial manager, the staff has a social background (see Annex C). Moreover, all top management positions are held by persons with no financial training or background. While the program performance has been very good, the financial skills deficiencies in the staff will become more apparent as the program expands. In fact, the first signs of trouble are already surfacing in El Alto, as mentioned above. The lack of financial skills is also reflected in the underutilization of financial data in the MIS. (See Annex A for more on this point.) The lack of financial skills is worsened by the lack of a well-structured training program to upgrade staff financial qualifications.

The practice of promoting within has resulted in managerial positions being filled with people without all the necessary qualifications. In the selection process, issues of trust and alignment with PRO MUJER's mission carry more weight than managerial and financial skills. While the former is important in teamwork, it is not sufficient alone to ensure stable management and financial controls.

While not a current weakness, the decentralized nature of operations combined with the expansion require an internal auditor.

Administrative-field staff ratio. The administrative staff is slightly high in comparison to the field staff which indicates some level of inefficiency in organizing staff. Field staff comprise 50 percent of total staff, compared with the industry standard of 60 percent or more.[5]

Staff salaries are similar or slightly lower than their counterparts in other NGOs. Competitive salaries in the sector are about $600 a month. PRO MUJER pays its trainers (equivalent position) about the same. To remain competitive, PRO MUJER may need to implement a performance-based monetary system wherein productive staff can earn much more than their base salary. This incentive system would have the advantage of paying on productivity, rather than a fixed salary. See Section III for more details on possible elements of such a system.

H. Organizational Structure

The organizational structure of PRO MUJER as represented in the organizational chart (Annex D - Figures 1 and 2) presents several flaws. First, PRO MUJER Bolivia does not have its own board of directors. It is governed by the board of directors of PRO WOMEN International,

[5] Fundación Covelo Financial Evaluation System. See Annex B.

whose entire membership resides in the United States. The board meets every six months in the United States and the meetings are attended by the executive director of PRO WOMEN International and the country director of PRO MUJER Bolivia. All board members receive monthly reports on the program including financial statements, portfolio performance, and statistics. Notwithstanding the efforts made to overcome the distance issue, it could be costly and difficult for the co-directors to implement policies and decisions made by a board that is out of touch with the program reality.

Second, the organizational chart for the national office does not accurately reflect the current management structure of PRO MUJER Bolivia. It shows one executive director when at present PRO MUJER has two executive directors, called executive co-directors. This duality is reflected, however, in the organizational chart for Pro Women International. The international base was actually created by the Bolivian program with the objective of attracting U.S. government funding. As a result, the co-directorship was extended to the U.S. office.

The co-directorship at the executive level presents difficulties of dual lines of authority. At present, PRO MUJER has two executive directors in charge of the program. The arrangement has worked so far, but as the program grows the dual line of authority has begun to pose some problems. Donor agencies have already expressed concern about the confusion the co-directorship creates: To whom should the correspondence be addressed? Who signs the agreements? Who should be invited to events? The fact that one of the co-directors is moving to the United States to take responsibilities for the international operations will help give more definition to the role of executive director.

Dual lines of authority are present in other positions as well. For instance, the regional office responds to both the financial manager and the operations manager. Similarly, the accountant of each regional office responds to the financial manager and the regional manager. The staff faces the confusion created by this multiplicity. For the expansion to work effectively, eliminating redundancies at all organizational levels is crucial.

Third, the different positions are not accurately represented in the organizational hierarchy. For instance, in the organizational chart, the financial manager position is placed above the operations manager when both should have the same level in the hierarchy.

Finally, the structure of Pro Women International has problems of its own. Positions, departments, and functions are mixed, adding to the confusion. These inconsistencies must be corrected to reflect a well-defined organizational structure. Figures 3 and 4 in Annex D present recommendations for PRO MUJER Bolivia and Pro Women International. The proposed organizational chart for Bolivia (Figure 3) assumes one executive director (Carmen Velasco), gives the same level of hierarchy to the operations and financial managers, and adds the auditor's position directly depending upon the co-directors in United States. Eventually, PRO MUJER needs to build its own local board. The organizational chart for Pro Women International (Figure 4) eliminates functions and keep positions. As the expansion into other countries will operate as a franchise, as opposed to an affiliation-type relationship, all the country directors remain under the co-directorship. The co-directorship would remain until Bolivian members are added to the International board.

SECTION III
REVIEW OF THE STRATEGIC PLAN AND PROGRESS IN CARRYING IT OUT

The strategic plan for 1997-2001 was reviewed in conjunction with PRO MUJER's management. The observations expressed here were discussed with the organization.

A. Overview

The strategic plan focuses on two primary goals: (1) scaling up the program to 913 community associations, and (2) attaining 100 percent operational self-sufficiency. Other related goals include reaching 26,000 women with credit, reducing cost per beneficiary to $63, increasing the average loan size to $227, and mobilizing more than $1.0 million in savings. PRO MUJER has been under pressure from donors to strive for achieving self-sufficiency. As a result, the organization has made self-sufficiency a major goal during the next five years.

The strategic plan's goals are clearly defined in time and quantity. However, strategies on *how* these goals will be attained are absent.[1] For the goal of increasing associations from 317 to 913, several key aspects are missing:

- Analysis of portfolio performance and growth over the past five years that could be used to support the growth assumptions for the next five years.

- Statistics on population trends and competition to support the expansion assumptions. These statistics—including female population (economically active), unemployment, levels of poverty, participation in the informal sector, access to credit, and PRO MUJER services vis-à-vis the competition—are particularly important considering the plan does not call for opening other regional offices but deepening outreach in the existing ones (Cochabamba, Sucre, Tarija, and El Alto).

- Analysis of PRO MUJER's current managerial capacity and changes needed to manage near 1,000 associations. This should include staff increases, required profile and training, organizational and management approach, changes needed to the MIS, internal controls and audit, and improvements to the credit method.

For the goal of attaining 100 percent self-sufficiency, key missing elements of the plan are the strategies to be used:

- **Reducing costs.** Would this be achieved by increasing the average number of members per bank? Increasing the average number of associations per promoter? Creating "focal centers"? Reducing frequency of the meetings? Concentrating on specific geographic areas to reduce the costs of dispersion?

- **Increasing interest income.** Would this be achieved by increasing the loan portfolio by increasing the number of participants? Increasing the initial loan size? Increasing the

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[1] PRO MUJER has already rewritten the strategic plan and incorporated most of the comments presented in this section.

productivity of the portfolio? For example, by reducing the gap (idle time) between cycles, increasing the effective interest rate, establishing incentives for prompt repayment, or reducing idle funds?

While the plan addresses some of these questions and issues, the information is not presented coherently and in the form of strategies or ideas describing how PRO MUJER will actually accomplish its goals with existing resources. In sum the strategic plan, in addition to stating goals, growth assumptions, and projections, needs to demonstrate their appropriateness, explain the strategies to be used in pursuing them, and the organization's managerial capacity to achieve them.

B. Appropriateness of Goals, Assumptions, and Capacity to Implement Expansion Goals

Expansion figures for the past four years indicate that PRO MUJER has the potential to reach the goal of 913 associations. As Exhibit III-1 shows, from 1994 to 1996 the program grew from 59 to 317 associations, at an average pace of 129 new associations per year. The plan's growth projections assume an average pace of 120 associations per year. This pace is congruent with PRO MUJER's past growth performance. Moreover, the organization has been able to maintain a high quality in the portfolio throughout the process.

Exhibit III-1. Past and Projected Association Growth

	Associations		
Year	Number	Growth	% increase
1994	59		
1995	153	94	159%
1996	317	164	107%
1997	433	116	37%pu
1998	553	120	28%
1999	673	120	22%
2000	793	120	18%
2001	913	120	15%

*As of March 31, 1997, the number of associations were 344.
Source: PRO MUJER annual statistics.

As can be seen from the operational figures in Exhibit III-2 (page 15), achieving a 100 percent operational self-sufficiency could be accomplished as projected during 1998. In fact, the operational self-sufficiency rate for the period January-March 1997 went up to 92.7 percent.[2] Although this is expected to drop during the April-May quarter, PRO MUJER could reach a 100 percent rate by the end of 1997 if specific measures to increase portfolio productivity are implemented. Some possible measures are discussed in Section IV.

[2] For further detail, see Annex A.

Exhibit III-2. PRO MUJER Self-sufficiency Projections (U.S.$)*

Year	Interest Income	Operational Expenses	Financial Expenses[@]	% Self-sufficiency	
				Operational	Financial
1994	18,137	369,361	-	4.9%	4.8%
1995	103,394	559,440	-	18.5%	17.8%
1996	284,768	569,359	86,890	50.0%	45.5%
1997*	535,768	705,248	165,021	76.0%	61.6%
1998	911,194	827,215	263,217	110.2%	83.6%
1999	1,327,159	969,167	412,736	136.9%	96.0%
2000	1,776,529	1,105,621	556,560	159.8%	106.3%
2001	2,215,251	1,214,103	663,467	182.5%	118.0%

[@]Calculated taking the average portfolio outstanding times 12 percent, an average interest rate for commercial funds in Bolivia.
*As of March 31, 1997, operational self-sufficiency was 92.7 percent.
Note: 1997-2001 figures are projections.
Source: PRO MUJER annual statistics.

PRO MUJER has the capacity to implement its expansion goals, if it addresses the weaknesses pointed out. The Implementation Grant Program funding should provide it with the financial resource needed to do just that. However, one additional issue will need to be addressed to better ensure success.

PRO MUJER International has submitted proposals to USAID requesting financing for program expansion in Bolivia to 1,000 associations as well as program implementation in Ecuador. Last year, it received a grant for program implementation in Nicaragua. All current and proposed activities in these expansion plans rely heavily on the Bolivia staff for technology transfer and follow-up. But this expansion and the institutional strengthening required to successfully implement it will need management's full attention for the next two years. The current staff number and capabilities do not allow for extensive involvement of PRO MUJER Bolivia in expansion efforts in other countries.

The Bolivian staff involvement in the Nicaragua program should be kept to a minimum. In addition, the current plans to open a program in Ecuador must be put on hold for at least two years or until Bolivia has consolidated its own expansion. Further, based on the Bolivian experience, before starting operations in a new country, PRO MUJER International should created a detailed and structured expansion model. At present the model is incomplete. Bolivia has been able to develop a sound credit method, but its management side remains undefined (number and type of staff needed and when, productivity targets, required efficiency levels, MIS, internal controls and audits, financial management). Until the model is completed, proven, and documented, the staff does not have time to devote to another major endeavor. The expansion to other countries should be reconsidered.

