

PD-ABY-534

# Chispa

USAID COOPERATION AGREEMENT No.524-A-0099-00033-00  
"Small Business and Micro Enterprise Expanding Program (SPP)"

## EXECUTIVE SUMMARY

AND

## FINAL REPORT

Managua, August 2002

**Chispa**

PD-ABY-534

24 de Marzo de 2003

Señor  
Dino Siervo  
Oficina de Apoyo al Sector Privado  
y a la Microempresa  
USAID Nicaragua  
MANAGUA

Ref.: Cooperative Agreement No 524-A-00-99-00033-00  
Small Business and Microenterprise Expanding Program/SPP

Estimado Dino:

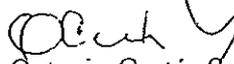
Adjunto original y copia del Reporte Final para el Programa de Microcrédito Fundación CHISPA: Small Business and Microenterprise Expanding Program apoyado por USAID/Nicaragua.

Estamos muy contentos con lo que pudimos hacer y cumplir en beneficio de tantos microempresarios y empresarias. El reporte describe los logros y desafíos durante los tres años de implementación del proyecto. Confío que estarás de acuerdo con nosotros en que los resultados reflejados son sumamente satisfactorios.

Quiero agradecerle la paciencia que has tenido con nosotros en esperar este informe. Como te explicaba verbalmente, en la segunda parte del año recién pasado hubo una serie de cambios en CHISPA/CONFIA, entre ellas la renuncia de algún personal clave, que nos impidió tener este informe en el momento indicado. Espero, sin embargo, que los resultados del proyecto ayuden a disimular esta tardanza al final del mismo.

Estamos sumamente agradecidos a USAID/ Nicaragua por todo el apoyo que nos brindaron en este proyecto. Si tuviera alguna pregunta sobre este informe, por favor no dudes en llamarme:

Atentamente,

  
Octavio Cortés S.  
Vice-Presidente

USAID COOPERATION AGREEMENT No.524-A-0099-00033-00

Final Report

**EXECUTIVE SUMMARY**

**1.0 INTRODUCTION**

This is the final report on the Fundacion Chispa Small Business and Micro-Enterprise Expanding Program (SPP) financed by USAID/Nicaragua and Chispa Foundation. It covers the period from June 1,1999 to June 1, 2002. As per the terms of the agreement, quarterly activity reports were submitted to USAID. This is a synopsis of the achievements, challenges and lessons learned during the three-year duration of the project.

The goal of this program was to reduce poverty in four rural areas of coverage (Esteli, Matagalpa, Jinotega and Ometepe, Rivas), to increase income and employment opportunities to microentrepreneurs through the provision of credit on support of their small businesses activities, and to expand Chispa outreach of financial services to new rural and urban areas.

Under the agreement USAID contributed the sum of \$601,970 and Chispa \$202,988 for establishing a loan fund of \$804.9 thousands. Another \$25.9 thousands were awarded for the purchase of vehicles and equipment.

A modification to the agreement was made on January 2001 as a consequence of the operational merge of Chispa with a regulated financial institution which created a new one, CONFIA. This modification stated the new procedures for the administration of the loan fund and established that USAID funds would remain in CONFIA as increased equity and share of Chispa at the end of the program.

**2.0 RESULTS**

At the end of the program, the following global results were obtained:

Indicators	Targets (revised)	Real	Performance
Amount of disbursements(thousands of \$)	2.636	2.807	106.5%
Number of loans provided	4.627	3.467	75.0%
Number of active clients at the end	1.642	1.822	111.0%
Average loan approved	\$ 570	\$ 809	142.0%
% clients women	65.0%	68.0%	

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This chart reflects the achievements for each indicator, comparing the projected to the real figures at the end of the cooperation agreement, as well as the percentage of performance, about which the following comments are in place:

- The overachievement of 106.5% of the disbursements was obtained by placing a total of \$2.807 thousand compared to the projected \$2.636 thousand, exceeding the goal by \$171 thousand.
- The total amount disbursed includes the reflexes of loans given. This indicates that the initial fund for loans of \$804.9 thousand grew 248%, which corresponds to 29% seed capital and 71% reflux of funds.
- A very important factor for this achievement was the excellent quality of the portfolio, an efficient administration and the timely recovery of the principal and interests on the loans.
- Another factor to be considered in determining the success of the program was the positive effect of the economic growth of the clients who requested greater sums in their subsequent loans.