C. Relationship with Financial Institutions and Adequacy of Reporting Systems

PRO MUJER has been successful at mobilizing funds from a variety of sources including Catholic Relief Services, Partners for a Common Good, Plan International, Fund for Social Investment, PROCOSI, The Grameen Bank, Secretariat PL-480, and USAID/Apple. A summary of PRO MUJER current sources of funding, type of financing, terms, and conditions are shown

Exhibit III-3. PRO MUJER FINANCIAL SOURCES
Characteristics, Term and Conditions (US$)

Source Institution	Financial Type	Financed Amount Total	Financed Amount Op. Costs	Financed Amount Credit	Regional	Effective Dates From	Effective Dates To	Execution/Payments Total	Execution/Payments Op. Costs	Execution/Payments Credit	Pending Total	Pending Op. Costs	Pending Credit	Conditions Interest	Conditions Terms
FIS	Donation	113,100	113,100	–	El Alto	15-Jan-96	15-Jan-98	45,101	45,101	–	67,999	67,999	–	–	–
Plan International, Altiplano	Donation	22,334	22,334	–	El Alto	15-Jan-96	15-Jan-98	8,850	8,850	–	13,484	13,484	–	–	–
Plan International, Sucre	Donation	199,785	199,785	–	Sucre	1-Jan-94	30-June-98	173,313	173,313	–	26,472	26,472	–	–	–
Plan International, Sucre	Donation	251,000	–	251,000	Sucre	1-July-94	31-Dec-00	151,000	–	151,000	100,000	–	100,000	–	5 years
Plan International, Tarija	Donation	159,785	159,785		Tarija	1-July-94	30-June-98	146,314	146,314	–	13,471	13,471	–	–	–
Plan International, Tarija	Donation	269,000		269,000	Tarija	1-July-95	31-Dec-00	169,000	–	169,000	100,000	–	100,000	–	5 years
Secre PL-480	Donation	355,835	355,835		Central Office El Alto Cochabamba	1-May-97	01-June-98	–	–	–	355,835	355,835	–	–	
USAID, Apple	Donation	500,000	65,680	434,320	El Alto Central Office	1-July-95	30-Sept-97	297,940	43,435	254,505	202,060	22,245	179,815	–	–
USAID, Mig	Donation	1,243,947	277,947	966,000	El Alto Cochabamba Sucre, Tarija Central Office	1-Jan-98	31-Dec-00	–	–	–	1,243,947	277,947	966,000	–	–
CRS and GEMS	Donation	208,229	147,831	60,398	Cochabamba	1-Sept-96	31-Aug-99	–	–	–	208,229	147,831	60,398	–	–
PARTNERS	Loan	100,000	–	100,000	Cochabamba	1-Sept-96	31-Aug-99	100,000		100,000	–	–	–	5%	3 years
GRAMEEN	Loan	400,000	–	400,000	El Alto, Coba	1-July-94	31-Dec-00	290,000	–	290,000	110,000	–	110,000	2%	3 years
PMP	Donation	32,000	32,000	–	Sucre, Tarija	10-June-95	21-June-05	–	–	–	32,000	32,000	–	–	–
PMP	Loan	93,000	–	93,000	Sucre, Tarija	10-June-95	21-June-05	–	–	–	93,000	–	93,000	7.53%	5 years
PROCOSI	Donation	317,837	317,837	–	El Alto, Sucre, Tarija, Central Office	10-Sept-96	10-Sept-97	–	–	–	317,837	317,837	–	–	–
TOTAL		4,265,852	1,692,134	2,573,718				1,381,519	417,013	964,505	2,887,334	1,275,121	1,609,213		

Source: PRO MUJER.

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Exhibit III-4. PRO MUJER WOMEN'S PROGRAMS
Financial Sources
Proposed Goals and Compliance

Source/Institution	Effective Dates	Established Goals	Level of Achievement	Observations
FIS (Fondo de Inversión Social)	15 Jan 96 15 Jan 98	**44 associations in 2 years** 2 associations per month	24 associations in year 1 (1996) 2 associations per month	To comply with proposed goals, PRO MUJER relied on USAID/Bolivia and Apple donations
Plan Internacional, Altiplano	15 Jan 96 15 Jan 98	**44 associations in 2 years** 2 associations per month	24 associations in year 1 (1996) 2 associations per month	
Plan Internacional, Sucre	01 July 94 30 June 98	**68 associations in 4 years** 10 associations in year 1 22 associations in year 2 22 associations in year 3 18 associations in year 4	12 associations in year 1 21 associations in year 2 22 associations in year 3 ----------FUTURE---------	Goals met during year 3 complied with 9 months of agreement
Plan Internacional, Tarija	01 July 94 30 June 98	**68 associations in 4 years** 10 associations in year 1 22 associations in year 2 22 associations in year 3 18 associations in year 4	12 associations in year 1 19 associations in year 2 26 associations in year 3 ----------FUTURE---------	
Executive Secretariat, PL-480	01 Jan 97 31 Dec 97	**96 associations in year 1** 72 associations in El Alto 24 associations in Cochabamba **2,880 new associates in year 1** 2,160 in El Alto 720 in Cochabamba		Goals proposed by region match institutional goals. Credit funds available provided by USAID/Bolivia Apple, USAID/Bolivia Mig, and others.

in Exhibit III-3. From 1994 to 1997, the organization received about $3.0 million,[3] 63 percent of which are donations. Most of the loans received have been under soft conditions (0 percent interest from Plan International, 2 percent from Grameen). Recently, PRO MUJER signed a loan agreement with PMP for $93,000 at the interbank lending rate of 7.5 percent. This constitutes PRO MUJER's first attempt at using more commercial sources of funding.

Nearly half of the raised funds ($1.4 million) are destined to cover operating expenses for the central and regional offices. The other half would feed the credit fund. As of April 30, 1997, PRO MUJER has been disbursed about $1.4 million. Pending for disbursement are $1.6 million, which includes $300,000 from PROCOSI, $255,000 from Plan, $356,000 from PL-480, $200,000 from USAID/Apple, $200,000 from CRS, and $100,000 from Grameen.

The goals established with donor agencies are summarized in Exhibit III-4. As shown, PRO MUJER has met or surpassed all outreach goals set in the agreements with funding agencies. Specific goals set in the USAID/Apple agreement regarding costs reductions have also been met (see Exhibit III-5 below). The 1995 and 1996 audit reports by Peat Marwick state that PRO MUJER has complied with all conditions set by the funding agency.

Exhibit III-5. PRO MUJER's Compliance with USAID Conditions

Conditions	Compliance
• 15% of costs covered by interest income during 1995.	• 18.5% of costs covered by interest as of December 1995.
• Reduce cost per beneficiary from $285 in 1994 to $144 in 1995.	• Cost per beneficiary reduced to $122 as of December 1995.
• Reduce operating costs to $555,517 for 1995.	• Operating costs reduced to $528,129 for 1995.*
• 45% of costs covered by interest income during 1996.	• 50.0% of operating costs (45.5% with finance costs) covered by interest during 1996.
• Reduce cost per beneficiary from $144 in 1995 to $83 in 1996.	• Cost per beneficiary reduced to $57 as of December 1996.

Source: Peat Marwick Audit Report, 1996.
* The auditors did not include depreciation nor provision for loan loss in operating expenses when doing this compliance check. As a result, cost coverage is adjusted from audited financial statements to reconcile with the analysis in this report.

Donor-cited strengths. PRO MUJER's relationship with donor agencies is very good, as reported in interviews with directors and staff of PL-480, PROCOSI, Plan, FIS, and CRS. They cited the following as main strengths:

- All goals, particularly those related to program coverage (number of beneficiaries, number of associations) have been met or surpassed.

- Repayment rates are high. Over the years, the credit portfolio has shown steady performance.

[3] Exhibit III-3 shows a total figure of $4.3 million, which includes $1.3 million from USAID/G/EG/MD pending approval.

- There have been substantial improvements in reducing costs and moving toward self-sufficiency.

- The MIS system works well for both accounting and credit management. Reports to donors are submitted on time and the quality of the information ranks from good to excellent.

- Fund-raising has been very successful.

- The organization has a solid method for working with disadvantaged groups. Development of leadership, women empowerment, and savings mobilization are key features of PRO MUJER's program.

- Staff are highly committed, professional, and adaptable to change. They are also willing to share information with other programs. Teamwork makes the program quite coherent.

- The organization is good at implementing recommendations from audits and evaluations.

CRS, PLAN, PROCOSI, and FIS deemed PRO MUJER as one of the best organizations they work with.

Donor-cited weaknesses. Among PRO MUJER weaknesses or areas in need of improvement, donor agencies pointed out the following:

- Stronger financial focus, particularly through a more qualified financial manager, is needed.

- Management of the internal account within the community associations is still weak.

- Dependency on external sources of funding is too strong.

- Operational costs are high.

- Impact evaluation systems need improvement.

- The credit portfolio is growing too slowly.

- Pressure for funds makes PRO MUJER get involved in programs not related to credit that may adversely affect the credit program's performance. The organization should concentrate on increasing the number of beneficiaries rather than increasing the number of services provided.

- The current organizational structure with two co-directors is confusing.

SECTION IV

CONCLUSIONS AND RECOMMENDATIONS

SECTION IV
CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

PRO MUJER's program performance to date has been very good. The institution has grown from 59 associations and 2,500 members in 1993 to 344 associations and 13,000 members as of March 1997. The loan portfolio amounts to $1.0 million with arrears and default rates respectively of 0.1 and 0 percent. Operating self-sufficiency rates have grown from 18.5 percent in 1995 to 50 percent in 1996 to 92.7 percent as of March of 1997. Savings mobilization by the community associations amounts to $650,000. The portfolio of the internal accounts is $279,500 with an arrears rate of 1.5 percent.

The program's success is due to four key factors:

- Highly committed staff with effective teamwork and a high capacity to learn from and adapt to change.
- An MIS capable of timely and accurately providing the needed information.
- A decentralized management approach and a well-organized network of regional branches.
- A well-developed credit and training method that allows for rapid expansion, decentralized credit management, member participation, and high repayment rates.

The program's method and success have enabled PRO MUJER to attract financing from national and international donors. Most donor agencies rank the institution among the best they have worked with in its ability to reach proposed goals and comply with the reporting conditions set in the financial agreements.

Using performance to date as the yardstick, the goals set forward in the strategic plan are both reasonable and attainable.

Regarding expansion, the human resources are, paradoxically, both the organization's major strength and weakness. While staff commitment has been key to PRO MUJER's success, most staff members have university degrees in social areas and lack a financial or management background. Except for the financial manager, all key personnel have no financial or management background. As the program expands from 300 to nearly 1,000 associations, the lack of financial and managerial skills may affect portfolio quality and profitability.

The other issue that could adversely affect the expansion plans is PRO MUJER Bolivia's involvement in the expansion plans of PRO WOMEN International to other countries.

B. Recommendations

B1. Financial Management

Improve the financial profile of the staff in general by hiring personnel with more financial qualifications. The current vacant position of regional manager for El Alto should be filled with a financially qualified person. The program would substantially benefit from hiring a highly qualified financial manager as well. New "educators" (group trainers) to be hired for program expansion should also have more financial background than current field staff. The purpose would be to have a balanced mix of social and financial trainers working with the associations.

Implement a training program oriented toward upgrading the financial skills of the staff. Training must focus particularly on top and middle management. As all regional managers have a social background, the training process must be accompanied by periodic performance evaluations. Those managers who are not able to perform the new financial tasks involved in the expanded operations may need to be replaced or relocated to a position more suitable to their qualifications. Nonetheless, the evaluation must be based on pre-defined indicators and targets related to program performance (growth, portfolio, repayment rate, etc.); efficiency (staff productivity, cost per beneficiary, cost per dollar in portfolio, etc.); and profitability (self-sufficiency, subsidy index, return portfolio, return on capital, etc.).

Monitor financial performance of PRO MUJER monthly. The financial statements should be accompanied with an analysis of a pre-defined set of financial indicators measuring capital adequacy, assets quality, efficiency, profitability, liquidity, and growth. These indicators should also be measured at the regional level. They would provide management with a tool to evaluate the financial performance of each cost center and their managers. The Fundación Covelo in Honduras has developed a set of indicators that could be used by PRO MUJER as a first step into improving its financial management. A list of these indicators, along with the parameters they should be measured against, are included in Annex C. Regional managers and accountants must be trained in the use and analysis of the indicators.

B2. Audit and Internal Controls

Update internal control policies and procedures and train staff in their use. Currently PRO MUJER lacks updated, written internal controls and audit systems. While management has rightly given field staff significant autonomy to make individual credit decisions, those decisions must be made within defined credit guidelines. This is of utmost importance, given the projected volume of operations. Once manuals and guidelines have been thoroughly disseminated among field staff and regional offices, internal controls and operational audits should be instituted.

Audits and internal controls need to be oriented to protect members' savings. According to the strategic plan, savings are expected to grow to more than a million dollars in the next five years. The audit system should work bottom-up in a decentralized manner. Promoters would do periodic cash reconciliation to the group committees and check-ups of books and registries to ensure that regulations and polices are met. Trainers would audit promoters and their groups to check on promoters' abuse of power or mismanagement as well as compliance with policies and regulations.

Closely monitor compliance, particularly in the regional office. An auditor must monitor compliance and reduce the chances of fraud. The operational audits would be based on samples of both on-time and delinquent operations and involve site visits to associations and members to determine whether they exist and whether all guidelines have been respected. The auditor's authority most come from the board of directors.

B3. Organizational Issues

Eliminate the co-directorship. Carmen Velasco should be officially appointed as the sole executive director of PRO MUJER Bolivia.

Review the current organization structure to better define positions, lines of authority, and hierarchy. As part of this process, PRO MUJER needs to review and update job descriptions, responsibilities, and staff selection and evaluation policies.

B4. Management Information Systems

Integrate the accounting and credit components of the MIS. This will make information-processing more efficient. The reporting formats should allow for accounting by credit and non-credit programs. It should also allow for more flexibility in the credit operations (e.g., discriminated interest rates). For further recommendations on the MIS, see Annex A.

B5. Staff Training

Develop staff training as a key component to institutional capacity-building. Staff training is important to maintain the corporate culture; ensure consistency in the application of loan regulations, policies, and procedures; and effectively communicate management policies. A well-defined training package with highly qualified and specialized trainers to improve the staff's managerial and financial skills must become a priority. Training must not occur sporadically, but continuously to upgrade the skills of managers and field staff alike. New staff must follow and complete this training package. PRO MUJER must incorporate staff training as part of its annual budget.

Reassess staff qualifications and salaries. To be cost-effective, before implementation of the training program, PRO MUJER must reassess staff qualifications and salaries and adjust accordingly. If the salaries are not competitive, PRO MUJER will lose trained staff to the competition, and training would have little result within the organization.

B6. Credit Method

PRO MUJER needs to establish additional incentives to savings mobilization, portfolio growth, and on-time repayment. It should also implement policies and procedures that help strengthen the management of the associations' external and internal accounts and therefore protect members' savings.

Establish an association loan loss reserve fund. This fund could substantially help capitalize the group, protect members' savings, and improve the associations' financial management. The fund should be 10 percent of the portfolio. The reserve could be fed from a fee, for instance 1 percent of the loan paid in advance. This fee could decline as the reserve fund reaches 10 percent of the portfolio and the group demonstrates capacity to efficiently manage the loans.

Distribute profit at the end of each cycle. As opposed to retaining profits as savings, end of cycle distribution would have several advantages:

- Members would have a tangible, monetary reward/result of the savings efforts. It is important that members are not forced to save their dividends.
- Members would be motivated to make further savings as they see a monetary incentive to save.
- Members may become less likely to drop out as they feel less pressure to leave the group to have access to their savings.
- Individual members will become more aware of the need to collect payments. The higher the arrears and default, the lower the dividends.
- In the event of default, individual members may show less reluctance to cover it with their savings.

The profits should not be distributed in full, however. A percentage, 10 to 20 percent, should go to capitalize the reserve fund as needed.

Determine loan amounts based on three member performance indicators: number of installments paid on time, attendance, and savings. For instance, a member with zero late payments and zero absences would be entitled to a loan increase for up to 100 percent of her savings. A member with two late payments and zero absences would be entitled to a loan increase of up to 80 percent of her savings. The percentage would decline as the number of late payments and absences increases. There would be a threshold beyond which no loans are granted. This system has significant advantages: pressuring members to minimize late payments, fostering attendance, rewarding the best members as opposed to only the best savers, forcing committees and promoters alike to pay close attention to late payments, and providing the group with an official tool to punish and reward individual performance, thus reducing conflict.

Modify the current policy limiting the associations to re-loan up to 50 percent of their savings. This policy should be changed to create an incentive for on-time repayment. It is recommended that those associations that close the loan cycle on time be allowed to re-loan up to 75 percent of their savings during the next cycle. Those associations with any arrears would stay at the 50 percent maximum. As lower re-lending means lower profits, it is expected that members would be strongly motivated to prevent arrears.

Issue a lower interest rate on subsequent loans for on-time groups. As an additional incentive to on-time repayment, those groups that close their loan cycle on time and whose loan amount exceeds B$40,000 could receive a lower interest rate on the next external account loan.

B7. Staff Incentives

Develop an incentive system for staff. A monetary incentive system for staff based on productivity and quality of the portfolio could substantially improve on-time repayment and overall efficiency. Though incentives are not enough to ensure portfolio quality, they help define management's expectations of the staff in quantifiable terms. Management could then concentrate on supporting the field staff rather than on constantly communicating institutional expectations.

The staff incentive system should consider the following variables:

- *Number of associations that close cycle on-time.* This variable means no arrears in the external account, no arrears in the internal account, and most important, no interest losses due to idle time. Educators and promoters would receive a fixed bonus for each association closing on time. The payment of this bonus would be tied to a pre-defined threshold level of delinquency and productivity above or below which no incentives are paid, for example:

    - Arrears rate (external account) for the entire program is under 1 percent.
    - Arrears rate (internal account) for the entire program is under 2 percent.
    - Arrears rate (external account) for the promoter is under 1 percent.
    - Arrears rate (internal account) for the promoter is under 2 percent.
    - The promoter manages a minimum of 10 associations.
    - The association has a minimum of 28 borrowers.

- *Outstanding portfolio.* This variable means interest income and profitability for the program. Educators and promoters would receive a bonus based on the size of their portfolios (a percentage). The payment of this bonus is tied to the same threshold of delinquency and productivity defined above. In addition, it is also tied to a minimum outstanding portfolio equivalent to the break-even portfolio per promoter.

These variables can be adjusted as to relative weight in the incentive formula based on what management wants to emphasize at certain points and based on profitability of the portfolio above the break-even point. Ideally, remuneration of credit promoters will mainly come from productivity plus a base salary. If credit officers fail to earn the incentive, they should be able to support themselves minimally with the base salary. All field staff, including regional office managers, should benefit from the incentives according to the profitability of the regional offices.

It is recommended that members should work 120 days for PRO MUJER before being eligible for incentives. Payment of the bonuses should thereafter be made monthly. Implementation of the incentive system must be closely monitored to ensure it generates the expected results or to correct unwanted distortions.

D8. Self-Sufficiency and Profitability

Focus on increasing productivity. Regional offices and field staff should make this a priority. Given that salaries generally represent a high percentage of the total costs, program profitability will be more a function of high staff productivity than of cost controls. Current productivity strategies such as the creation of focal points will help increase staff productivity while lowering travel costs. Staff productivity will be enhanced substantially through the salary incentive system based on portfolio performance and productivity. The proposed incentives to groups will help reduce the gap between cycles and increase the return of the portfolio.

Base program expansion on saturation of geographical areas. No new areas should be added until existing ones have reached saturation or near-saturation. Focal centers should be opened only in locations with large concentrations of potential clients where scale could be greatly facilitated and, most important, unit costs per client could be reduced (transportation, time, and other travel-related costs).

Increase initial loan size. It is suggested that initial loan size be increased from the current $50 to $100 and $75 to $100. That would generate an increase in the average loan size, which currently grows very slowly. Increasing the average association size from 28 to 35 could increase the size of the portfolio and increase productivity per promoter without affecting operating costs. This could be accomplished by requiring the associations to increase their membership to 35 members by the end of the third cycle (first year of operations).