### 3.0 SOCIAL ECONOMIC IMPACT

The sector of micro-entrepreneurs in Nicaragua totals approximately 400 thousands units. Many of them were previously served by the Banco Popular and the Banco del Café as well as by other non regulated micro-finance institutions (MFI). Following the disappearance of these banks and due to the weaknesses of the MFIs, many of these people were not being served.

As a result, Chispa-CONFIA, with their own funds and those from USAID, set out to provide an answer to the needs of these micro-entrepreneurs through easy accessibility to credit at a reasonable cost, contributing in this way to improving the quality of life of this sector. Success manifests itself in:

- The growth of the businesses served, where most of the clients were able to apply for new loans with greater amounts than the previous loans;
- Important evidence of the economic strengthening is reflected by the ability and culture of repayment, showing that small and micro-entrepreneurs are good payers. This is evident in the excellent quality of the portfolio;
- The opportunity of creating new jobs within the family, as well as the generation of income to improve their quality of life, are the greatest impacts of the Small Producers Program (SPP), as can be seen in the stories described in the full report.

### 4.0 IMPLEMENTATION

During the period of implementing this project, CHISPA also received financial support from the Interamerican Development Bank (IDB) through an Agreement of non-refundable technical assistance. The purpose was to strengthen the capacity of the human and technical resources, and help in the transformation towards becoming a regulated financial institution. This process culminated with the

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creation of Financiera CONFIA accredited to provide financial services to the small and micro-enterprise of Nicaragua.

The SPP- project was carried out in two phases. During the first phase, Fundacion Chispa directly managed the fund. But, in January 01, 2000, Financiera CONFIA was established having Chispa as one of the shareholders and a contract was signed giving the new institution the management of the funds.

A modification of the Cooperation Agreement was signed authorizing this change of procedures. Permanent attention was paid to the Cooperation Agreement and its content, in order to strictly comply with all the clauses and terms established.

The general manager of Chispa/CONFIA assigned this important task to a specific project officer who coordinated activities with the accounting-finances department, and was in constant communication and consultation with USAID officers on all aspects related to the requests of disbursements and reports on the use and management of the resources received.

During the life of the project two Financial and Performance Audits were carried out by the external audit firm KPMG Peat Marwick of Nicaragua; the first one to 1 June 2000 and the second to the closing of the program on June 01, 2002. The final reports containing the results of both audits reflect a correct use of USAID resources, and indicate a complete fulfillment of the terms and conditions of the cooperation agreement.

## 5.0 LESSONS LEARNED

The following list does not attempt to capture all the specifics but rather focuses in a few but key lessons.

- 1. There exist a large segment of microentrepreneurs that demands credit on timely manner*
- 2. There exist a large, underserved rural market for microcredit*
- 3. Changing from solidarity group to individual lending methodology did not affect negatively the quality of the portfolio*

## 6.0 CONCLUSION

The project was able to provide income and employment opportunities in its area of influence. Evidence of the growth of the small businesses was the constant request for larger credit after completing repayment of the first loans. Even though CHISPA-CONFIA did not open a new branch in Jinotega, as originally envisioned, the outreach of financial services to new locations was obtained by providing transport vehicles (pick up and motorcycles) to credit officers.

## FINAL REPORT

### Cooperation Agreement No.524-A-0099-00033-00 "Small Business and Micro-Enterprise Expanding Program (SPP)"

#### 1.0 INTRODUCTION

This is the final report on the Fundacion Chispa Small Business and Micro-Enterprise Expanding Program/SPP financed by USAID/Nicaragua and Chispa Foundation. It covers the period from June 1, 1999 to June 1, 2002. As per the terms of the agreement, quarterly activity reports were submitted to USAID. The following is a synopsis of the achievements, challenges and lessons learned during the three-year duration of the project. It also gives a summary of the process followed by Chispa in order to create the first regulated Microfinance Institution in the country.

The goals of this program were: a) to reduce poverty in four rural areas of coverage (Esteli, Matagalpa, Jinotega and Ometepe, Rivas); b) to increase income and employment opportunities to microentrepreneurs through the provision of credit on support of their small businesses activities, and c) to expand the institution outreach of financial services to new rural and urban areas. Concurrently, Chispa set some institutional goals, described in the Detailed Implementation Plan –DIP, regarding the honing of staff skills, enhancing the credit technology and improving the information system (MIS).

Under this agreement USAID awarded the sum of \$627,820, of which \$601.9 thousand was for a loan fund and another \$25.9 thousands for purchasing vehicles and equipment. Chispa budgeted \$202,988 as a match for the loan fund and \$5 thousand for auditing expenses. Operations began in June 1999.