ANNEX A

FINANCIAL ASSESSMENT OF PRO MUJER BOLIVIA

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ANNEX A
FINANCIAL ASSESSMENT OF PRO MUJER BOLIVIA

Chemonics consultant James E. Hochshwender spent three days with PRO MUJER in Bolivia, interviewing staff and reviewing documentation and financial statements. Mr. Hochshwender's activities complemented those of consultant Arelis Gomez, who performed the overall institutional assessment. Repetitions of information from the main body of the report are kept to a minimum and only included here when necessary.

A. Introduction

This annex presents additional analysis of PRO MUJER's program, focusing on the following:

- **Accounting and management information system.** Identifies areas needing improvement to provide accurate, verifiable information for the financial indicators referenced as reporting requirements for grantees of the Microenterprise Office. Analyzes the organization's audit, internal control, and supervision practices.

- **Verification baseline data,** submitted by Pro Women International as presented in Table 1 (see page A-10). Simplified Activity and Financial Statement. Includes a review of financial statements and other relevant documentation.

- **Appropriateness/reasonableness of annual and end of project targets,** presented in the grant proposal and incorporated into the Cooperative Agreement. Covers program progress through March 31, 1997 and comments on the likelihood that the life of project targets in the grant proposal will be met by the local program.

B. Accounting and Management Information Systems

B1. Accounting System

PRO MUJER has used a fund accounting system since 1995 that enables tracking income and expenses by donor, project, and geographical region. It is a FoxPro-based system developed by and purchased from another Bolivian PVO, IDEPRO. It came complete with manuals and training. The system consists of four modules, accounting, budget, payroll, and assets. The software is fully documented in a user-friendly format. It has some limitations making it less than ideal, but it does allow for providing accurate information on a timely basis. The accounting and loan tracking functions are decentralized, with data consolidated at the head office in La Paz. The following summarizes the accounting system structure, capabilities, and limitations.

The accounting module is organized by geographic region (central office and the four regions of El Alto, Sucre, Cochabamba, and Tarija) and then by funder using essentially the same chart of accounts for all funders except where their reporting requirements necessitate variations. The chart of accounts is based on the Superintendency of Banks chart of accounts for financial institutions. The system allows for reporting and recording in two currencies, U.S. dollars and bolivianos. The foreign exchange rate automatically varies according to the regulations of the funder. Some funders require fixing the rate for extended periods (PL-480),

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while others require it to vary monthly (USAID). The variances in the chart of accounts are mainly for reporting expenses according to donor line items and reporting requirements. Currently there are an average of three funders in each region. The system can handle up to 99 funders per region, so there is more than enough capacity for expansion. Accounts are grouped according to assets, liabilities, capital, expenses, and income, and there are sub-accounts and sub-sub-accounts as necessary. This means that PRO MUJER reports to donors are directly linked to the accounting system and can be verified accordingly.

Deficiencies of the accounting system are as follows:

- There are no accounts for investments in land and buildings. However, these accounts are now being added.

- The system is cash transaction-based. This means cost accounting must be done manually. At some point, the system needs to be upgraded to do both cash and accrual so cost accounting can be done more easily and accurately. This is not a high priority at present.

- Regions send in accounting and loan transaction data on diskettes weekly. Although modems had been purchased to enable daily data transfer, poor phone lines and disconnections mid-transfer resulted in Bls 2,500 extra in communications per month and the daily transfers via modem were discontinued. A low-cost solution to the data transfer problem should be developed, perhaps together with other microcredit institutions in Bolivia. This is not a high priority now but will become more of one as PRO MUJER grows.

- Income statements cannot be done yet by sub-region, which means reviewing how well each "focus center" (grouping of community associations groups) is performing financially cannot be done easily. Easy access to this information will make it much simpler to spot where productivity needs to be improved to obtain financial self-sufficiency. This will become more important as the operations grow.

B2. Loan Tracking System

PRO MUJER developed its own loan tracking system. It begins in the community associations, with their record keeping, and culminates in the reports generated from the Clipper 5.0 loan tracking information system. It has all the loan data needed for both the external and internal accounts of the community associations. It is designed to provide useful and timely reports for managing the loan portfolio. It has a users manual in a user-friendly format, though it lacks a date on each page to ensure that latest changes are incorporated. The data are brought to regional offices by educators who collect and verify them with the community associations. There, the data are input into the system by transcribers (except for El Alto, which, handles inputting in nearby La Paz). PRO MUJER has in-house computer programming capability which enables it to continue refining the system. However, there are limitations in its design that make it less efficient then it could and should be. But, the pluses far exceed the minuses, and none of them appear to compromise the accuracy of the data.

The limitations include the following:

- It is not possible to go back and correct any error in a previous step while entering data. The transcriber has to delete the entry and begin again, wasting time. The in-house programmer claimed this problem is being working on.

- The system does not allow for late payments. Interest does not accrue in the system after the due date. This means late payers pay a lower effective interest rate because they are only charged what they originally were scheduled to pay. This needs to be adjusted so that late interest and perhaps even a penalty can be charged.

- The Internal Account Report only provides information on the most recent payment cycle. It is very difficult to use in its present form to detect emerging repayment problems in the internal account. When a group member cannot make a weekly or biweekly payment to Pro Mujer, then that person is given a loan from the internal account, and it is marked in the records accordingly. This information goes into the Pro Mujer loan tracking information system. The report form should be redesigned to include payment and loan information from each payment period of the entire loan cycle, so that field and management staff can detect emerging individual payment problems in the internal account and avoid later, more serious problems on both the internal and external accounts.

- Loan tracking is not integrated with the accounting system. Loan transaction information is batch downloaded into accounting weekly. The data are coded according to source of funds. Many successful microcredit institutions do not have the loan tacking system integrated with accounting, and there is a question of how important it is to do so. It would save time in instances in which information has to be input into the system more than once. If it can be done, it is then possible to have real-time accounting and loan information so that clients can access up-to-the-minute accurate information about their loan and other accounts.

B3. Reports Generated by MIS

The MIS generates a series of different reports, including:

- **Client database.** Includes variables such as gender, age, geographic location, economic activity, whether the client is a saver and/or borrower, community association, and the educator in charge of that community association.

- **Loan portfolio.** Includes information on disbursements, payments, savings (voluntary and obligatory), balances, delinquency, communal association treasurers and other officials, by individual, community association, educator, and regional office.

- **Internal account control.** Includes savings (voluntary and obligatory), outstanding loan and type of loan, payments, and delinquency by member; asset use; and depreciation.

- **Accounting reports.** Includes general ledger, budget controls, reconciliations of account balances, and preparation of financial reports by source of funds.

B4. Controls

Observations about the internal control systems, which have some weaknesses as pointed out by Ms. Gomez in the main body of this report, are presented below:

- An independent audit was last completed for the year ending December 31, 1996. In 1997, reconciliations were made through the month of March, but they were not reviewed by anyone else besides the person who actually competed the reconciliation. Independent reviews of internal account balances is an important internal control. The discovery of a delay in depositing monies reported as having been received from associations highlighted the need for more rigorous scrutiny of accounts by someone more trained and experienced other than the finance and operations manager.

- The delay in deposits needs to be further investigated as it may be hiding delinquent payments. An unexplained pattern of deposits, as much as 28 to 32 days after the group payment was reported as having been made, were detected in reviewing a bank reconciliation. A closer look found that, though such delays were infrequent and the amounts were relatively small, there was enough to merit further investigation. This could mean there is a hidden delinquency rate, albeit small. It does not appear that this delinquency rate would exceed PRO MUJER's projections.

- The educators do not check the arrears at the end of the association weekly or biweekly or monthly meetings. Therefore, there is a delay in getting that report to the group of from one to four weeks, depending on the frequency of meetings. Management needs to eliminate this delay.

- Check writing authority has been decentralized for amounts up to B10,000, but two signatures are required. Checks can only be issued for purchases pre-approved according to Bolivian government regulation. Even when issuing money to community associations, at least two persons from the community association must participate.

- Either the operations manager or the finance manager go to each of the regions every month and a half. They meet with personnel to get feedback, review receipts, do mini-audit but not systematically, and go to see group work, get feedback from groups, and check their records. In the same visits, they also train field staff in credit and finance (e.g., calculating interest rates). They also go over accounting and budgets and variances with the region director and regional accountant. At the level of associations, educators do the internal control. As PRO MUJER expands, it will need to have an internal auditor, supervised by the board of directors, who will do unannounced spot-check audits at all levels of the organization.

- In a few markets in Bolivia, microcredit is becoming available from many sources. Over time, more markets will be served by more than one microfinance institution. Borrowers will more often have already borrowed from another organization and had difficulty repaying. PRO MUJER educators and credit managers need to have ready access to previous experience credit information of their potential clients. In this way, they can avoid losses both to the organization and to its groups. This information needs to be in electronic format so it is easily accessible in any PRO MUJER office. Plans are underway to purchase the bad debtors list from CIPAME, the association of urban microfinance NGOs. There are other lists of credit references available to non-formal financial institutions that are updated regularly. It is recommended that PRO MUJER avail itself of these resources sooner rather than later to avoid the extra work of dealing with persons who are already not able to responsibly handle their obligations.

C. Verification of Baseline Data Submitted in Table 1

C1. Balance Sheet

C1a. Assets

Cash and due from banks. Cash and bank deposits totaled $374,256 as of December 31, 1996, or 16.95 percent of total assets. This high liquidity is the result of several factors. First, the management of PRO MUJER is proactive; it anticipates program needs and ensures that funding is obtained in advance. Second, it receives full funding from creditors for loan and operating funds that were projected to be disbursed over several months ($281,260 and $92,611, respectively). Third, it intentionally slowed the expansion in the organization to allow systems to be better developed that will maintain good control over growing operations. Though positive from a certain standpoint, this high liquidity indicates that the organization has not arrived at optimal use of financial resources. As PRO MUJER pays interest on a higher percentage of loan funds, it will recognize the need for more rigorous cash management. On the other hand, the high liquidity shows that the organization has resources with which to continue expanding loan operations.

Loan portfolio. The total amount of loans disbursed and average loan size during the last three years were reviewed in the main body of this report, as were the credit products, market being reached, and credit methods. Loan administration was also reviewed. The current policy of 3 percent loan loss reserves is conservative given performance to date. However, given the uncertainties arising from discovery of late deposits and emergence of defaults in El Alto with the new longer term loans with less frequent payments, it is appropriate for PRO MUJER to err on the conservative side.