A modification to the agreement was made on January 2001 as a consequence of the merge of Chispa with a regulated financial institution which created a new one. CONFIA. This modification stated the new procedures for the administration of the loan fund and established that USAID funds would remain in CONFIA as increased equity and share of Chispa at the end of the program. Chispa maintains its status as a Nicaraguan foundation, one of the shareholders of CONFIA.

#### 2.0 BACKGROUND

Chispa began operations in 1990 as a program established by Mennonite Economic Development Associates (MEDA). It received its legal status as a Nicaraguan foundation in November 1997 as a preliminary step in the longer-term process to create a legally incorporated and regulated financial institution capable of mobilizing client savings and other capital sources. During 1999, CHISPA was

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embarked on the transformation strategy. This process culminated in January 2000 with the creation of Financiera CONFIA in which Fundacion Chispa became one of the shareholders.

### 3.0 PROGRAM OBJECTIVES

With the support of USAID SPP financing, CHISPA proposed to disburse \$2,142,809 worth of loans, through 5,081 loans, to a number of 1,808 direct beneficiaries, and a 69 % percentage of loans to women. It also proposed a goal for loans outstanding at the end of the period of \$5,416 thousands. To meet these targets, CHISPA would expand its outreach to a new office in Jinotega and service sizeable credit demand in the rural towns and small cities surrounding its two existing northern offices of Matagalpa and Esteli.

The Detailed Implementation Plan (DIP) proposed some adjustments to these targets that reflected a less conservative approach in the amount of the subsequent loans disbursed. The average amount provided per loan would be higher and the rotation quicker.

### 4.0 RESULTS

The following table summarizes actual results and performance of the project as of June 2002 against the revised targets:

Indicator	Target (revised)	Actual Results	Performance
Loans disbursed (amount \$000)	2.636.	2.807	106.5%
Number of loans disbursed	4.627	3.467	75.0%
Number of beneficiaries	1.642	1.822	111.0%
Average loan size (US\$)	570	809	142.0%
% clients women	65.0%	68 %	

#### 4.1. Total amount disbursed

The total amount disbursed includes the reflexes of loans given. This indicates that the initial fund for loans of \$804.9 thousand grew 248%, which corresponds to 29% seed capital and 71% reflux of funds.

#### REFLUX:

Total Loans	\$2,806,952	100.0 %
(-) Budgeted	( \$804,958)	29.0%
Growth of the Fund (reflux)	\$2,001,994	71.0%
% Growth of the Fund		248.0%

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A very important factor for this achievement was the excellent quality of the portfolio, an efficient administration and the timely recovery of the principal and interests on the loans. Another factor to be considered in determining the success of the program was the positive effect of the economic growth of the clients who requested greater sums in their subsequent loans.

### 4.2 Number of Loans disbursed

The total number of loans provided was 3.467, for an achievement of 75% with respect to the total projected of 4.627. This result can be explained by the fact that the original plan established the opening of two offices in Jinotega and Ometepe, where the projected loans were 1.312 y 1.111 respectively, for a total for both offices of 2.423 loans. Since these offices were not opened the plan was not carried out in these regions as originally envisioned, and the financial resources were used in the regions of Estelí and Matagalpa. This reduced the goal for the number of loans that would be provided but in turn increased the average size of the loans.

### 4.3 Number of Active Clients

At the end of the third year the number of active clients in the portfolio was 1.822, which represents an overachievement of 111% in relation to the goal established of 1.642. This important achievement reflects the efficiency of the work team of the institution, especially the loan officers in the promotion of the SPP program and the number of loans placed.

### 4.4 Average loan size

The average size of the loans disbursed was greater than that planned due to the growth of the businesses served, which required loans of a greater size than those typical to microcredit. The decision was made to satisfy the greater requirement for funds in order to continue serving the quality clients from previous loans, considering they had little opportunity of obtaining funds from other MFIs which besides requested real guarantees.

### 4.5 Percentage of Clients that are Women

The target established for this indicator was achieved completely, the percentage established of 65% was maintained during the whole life of the program.

This is a very positive aspect because the provision of loans to women allows them to become economically independent from men (which is generally the reason that women live in extreme poverty or put up with domestic violence) and provides greater opportunities to the Nicaraguan society.

### 4.6 Other Institutional Indicators

Attachment 1 shows the Institutional Performance Indicators for the period ending 30 June 2002 against original end of project projections contained in the proposal. The table describes the performance of the newly created financiera CONFIA, including the SPP Loan Portfolio.