As mentioned above, better reporting on the movement in internal accounts will alert field staff and management to individual problems within the group, that, if detected early, could prevent more serious problems of group disintegration and default. Portfolio-at-risk calculation is probably understated by about 1 percent. This conclusion is based on the findings of the unexplained delays in deposits of some group payments. Likely this is the result of late payments. At least one educator and one manager mentioned that some groups have decided that they do not want to deplete their savings to cover late payments of individuals. (It was taken as a positive sign that group members were concerned about their savings.) They prefer to wait until funds are collected to make the total payment. This is a violation of the village banking method, and neither staff nor management should be reasonable about any tendency to allow late payments without penalty. This said, the overall quality of the portfolio falls well within IGP guidelines of default rates less than 10 percent.

C1b. Fixed Assets

PRO MUJER does not own property or buildings, and so fixed assets are comprised of office equipment, computers, furniture, and vehicles. At 6.2 percent of total assets, there is not an over-concentration in these assets. The projections do not show significant purchases of fixed assets. Depreciation is straight line over reasonable periods of time.

C1c. Other Assets

Other assets consist of donations to be received per signed agreements. They were 5.53 percent of total assets as of December 31, 1996. These assets are differentiated from donations receivable by the fact that the latter are already incurred expenses that are to be reimbursed while the former have not yet been expended.

C2. Financial Liabilities and Other Liabilities

Financial liabilities are loans from Grameen Trust, Partners, and Plan International for loan funds. They are due over periods of one to several years. They have been restated as "subsidized loans" on the balance sheet at the end of this annex. At 22.55 percent of total liabilities and capital, up from just 5.08 percent the year before, they show that PRO MUJER has actively begun finding alternative financing to donations. PRO MUJER will need to increase its search for such funds to replace existing ones and add to the loan fund pot, or it will begin shrinking as loans are repaid. The former is the more likely, as management is anticipating the needs for additional funding and acting on them.

Other liabilities consist of internal loans to regional offices and the head office for not yet reimbursed expenses and will be offset from grants receivable.

In addition, another category of liability should be added: deferred income from grant funding. This account is actually moving restricted fund balances ($674,693 as of December 31, 1996 and 42 percent of capital and fund balances) up to liabilities since the money is only PRO MUJER's if it is spent according to donor requirements. It increases total liabilities from 27.3 to 57.8 percent of total liabilities and capital and fund balances. Note that the relative importance of deferred income from donors has dropped dramatically from 83.8 percent of total liabilities and equity at the end of 1994 to just 30.6 percent at the end of 1996.

C3. Equity

Adjustments were made to the figures presented for capital in PRO MUJER's IGP proposal, as mentioned above in C2 above. Moving the restricted grant funds brings equity down to $931,868, or 42.19 percent of total liabilities and equity. Clearly PRO MUJER is highly capitalized. This level of capital is appropriate for the level of expansion it has projected and the shift from donor to subsidized loans and commercial sources of finance. All of this capital has come from donations for assets such as loan funds, equipment, computers, etc. and interest earned and not spent, which are retained by the organization. PRO MUJER's management has been very aggressive in developing new sources of financing and capital. The main body of this report covered in detail how the organization has developed a very good reputation with donors by delivering on its promises.

D. Income Statement

D1. Revenue

Earned income comes entirely from interest on loans to community association groups. One can see the sharp shift in the management of PRO MUJER from total donor dependency for operating costs in 1993 to the 53.73 percent operating self-sufficiency for the year ending December 31, 1996, to the 92.7 percent operating self-sufficiency realized in the first quarter of

1997. This last figure should be taken with a grain of salt, however. The figures are not audited and are on a cash basis, and some operating expenses occur infrequently, such as printing of association and solidarity group training materials and workbooks, and did not occur that quarter.

PRO MUJER uses a 4 percent per month interest rate, calculated on declining balance, and uses cash accounting, only recording interest earned when it is actually received. The inflation rate in Bolivia is running at 7.95 percent. The effective interest rate varies depending on whether the payments are weekly, biweekly, or monthly:

$$(1 \times .48/52)^{52} \times 100 = 61.25 \text{ percent}$$

$$(1 \times .48/26)^{26} \times 100 = 60.95 \text{ percent}$$

$$(1 \times .48/12)^{12} \times 100 = \text{and } 60.10 \text{ percent respectively}$$

This is higher than most microcredit providers in Bolivia — several charge substantially less. But given the lower average loan size, it is probably appropriate.

PRO MUJER's yield on average portfolio was:

Interest income/average portfolio outstanding	= $284,768/$718,463
	= 39.64 percent in 1996

The reason it is lower than the nominal and effective interest rates is that loan funds are idle between loans and it may take anywhere from one to three weeks for a group to get a new loan. PRO MUJER needs to look for ways it can speed up this repeat loan process. Also, the computerized accounting stops accruing interest on loans after the final due date. As mentioned above, this anomaly results in late payers not paying any interest for the days their loans are late, thus lowering the yield on the portfolio.

An important issue related to revenues for PRO MUJER to keep in mind is that its competition in Bolivia is going to increase significantly over the next years. It behooves PRO MUJER to bring costs down as rapidly as possible to maintain operating in that environment. It has demonstrated a consciousness of both cost and income issues and now needs to become more sophisticated in financial management to achieve financial self-sufficiency by the end of 1999. Proper application of the resources in the IGP request should enable the needed upgrade.

D2. Expenses

In 1996, PRO MUJER started paying 2 percent on less than one-third of its loan funds. The other two-thirds were totally subsidized. Their average financial cost (interest paid as a percentage of average loans outstanding) was less than 1 percent. This situation of very low cost funds will likely change as PRO MUJER needs to locate increasingly large amounts of funds to expand its outreach. Its current low-cost base will enable blending other, more expensive funds, without having financing costs become too expensive to manage.

Operating costs as a percentage of average portfolio were 48 percent in 1996, much higher than industry benchmarks for efficiently run microcredit operations. PRO MUJER needs to continue looking for ways to streamline operations without losing the effective parts of its strategies. There is room for improvement, and the additional resources for expanding systematically and steadily should help economies of scale kick in. Salaries and other Personnel costs were 53 percent of total operating expenses, well within industry norms. However, field staff wages are low compared with other microcredit NGOs in Bolivia, and the organization will have to be careful not to inflate those salaries as expanding microcredit institutions are looking for additional staff.

E. Reasonableness of Table 1 Targets

The likelihood of the Table 1 targets in the PRO MUJER IGP proposal being reached has been discussed in detail in the main body of this report in Sections II, III, and IV and will not be repeated here. The conclusions and recommendations made in these sections are consistent with the findings presented in this financial analysis. Several numbers in Table 1 were revised from the ones in PRO MUJER's original submission to more accurately reflect the performance. First, the local interest rate for the cost of funds should be 12 percent, not 7 percent. Second, line 20 has been changed to Operating Self-Sufficiency and line 21 added Financial Self-Sufficiency. Projected revenue figures for interest income only include interest earned on loans and do not, as is included in Ms. Gomez's figures in the main body of this report, include interest earned from investment of project excess loan funds.

Program success has been due to highly committed staff, effective teamwork in a learning environment, decent management information systems, effective decentralization into regional networks, and a well-developed credit and training method that allows for rapid expansion with member participation and high repayment rates. Further conclusions and recommendations include:

- This performance has enabled and should continue to enable PRO MUJER to garner financing from the national and international donor community.

- The financial results reviewed above confirm that the goals are reasonable and attainable.

- The one wild card in the equation is the impact of competition among politicians, among donors, and among microcredit institutions. This could accelerate or retard PRO MUJER's growth and distract from or enhance its maturation into a financially self-sustaining microfinance institution.

- The key will be adding to and further developing human resources. The addition of a more experienced financial manager and including more qualified financial oversight from the board will only strengthen and accelerate the stable financial growth.

- Tighter internal controls and effective internal audits at all levels of operations will ensure against potential losses.

- More precise loan policies and procedures about member performance indicators consistently applied will serve clients well and thereby the organization.

- Care should be taken not to lower interest rates before stable operating and financial self-sufficiency has been obtained.

- Incentive pay systems should be evaluated for cost-effectiveness before implementation.

- Productivity comes from knowing what each person's job is and how to get it done simply and most directly. Productivity gains may require looking for ways to eliminate any unnecessary steps.

- Financial ways to increase productivity, such as increasing average loan size, should be analyzed against the needs and capacity of clients, rather than as simple solutions to the productivity problem. Otherwise microcredit will end up being just like commercial banks and not continuing to serve poor women.

- Creating a positive public image among client populations and the general public will secure the field for future operations as long as PRO MUJER is delivering a product(s) that has(have) real value to its clients.

PRO MUJER appears to have the necessary accounting system and MIS to accurately and verifiably report information for the financial indicators referenced as reporting requirements for grantees of the Microenterprise Office. The baseline data submitted by Pro Women International appears, on the whole, accurate, with the only variances arising from adjustments for differences in NGO/PVO standard accounting versus what is asked of a financial institution. Finally, with good use of the assistance obtained through the grant requested, and adherence to Ms. Gomez's recommendations, PRO MUJER will be able to meet the annual and end of project targets presented in the Pro Women International proposal. One caveat, however, is the likely development of significant competition in Bolivia within the next three to five years. However, if PRO MUJER implements its plan, it should be able to position itself to serve a portion of the market that other microcredit organizations have not yet succeeded in serving as well.

Table 1
Microenterprise Implementation Grant Program
Financial Services
(U. S. $)

PVO: PRO WOMEN INTERNATIONAL

	1993	1994	1995	1996	1997			1998	1999
					Jan-Mar	Apr-Dec	Total		
Activities									
1. Amount of loans outstanding, start of year	-	-	146,571	388,278	1,059,890	953,463	1,059,890	2,009,653	2,675,300
2. Amount of loans outstanding, end of year	-	146,571	388,278	1,059,890	953,463	2,009,653	2,009,653	2,675,300	3,731,798
3. Average amount of loans outstanding	-	*73,286*	*267,425*	*724,084*	*1,006,677*	*1,481,558*	*1,362,858*	*2,342,477*	*3,203,549*
4. Number of loans outstanding, end of year	-	2,780	4,319	9,246	9,202	12,942	12,942	16,302	19,662
5. Average loan size	-	53	87	115	104	155	155	164	190
6. Arrears Rate on Pro Mujer loans	-	0	0	0	0				
7. Delinquency rate on internal accounts***	0.00%	0.13%	0.03%	0.94%	1.50%	1.85%	1.85%	2.20%	2.55%
8. Amnt of delinquent loans internal accounts	-	193	126	9,936	14,331	37,239	37,239	58,938	95,274
Interest Rates									
9. Nominal interest rate charged by program	48%	48%	48%	48%	48%	48%	48%	48%	48%
10. Local interest rate **	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
11. Inflation rate	7.00%	7.00%	7.95%	7.95%	7.95%	9.00%	9.00%	10.00%	10.00%
Client revenues									
12. Interest income for clients ****	-	18,137	103,394	284,768	117,970	401,049	519,019	830,445	1,206,178
13. Fee income from clients	-	-	-	-	-	-	-	-	-
13. Total client revenues	-	*18,137*	*103,394*	*284,768*	*117,970*	*401,049*	*519,019*	*830,445*	*1,206,178*
Non-financial expenses									
14. Administration	365,716	352,964	528,129	530,001	117,451	608,716	726,167	718,886	738,085
15. Depreciation of fixed assets	10,000	12,000	20,000	18,184	6,848	8,848	15,696	10,848	12,848
16. Loan loss provision	-	4,397	11,311	21,174	2,919	36,197	39,116	80,259	111,954
17. Total non-financial expenses	*375,716*	*369,361*	*559,440*	*569,359*	*127,218*	*653,761*	*780,979*	*809,993*	*862,887*
Adjusted financial expenses									
18. Adjusted financial expenses	-	8,794	32,091	86,890	30,200	133,340	163,541	234,248	320,355
Totals									
19. Total expenses	375,716	375,187	580,253	626,477	207,248	787,101	919,108	1,044,241	1,183,242
20. Operating self sufficiency	0.00%	4.91%	18.48%	50.02%	92.73%	61.34%	66.46%	102.52%	139.78%
21. Financial self sufficiency	0.00%	4.83%	17.82%	45.46%	56.92%	50.95%	56.47%	79.53%	101.94%

*48% on declining balance
** Banco de Credito
*** Association loan accounts
**** Does not include interest earned on unused portions of projected loan funds.

NOTE: Projected figures are based on the IGP grant proposal submitted by PRO MUJER to USAID/W G/EG/MD in late 1996.

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Balance Sheet - PRO MUJER

	1994	% Total Assets	1995	% Total Assets	1996	% Total Assets
Cash & Banks	133,135	14.78%	321,713	22.61%	374,256	16.95%
Investments	0		0		0	
Net Loan Portfolio	146,571	16.27%	377,035	26.50%	1,028,093	46.55%
Fixed Assets	63,241	7.02%	82,048	5.77%	136,977	6.20%
Grants and Contracts Receivable	530,581	58.90%	594,901	41.81%	551,494	24.97%
All Other Assets	27,354	3.04%	47,039	3.31%	117,710	5.33%
Total Assets	900,882	100.00%	1,422,736	100.00%	2,208,530	100.00%
Subsidized Loans	0	0.00%	72,317	5.08%	498,000	22.55%
Other Liabilities	47,964	5.32%	50,451	3.55%	103,969	4.71%
Deferred Income from Donors	754,961	83.80%	819,887	57.63%	674,693	30.55%
Sub-Total Liabilities	802,925	89.13%	942,655	66.26%	1,276,662	57.81%
		0.00%		0.00%		0.00%
Paid-in Capital	34,716	3.85%	398,033	27.98%	794,890	35.99%
Accumulated Results	63,241	7.02%	82,084	5.77%	136,978	6.20%
Sub-Total Equity	97,957	10.87%	480,117	33.75%	931,868	42.19%
Total Liabilities & Equity	900,882	100.00%	1,422,772	100.00%	2,208,530	100.00%

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Income Statement - PRO MUJER

	1994		1995	% Total Revenues	1996	% Total Revenues	Jan-March 1997	% Total Revenues
Earned Income	0	n.a.	103394	100.00	284768	100.00	117970	100.00
Cost of Funds	5826	n.a.	20813	20.13%	57118	20.06%	75800	64.25%
Gross Margin	-5826	n.a.	82581	79.87%	227650	79.94%	42170	35.75%
Operating Expenses	364964	n.a.	548129	530.14%	548185	192.50%	117451	99.56%
Loan Loss Provisions	4397	n.a.	11311	10.94%	21174	7.44%	4761	4.04%
Net Result	-375187	n.a.	-476859	-461.21%	-341709	-120.00%	-80042	-67.85%

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ANNEX B

FUNDACIÓN JOSE MARIA COVELO SYSTEM

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		Anexo 2
		Pág. 1 de 2
FUNDACION-JOSE MARIA COVELO		
INDICADORES CLAVES		
PARA EVALUAR OPDs		
(Vigentes para el Primer Semestre de 1996)		
INDICADOR	**FORMULA**	**PARAMETRO**
I- SUFICIENCIA DE CAPITAL		
1. Suficiencia Patrimonial	(Patrimonio/Total Activo)	>10%
2. Suficiencia de Provisiones (Banco Comunal)	(Prov. Incob/Cartera afectada >90días)	>100%
3. Suficiencia de Provisiones (Individual)	(Prov. Incob/Cartera afectada >120 días)	>100%
II - CALIDAD DE ACTIVOS		
1. Cartera Afectada	(Cartera afectada > 30 días/Cartera total)	< 12%
2. Capacidad Productiva	(Cartera + Inversiones/Total Activo)	>70%
3. Incobrabilidad	(Castigos Netos/Promedio de cartera)	< 5%
4. Servicio de Crédito	(Cartera total/Total Activo)	> 60%
III - GERENCIA		
1. Productividad	(No. clientes Totales/No. Empleados)	> 150
2. Eficiencia Operativa	(Total costos operativos/Cartera promedio)	< 30%
3. Eficiencia Crediticia	(No. de créditos vigentes/No. Promotores)	> 15
IV - RENTABILIDAD		
1. Autosuficiencia Financiera	(Ingresos Propios/Gastos Totales)	> 90%
2. Autosuficiencia Económica	. Propios/(Gastos totales + pérdida x inflac	> 75%
3. Retorno al Patrimonio	(Ingreso Propio Neto/Patrimonio promedio)	> 10%
V - LIQUIDEZ		
1. Razón Corriente	Activo Circulante/Pasivo Circulante	> 2
VI - CRECIMIENTO		
1. Incremento Neto de clientes	entes activos/Clientes activos período anter	> 20%
2. Incremento Neto de Cartera	(Cartera vigente/cartera período anterior)	> 25%
3. Incremento Neto Bancos Comunales	(Bancos vigentes/Bancos período anterior)	> 20%
OBSERVACIONES		
1. Los Indicadores Financieros Claves se fundamentan en los criterios y lineamientos de medición establecidos en el Manual de Control Gerencial y Financiero, desarrollado por la Fundación COVELO para las OPDs.		
2. Los Indicadores Claves buscan medir la eficiencia del servicio crediticio de la OPD.		
3. Los Indicadores de Rentabilidad y Crecimiento deberán ser anualizados.		

FUNDACION JOSE MARIA COVELO
VALUACION DE INDICADORES CLAVES
(Vigentes para el Primer Semestre de 1996)

INDICADOR	PESO RELATIV	PUNTAJE VALORACION 1	2	3	4
I - SUFICIENCIA DE CAPITAL	20%				
1. Suficiencia Patrimonial		<5%	>=5 %< 7.5%	>=7.5% <=10%	>10%
2. Suficiencia Provisiones (Banco Comunal)		< 80%	>=80% <= 90%	> 90% <=100%	> 100%
3. Suficiencia Provisiones (Individual)		< 80%	>=80% <=90%	>90% <=100%	>100%
II - CALIDAD DE ACTIVOS	25%				
1. Cartera Afectada		> 20%	> = 16% <=20%	>=12% < 16%	< 12 %
2. Capacidad Productiva		< 60%	> = 60% <= 65%	> 65% < = 70%	> 70%
3. Incobrabilidad		> 10%	> = 7.5% < = 10%	> = 5% < 7.5%	< 5%
4. Servicio de Crédito		< 50%	> = 50% < = 55%	> 55% < = 60%	> 60%
III - GERENCIA	10%				
1. Productividad		< 100	> = 100 < = 125	> 125 < = 150	> 150
2. Eficiencia Operativa		> 45%	> = 37.5% <= 45%	= 30% < 37.5	< 30%
3. Eficiencia Crediticia		< 8	> = 8 < = 11	> 11 < = 15	> 15
IV - RENTABILIDAD	20%				
1. Autosuficiencia Financiera		< 70%	> = 70% < = 80%	> 80% < = 90%	> 90%
2. Autosuficiencia Económica		< 65%	> = 65% < =73%	> 73% < = 80%	> 80%
3. Retorno al Patrimonio		< 5%	> = 5% < = 7.5	> 7.5 % < 10%	> 10%
V - LIQUIDEZ	5%				
1. Razón Corriente		< 1	> = 1 < = 1.5	> 1.5 < = 2	> 2
VI - CRECIMIENTO	20%				
1. Incremento de Clientes		< 10%	> =10% < = 15%	> 15% < = 20%	> 20%
2. Incremento de Cartera		< 15%	> = 15% < = 20%	> 20% < = 25%	> 25%
3. Incremento Bancos Comunales		< 10%	> =10% < = 15%	> 15% < = 20%	> 20%

OBSERVACIONES

1. Las 6 areas que componen los Indicadores Claves tienen un peso relativo que determina su importancia relativa
2. Las OPDs serán clasificadas en 4 categorias: A = Muy Buenas; B = Buenas; C= Regulares y D= Débiles
3. Para calificar en "A" el porcentaje ponderado deberá ser mayor al 85%. "B" mayor al 71% y menor o igual a 85% "C" Mayor al 55% y menor o igual al 71%. Para "D" corresponde un porcentaje ponderado menor al 55%.

SIGNIFICADOS: > Mayor que; < Menor que; >= Mayor o igual que; <= Menor o igual que.