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As of September 1999, CHISPA had an outstanding loan portfolio of \$2.5 million to 5,652 clients. Since the creation of CONFIA the microcredit portfolio grew to \$12.0 million with 17.3 thousand loans outstanding

### 5.0 SOCIAL ECONOMIC IMPACT

The sector of micro-entrepreneurs in Nicaragua totals approximately 400,000. Many of them were previously served by the Banco Popular and the Banco del Café as well as by other MFIs.

Following the disappearance of these banks and the weaknesses from the MFIs, many of these people were not being served. As a result, Chispa-CONFIA, with its own funds and those from USAID, set out to provide an answer to the needs of these micro-entrepreneurs through easy accessibility to credit at a reasonable cost, contributing in this way to improving the quality of life of this sector.

The objectives and goals achieved had a highly positive impact among the users of credit from a social and economic point of view.

Success manifests itself in the growth of the businesses served, where most of them were able to apply for new loans with greater amounts than the previous ones. Important evidence of the economic strengthening is reflected by the ability and culture of repayment, showing that small and micro-entrepreneurs are good payers. This is evident in the excellent quality of the portfolio of Chispa/CONFIA (See Attachment 4.)

The opportunity of creating new jobs within the family, as well as the generation of income to improve their quality of life, are the greatest impacts of the SPP Program, as can be seen in the following stories:

#### Bernarda Jarquin Miranda

*Her father taught her the ins and outs of the tomato marketing business. She was orphaned at the age of 14 and took charge of her mother and five younger brothers and sisters. She started her business with her own funds since there were no credit programs for micro-entrepreneurs in La Trinidad. It wasn't until the opening of the SPP Program that we processed a loan for her for C\$40,000.00 and in this way she was able to diversify her business along with her brothers and sisters including them in the business of tomatoes, rice and the sale of furniture. Thanks to the loans we have provided, she has been able to send her children to the university and is repairing her mother's house, where two younger brothers still live.*

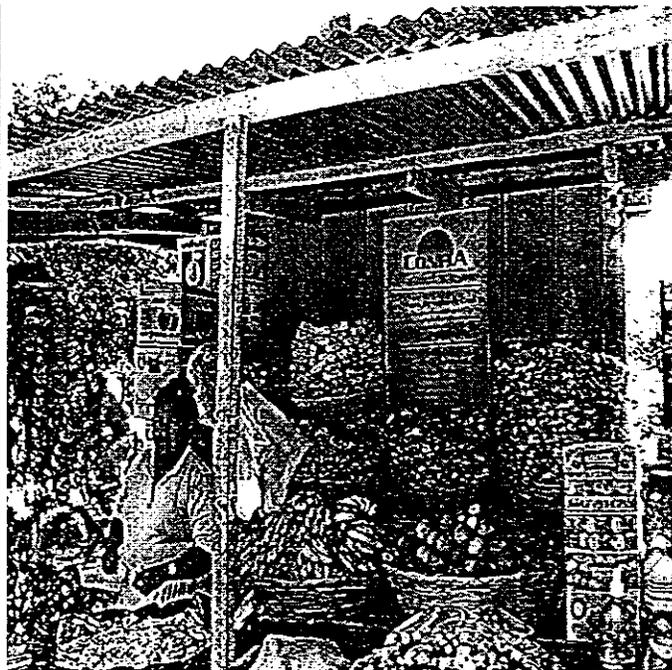
Oscar Ordonez Salgado

A client from Condega and father of four children, he inherited his ability as a shoemaker from his father at a very early age. Traditionally, his business is repairing and making shoes to order. The initial loan with the SPP Program was for C\$2,000.00, with which he purchased two shoe-repairing devices and fifty shoe blocks. In this way, he hired more people and has contributed to the local development of the area. Presently, he has increased his sale of wholesale goods because of the access he had to credit through SPP. Mr. Ordonez comments that he feels he has improved his quality of life since he has been working with the program.

Isabel Gaitan Namonuri

(Vegetable stand in the park of La Trinidad)

Comments that she arrived in La Trinidad from Masaya in 1997 with a basket of tangerine oranges, staying in friends' homes or renting. Due to the fact that she was not from the town, it was impossible for her to have access to credit, so she began her business with very limited funds of her own. Unfortunately, her husband became crippled and she was forced to become fully responsible for her whole family (8 members). At that precise moment, CHISPA was expanding with the SPP program and we processed her first loan for C\$3,120.00. During these years we have given her six standard loans for a maximum of C\$12,000.00, ten seasonal or opportunity loans with sums of between C\$3,000 and C\$6,000. To date, she still keeps the basket with which she arrived and thanks to the access she had to a loan through our institution and the SPP Program, these baskets have multiplied and hold not only tangerines, but avocados, jocotes, apples, etc. and she has been able to buy a piece of land to settle in La Trinidad and give her children a home of their own. Her house is under construction and she plans to settle indefinitely in the area.



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### Leonel Laguna Laguna

Originally from San Francisco, a place in which to breathe fresh air, but where water is scarce and the land is not the best for planting, this client carries out the only activity which takes place in the area, the production of rope, petates (which are wicker carpets) and nylon twine, which is well-known in all Central America.

The business is run by the whole family (his wife and three children), and not only does his family depend on this business, but three other families do as well; his parents and two other brothers with their families



He is thankful for having trusted him, when other institutions didn't, and due to the fact that we received the support from Chispa/USAID, we were able to provide loans for the first time in that area for C\$10,000.00. It was in this way that Mr. Laguna was able to purchase more raw materials, and employ more family members for the elaboration of rope, string and petates. His brothers also received loans during the program and one can observe improvements and progress in the family and their surroundings.

### Carmen Leonor Matute Gómez

Carmen is a client from the area of Condega and an unwed mother since her husband abandoned her along with her four children, she owns a convenience store in the rural area of Condega. Through her efforts with her business along with financing obtained from the SPP Program, this client has supported and educated her children and made improvements on her home.

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### 6.0 INSTITUTIONAL TRANSFORMATION

The Washington based Frontier Finance International, associated with the German consulting group IPC, was contracted in 1999 to assist CHISPA management with the process to put in place a legally incorporated and regulated financial institution capable of mobilizing client savings and other capital sources.

To effect a transformation to formal *financiera* status with approval by the Superintendent of Financial Institutions, CHISPA needed to be able to report equity of \$5 million. Therefore, it started the search for local and international partners and narrowed the search down to a consortium of six institutions to create the new microenterprise bank: MEDA, CHISPA, InterFin and InterBank (a Nicaraguan Financiera and a Nicaraguan Bank), ProFund, and IMI (International Microfinance Investment group, from Germany).

The transformation strategy led to the merger of CHISPA with the regulated financial institution, InterFin, and to the purchase of another microfinance institution, Servi-Credit. The resulting institution combined their portfolios, consolidated offices, and adopted a new name: CONFIA (Corporación Nicaragüense Financiera). The institution currently operates 13 offices throughout the country: Managua (4), Masaya, Granada, Rivas, Estelí, Matagalpa, Ocotol, Chinandega, León, and Jinotepe. CONFIA operates as a *financiera* with central offices in the city of Managua. Clients operate in the production, service, and commerce sectors.

The establishment of CONFIA did not happen without some challenges. The first one was the realization that one of the shareholders, InterFin had misrepresented their Balance Sheet which left the remaining shareholders scrambling to find creative ways to inject significantly more capital than originally anticipated. The second challenge arose with the failure of Interbank, a 7% shareholder in CONFIA. In the end, CHISPA, MEDA, IMI and Profund ended up owning almost 100% of the institution.

For this important phase Fundacion CHISPA received financial support from the Interamerican Development Bank (IDB) which added to Chispa's own resources totaled \$710.0 thousand. The main components of this program were the following: a) selection and implementation of a Management Information System and training in its operation; b) Technical Assistance for improving operations and lending technology, c) Staff Training and Visits for Technical Exchange. All this revamping contributed to a more efficient and effective implementation of the SPP.

#### Personnel & Staff Training

CHISPA took numerous steps to enhance the quality of its staff. Training courses, accounting workshops and other development opportunities were made available for new loans officers and long-term CHISPA staff alike. FFI was contracted to also provide an extensive training program for Loan Officers and Office Coordinators.

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This training module covered four aspects: financial mathematics, accounting, financial analysis, and credit methodology. Training was rotated to reduce the time impact for loan officers. Additionally, FFI made field/customer visits jointly with CHISPA's staff to ensure proper application of this theoretical class-work. The initial training module for loan officers/coordinators lasted four weeks. Classes were also designed to upgrade office accountants and teller skills, and the initial loan officer and office coordinator training sessions were deepened with topic-specific classes during the second phase. Overall, the staff training program lasted six months.