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ANNEX C

PRO MUJER STAFF AND QUALIFICATIONS

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OFICINA CENTRAL

Nombres	Cargos	Formación
Carmen Velasco	Directora Nacional	Psico Pedagoga
Hugo Bellott	Gerente Financiero	Administrador
Mónica Mendizábal	Gerente de Operaciones	Psicóloga
Roberto Cornejo	Responsable de sistemas	Analista y Programador de Sistemas
Gabriela Calderón	Administrador Contable	Contador General
Carola Sánchez	Auxiliar de Contabilidad	Contador
Emilse Zuleta	Secretaria Recepcionista	Secretaria Ejecutiva
Estela Quisberth	Auxiliar de Oficina	Bachiller

REGIONAL EL ALTO

Nombres	Cargos	Formación
Monica Mendizabal	Directora Regional	Psicóloga
Judith Trujillo	Coordinadora de Crédito	Trabajadora Social
María López	Coordinadora de Capacitación	Psicóloga
Rossana Espejo	Coordinadora de Vinculación	Socióloga
Octavia Cayo	Educadora	Contador
Patricia Claure	Educadora	Psicóloga
Maria Elena Salguero	Educadora	Trabajadora Social
Tomasa Huanca	Educadora	Psicóloga
Sofia Choque	Educadora	Trabajadora Social
Mercedes Oblitas	Educadora	Agrónoma
Guillermo Sempértegui	Educador	Psicopedagogo
Adela Hualuque	Asistente de Crédito	Bachiller
Roxana Quisberth	Asistente de Crédito	Bachiller
Valeriana Quispe	Asistente de Crédito	Bachiller
Teresa Sanchez	Asistente Administrativa	Secretaria.
Elba Zambrana	Transcriptora	Secretaria Ejecutiva
Jhonny Mayora	Chofer Mensajero	Bachiller
Angélica Quispe	Auxiliar de Oficina	Bachiller
Ana Chuquimia	Auxiliar de Oficina	Bachiller

REGIONAL COCHABAMBA

Nombres	Cargos	Formación
José Antonio Quiroga	Director Regional	Lic. en Filosofia y Letras.
Gustavo Layme	Administrador Contador	Auxiliar de Contabilidad
Luis Obando	Educador	Sociólogo
Julieta Toko	Educadora	Estudiante de Sociología
Marisol Rojas	Asistente de Crédito	Bachiller
Janeth Iriarte	Asistente de Crédito	Bachiller
Silvia Iriarte	Asistente de Crédito	Bachiller
Elizabeth Rodriguez	Asistente de Crédito	Bachiller
Oscar Herrera	Asistente de Oficina	Bachiller

REGIONAL SUCRE

Nombres	Cargos	Formación
Giannina Irusta	Directora Regional	Psicologa
Judith Laguna	Administrador Contador	Auditora
Martha Murillo	Educadora	Profesora
Vicente Coaquira	Educador	Programador
Gloria Choque	Asistente de crédito	Bachiller
Guadalupe Serrudo	Asistente de crédito	Bachiller
Sonia Llave	Asistente de crédito	Bachiller
Manuel Perez	Chofer	Bachilller

REGIONAL TARIJA

Nombres	Cargos	Formación
Freddy Flores	Director Regional	Psicologo
Norma Condori	Administrador Contador	Auditora
Marlene Fernandez	Educadora	Trabajadora Social
Nestor Laura	Educador	Psicólogo
Amalia Zarate	Asistente de crédito	Bachiller
America Rivera	Asistente de crédito	Bachiller
Miriam Gutierrez	Asistente de crédito	Bachiller
Eyber Morales	Chofer	Bachiller