Extensive software training on the new accounting system was also provided over a six-month period. In preparation for the new system implementation, several of CHISPA's accounting and office coordinator staff attended computer classes to upgrade their skills. At the point of transition to the new microenterprise financial institution, CHISPA had 70 staff in total.

### Management Information System

By mid -1999 a new MIS system had been installed with FFI support in CHISPA's three Managua offices. The initial roll-out stage focused on the portfolio management component, with the accounting system component implemented by the end of 1999. As part of the system roll-out, CHISPA purchased 24 computers in April 1999 and by the end of May, management had access to daily delinquency reporting, which was an improvement from its existing weekly reports. Beyond automating loan disbursements and repayments and improving management reporting, the new system also automated much of CHISPA's loan documentation. The improved system quickly resulted in increased loan officer productivity and lowered administration costs.

In summary, the activities carried out for the previously mentioned components were the following:

- Purchase and install all the Information System Programs as well as training the personnel in their use.
- Receive technical assistance in order to refine and enhance the credit technology.
- Adapt the procedures to establish institutional structures to improve the efficiency and strengthen the general management and executive personnel.
- Purchase information system equipment for the use of computerized programs and modernize the electronic communications among the branches network;
- Training and technical interchange for the key personnel at the management and operations levels to improve their technical abilities as well as their attitude toward the public, in order to achieve a greater understanding of the process of transformation of Chispa and generate a sense of trust in the whole process.
- International experts in process of transformation and technical assistance were hired in order to prepare a business plan and the request presented to the Superintendence of Banks to obtain the status of Financial Institution.

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### 7.0 Project Implementation

The program was carried out in two phases; the first one was managed by Chispa beginning on the date the agreement was signed until December 31, 1999 when CONFIA was created. On January 01, 2000, Chispa signed a contract for the management of funds, thereafter giving CONFIA the power to manage the micro credit portfolio.

A modification of the Cooperation Agreement was signed stating a) Chispa will sub-grant the funds to CONFIA, which will implement and manage the credit program; b) Fundación Chispa will receive all disbursements from USAID, as well as all correspondence and reports; c) At the end of the program, the funds will not return to Fundación Chispa, but will remain with CONFIA, increasing the shares of Fundación Chispa.

Credit under the USAID SPP project was channeled under the individual methodology and the following standard credit guidelines:

#### 7.1 CREDIT POLICIES AND PROCEDURES FOR APPROVAL

##### A. Policies

- Term: a minimum of 6 months and a maximum of 18 months.
- Interest Rate: 4.9 % monthly for micro-enterprises; 2% monthly for small businesses.
- Commission: 1% for loans to small businesses charged at the moment of disbursement.
- Amounts greater or equal to C\$10,000.00 córdobas are considered Small Businesses.
- Guarantee: Guarantor
- Types of Loan Payments: Weekly, bi-weekly, or monthly payments.

##### B. Requirement for a Standard Credit

- Small or micro-business
- Activity: Services, Commerce, or industry in urban or rural area.
- Minimum established time: one year.

The main criteria in order to establish the size of the loan is the size of the business, the capacity of payment based on the cash flow, the desire to make payments, and the socio-economic risk of the applicant.

The evaluation of the application is taken greatly into consideration in order to minimize the risks of the operation. A financing proposal is prepared in the evaluation which includes a general balance, monthly cash flow of the business and the family unit, references, credit history, and the opinion of the credit analyst.

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### C. Procedures for the Selection and Approval

- Preparation of the application
- Reception of the application
- Incorporation of information to the Data Base
- Physical inspection of the business, and verification of information
- Report and recommendations of the loan officer
- Review and evaluation by the credit analyst
- Approval by the Credit Committee
- Certificate of approval or denial
- Notice of the resolution
- Disbursement of the loan and payment plan

### 7.2 ADMINISTRATION AND CONTROL OF CREDIT (PORTFOLIO)

Once the disbursement has been made, the credit is automatically incorporated into the portfolio and computerized collection system along with all the main information including the payment plan. After this, the follow up and control procedure focuses on two important aspects:

#### *A. Good use of the financing*

This activity is planned and carried out through periodical visits by the loan officers assigned to each case to supervise how the activity is evolving and to verify visually, as well as physically, how the money from the loan has been invested. The visit is also used to leave notice of the date of the next payment to be made in order to help the client plan accordingly for the payments on the loan.

#### *B. Recovery of the credit*

Through an optimum use of the computerized system of register, the management has access to the Reports of Portfolio and is able to organize, along with the personnel, the actions and activities related to the recovery of the credit. Reports are obtained along with an analysis of: a) Quality of Portfolio by current payments, and by days overdue, b) Portfolio at Risk

The collection is carried out mainly by the loan officers and through written notices from the administration or the legal department.

### 8.0 PROJECT ADMINISTRATION

While the cooperation agreement was in effect, permanent attention was paid to its content, in order to strictly comply with all the clauses and terms established.

Chispa and later CONFIA management assigned this important task to a specific performance officer who coordinated activities with the accounting-finances

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department, and was in constant communication and consultation with USAID officers on all aspects related to the requests of disbursements and reports on the use and management of the resources received.

The main activities performed in this aspect are summarized below:

- Preparation of cash flow and the need for cash according to the projection of placement of loans by the branch offices.
- To prepare and send monthly reports to USAID of expenses and requests of disbursements.
- Deposit the funds received in special bank accounts.
- To perform conciliations of balances in bank accounts.
- To register the interests earned in order to return them to USAID
- To consolidate information and data to prepare the Quarterly Report on the activities and progress of the program.
- To supervise the accounting entries of the program.
- To carry out the process of receiving offers and selecting the services of external auditors.
- To coordinate the external audit.

### Results of the Audits of the Reports and Chispa's Contribution

During the life of the project two Financial and Performance Audits were carried out by the external audit firm KPMG Peat Marwick of Nicaragua; the first one to June 01, 2000 and the second to the closing of the program on June 01, 2002. The final reports containing the results of both audits reflect a correct use of USAID resources, and indicate a complete fulfillment of the terms and conditions of the cooperation agreement.

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**STATEMENT OF ACCOUNTS - USAID FUNDS**

Audited by KPMG to June 01 2002

(In thousands of dollars)

<u>Income:</u>	<u>Total</u>
Transferences received from USAID	\$627,820
Interests earned in bank accounts	<u>7,506</u>
Total Income Received	<u>\$635,326</u>
<u>Disbursements:</u>	
Placement of Credit	\$601,970
Purchase of vehicles and equipment	25,850
Surrender of Interests to USAID	<u>7,506</u>
Total disbursements	<u>\$635,326</u>
Available Cash	<u>-----0-----</u>

**STATEMENT OF CHISPA CONTRIBUTION**

Reviewed by KPMG to June 01 2002

<u>Concepts:</u>	<u>Thousands of Dollars</u>
Placement of Credits	17,076
Honorarium for Audits	6,703**
Disbursements to CONFIA for credits	<u>184,208</u>
Total contribution of Chispa	<u>207,987</u>

\*\* At a later date, \$2,267 were paid to total \$8,970 for audits expense instead of the \$5 thousand budgeted. In addition, CHISPA also paid approximately \$7.2 thousand for a performance officer who was hired to follow up and prepare reports on the program.

## **9.0 LESSONS LEARNED**

The final report for this project affords an opportunity to look at overall lessons learned. The following list does not attempt to capture all the specifics but rather focuses in a few but key lessons.

1. *There exist a large segment of microentrepreneurs that demands credit on timely manner*

Even though the last years have seen an increase of MFI providing this service, still many lack the expertise for delivering loans at a timely and efficient manner. The project was able to do this through the training for the credit officers, and the streamlining of the information system and agencies located in the area of the project;

2. *There exist a large, underserved rural market for microcredit*

This situation was evidenced by the constant rural clients requests to the branches located in the area of influence of the project. Clients who received loans from this sector were very careful in their payments in order to maintain the access to new credits;

3. *Changing from solidarity group to individual lending methodology did not affect negatively the quality of the portfolio*

Individual microentrepreneurs have a great sense of responsibility for honoring their payment commitments even without furnishing real guarantees. The project was able to convey the message that those honoring their commitments would have access to new and increased loans.

## **10.0 CONCLUSION**

The project was able to provide income and employment opportunities in its area of influence. Evidence of the growth of the small businesses was the constant request for larger loans after completing repayment of the first ones. Even though CHISPA-CONFIA did not open a new branch in Jinotega, as originally envisioned, the outreach of financial services to new locations was obtained by providing transport vehicles (pick up and motorcycles) to credit officers.