ANNEX D

ORGANIZATIONAL CHARTS

Exhibit 1. Pro Women International's Existing Organization

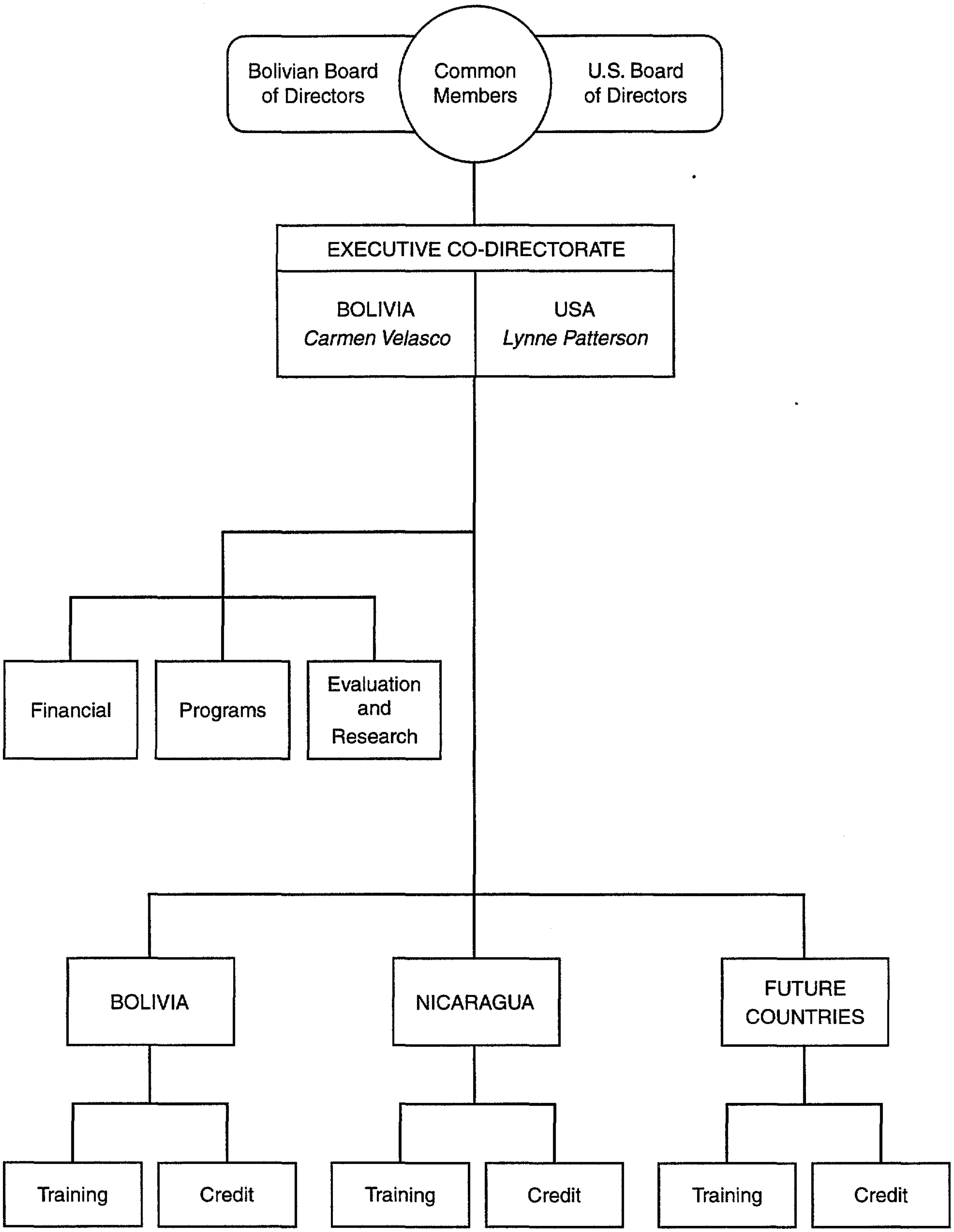


Exhibit 2. Pro Mujer Bolivia's Existing Organization

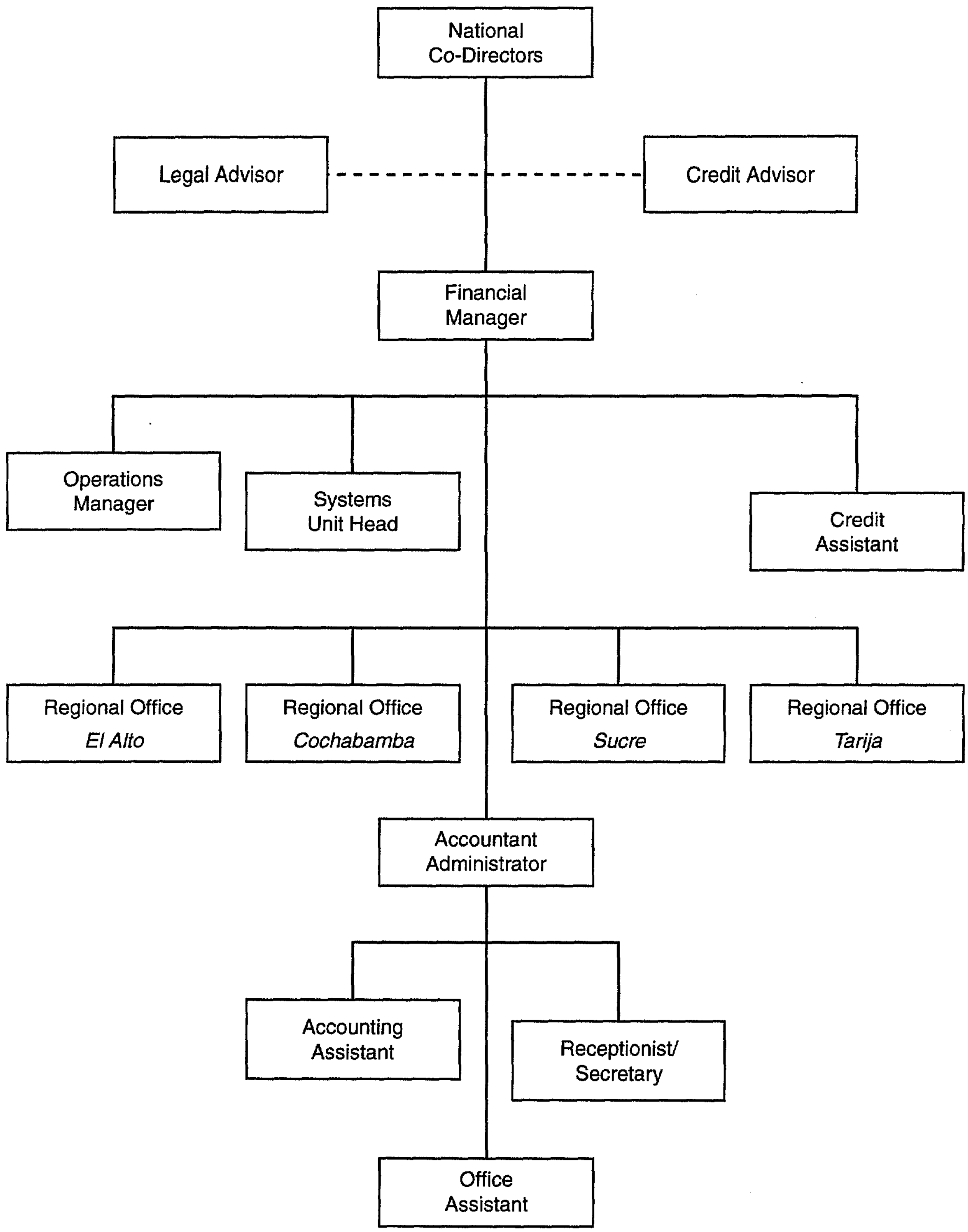


Exhibit 3. Proposed Pro Mujer Bolivia's Organization

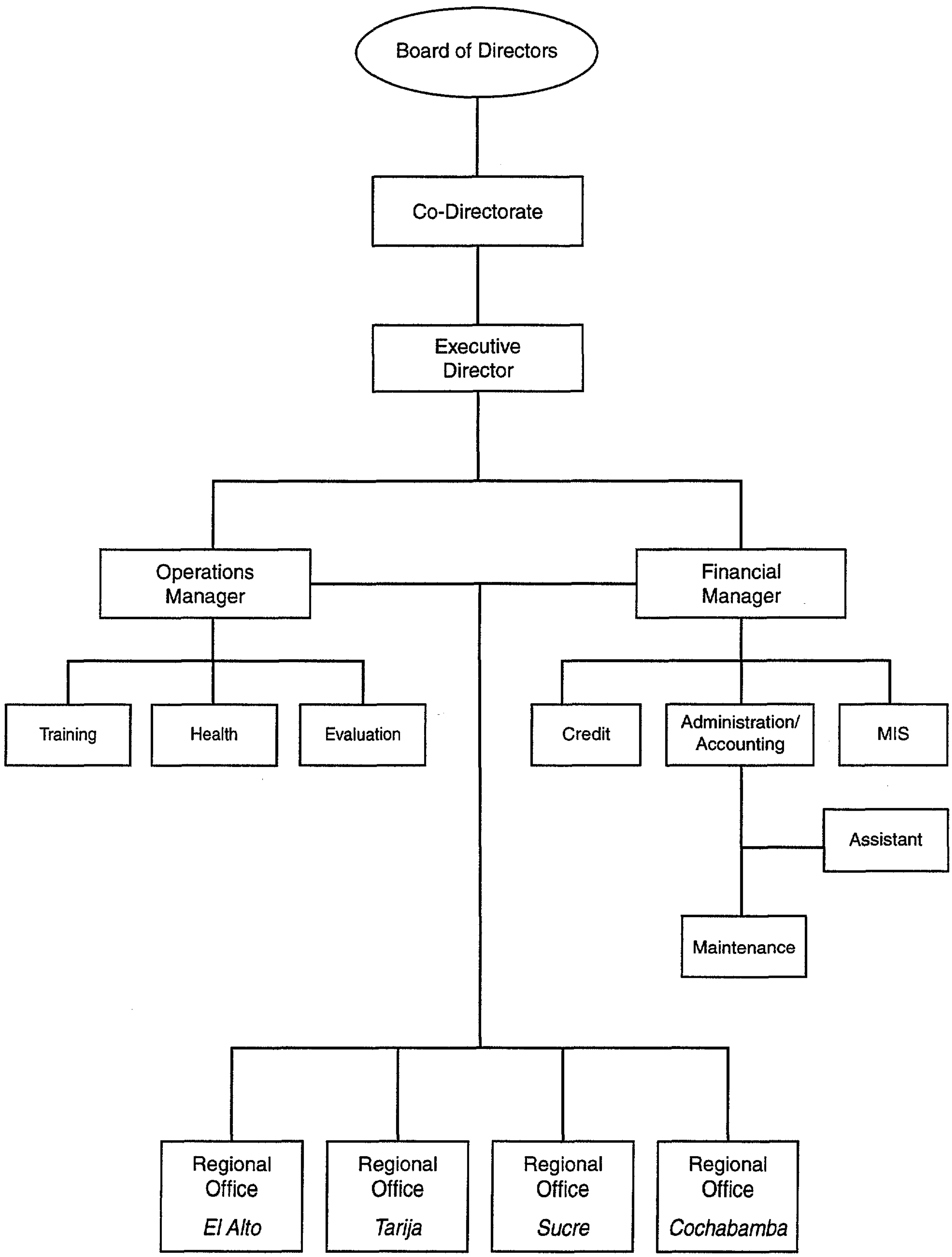
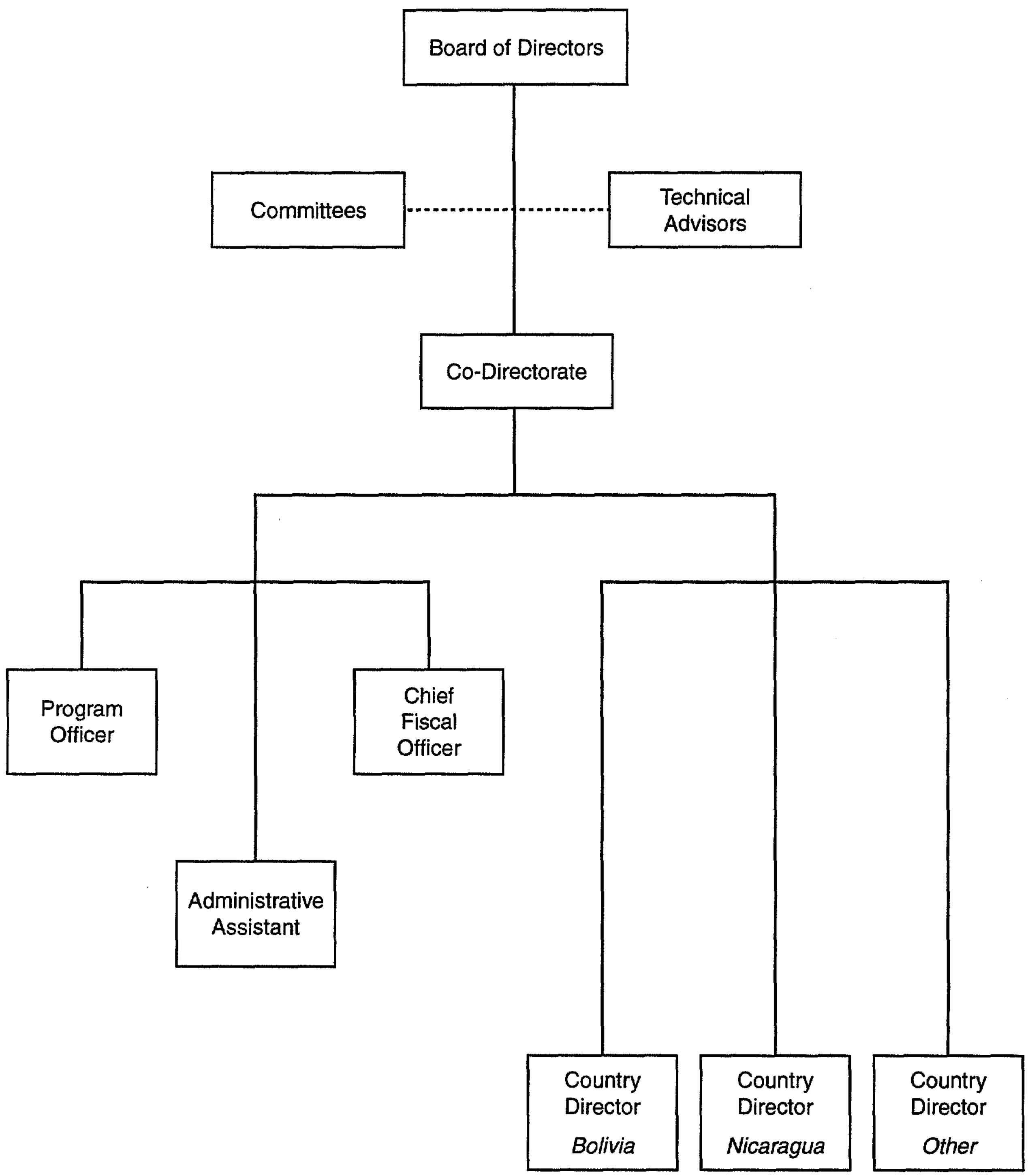


Exhibit 4. Proposed Organization of Pro Women International



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ANNEX E

MICROSERVE PUBLICATIONS

ANNEX E
LIST OF MICROSERVE PUBLICATIONS

1. *Microfinance Training Course Evaluation and Completion Report*, April 19, 1996.

2. Cary Wingfield Raditz, *Assessment of Microenterprise Support Institutions for USAID Sri Lanka: The Micro Enterprise Support Activity*, June 25, 1996.

3. Dale W. Adams y Fernando Cruz-Villalba, *Microfinance Workshop for the West Bank and Gaza Completion Report*, July 29, 1996.

4. Miguel A. Rivarola, *Evaluación de la Propuesta de Constitución del Fondo Financiero Privado para el Fomento de Iniciativas Económicas*, October 1996.

5. Mario Dávalos, *Evaluación y Análisis de la Fundación para la Producción (FundaPro)*, October 1996.

6. Ken L. Peoples, *Consideration of a Merger between the Sartawi Foundation and the Agrocapital Foundation*, November 1996.

7. Meliza H. Agabin, Jeanne Koopman, and Harunur Rashid, *Women's Enterprise Development Project: Mid-Term Evaluation Report*, December 1996.

8. Robert Boni, *Revisión del Sistema de Informática del Centro de Fomento a las Iniciativas Económicas*, April 1997.

9. Oscar Oswaldo Oliva V. and Barry Lennon, *The Organization for Women's Enterprise Development: Institutional Assessment Report*, June 1997.

10. Camilo Arenas, *Evaluación de Diligencia Propria de la Fundación Agrocapital*, June 1997.

11. Margaret Bartel and Heather Clark, *World Relief Corporation's Cambodia Gateway II: Institutional Assessment Report*, June 1997.

12. Camilo Arenas and Victor Fernández, *Evaluación de la Constitución Propuesta del Fondo Financiero Privado Agrocapital y Revisión y Evaluación de la Propuesta de ACDI*, July 1997.

13. Arelis Gomez and James Hochschwender, *PRO MUJER: Institutional Assessment Report*, August 1997.