**FUNDACION CHISPA**

Small Business and Micro-Enterprise Expanding Program (SPP)

**ATTACHMENT 1**

**SMALL BUSINESS AND MICROENTERPRISE EXPANDING PROGRAM**

<b>INSTITUTIONAL INDICATOR</b>	<b>PROJECTED (YEAR 3)</b>	<b>ACTUAL RESULTS TO JUNE 2002</b>
Administrative and operations expenses/ Portfolio	25%	12%
Self-sustainability (income/expenditures)	113%	105%
SPP Portfolio at risk >30 days	4.0%	0.5%
Overall microcredit portfolio (US\$000)	5,416.0	11,981

## ATTACHMENT 2

### CORPORACION NICARAGUENSE FINANCIERA (CONFIA)

CONDENSED BALANCE TO JUNE 30, 2002

( In thousands of US\$)

ASSETS	
Availability	5,836
Temporary Investments	376
Permanent Investments	204
Gross Credit Portfolio	14,109
(-) Provisions	-436
Net Credit Portfolio	13,674
Interest receivable	256
Other accounts receivable	207
Property in use	400
Adjudicated Property (gross)	1,152
Provisions for adjudicated property	-686
Adjudicated Property (net)	466
Other Assets	370
<b>Total Assets</b>	<b><u>21,789</u></b>
LIABILITIES	
Deposits and Savings	12,526
Interest earned to be paid	277
Obligations with financial institutions	5,938
Other accounts payable and provisions	678
Other liabilities	69
<b>Total Liabilities</b>	<b>19,487</b>
EQUITY	
Equity capital	7,327
Reserves	86
Accumulated Results	-5,328
Reserves for maintenance of value	62
Results of the period	154
<b>Net Equity</b>	<b>2,302</b>
<b>Total liabilities and equity</b>	<b><u>21,789</u></b>

### ATTACHMENT 3

## CORPORACION NICARAGUENSE FINANCIERA (CONFIA)

### CONDENSED STATEMENT OF PROFIT AND LOSS

( In thousands of US\$)

	Accumulated Jan.02/Jun.02
<b>Financial Income</b>	
From availability	27
From investments	19
From loans	2,754
Other financial income	28
Reversion of Interests	-18
<b>Total financial income</b>	<b>2,810</b>
<b>Minus: Financial Expenses</b>	
Interests for deposits	-685
Other obligations	-179
<b>Total Financial Expenses</b>	<b>-864</b>
<b>Financial Results before monetary adjustments</b>	<b>1,946</b>
<b>Plus: Income from monetary adjustments</b>	<b>18</b>
<b>Gross Financial Result</b>	<b>1,964</b>
Minus: Provisions for Portfolio	-227
Minus: Provisions for Adjudicated Property	-121
<b>Net Financial Result</b>	<b>1,616</b>
Plus: Various Operations Income	237
Minus: Various Operations Expenses	-166
Minus: Management Expenses	-1471
Minus: Equity Monetary Adjustments	-62
<b>Net Result for the Period</b>	<b>154</b>

ATTACHMENT 4

CORPORACION NICARAGUENSE FINANCIERA (CONFIA)  
 QUALITY OF PORTFOLIO TO JUNE 30, 2002

(Thousands of Dollars)

	No Arrears	%	1 to 30 DAYS	%	31 to 60 DAYS	%	From 61 to 90 DAYS	%	91 to 180 DAYS	%	Greater than 180 DAYS	%	All
OWN FUNDS	10,234,470.23	89.98	539,651.78	4.74	77,143.16	0.68	392,318.46	3.45	52,167.18	0.46	77,867.94	0.68	11,373,618.75
FNI-MUITISECTOR	51,536.85	93.16	1,532.55	2.77	-	-	-	-	2,248.55	4.06	-	-	55,317.95
FNITROPICEP FUNDS	49,493.12	100.00	-	-	-	-	-	-	-	-	-	-	49,493.12
FNI FUNDS	239,376.32	90.74	16,962.46	6.43	1,509.18	0.57	5,943.44	2.25	-	-	-	-	263,791.39
AID-SPP FUNDS*	1,636,698.05	96.92	43,598.87	2.58	7,898.77	0.47	546.43	0.03	-	-	-	-	1,688,742.12
AID-MITCH FUNDS	236,665.23	89.75	13,623.53	5.17	10,801.20	4.10	2,601.98	0.99	-	-	-	-	263,691.94
FNI-PYME	47,805.07	95.02	2,253.03	4.48	52.79	0.10	199.05	0.40	-	-	-	-	50,309.94
All	12,496,044.87	90.91	617,622.21	4.49	97,405.10	0.71	401,609.36	2.92	54,415.73	0.40	77,867.94	0.57	13,744,965.21

## FUNDACION CHISPA

Small Business and Micro-Enterprise Expanding Program (SPP)

### Attachment 5

## CONFIA PROFILE

(June 2002)

CONFIA was established in January 2000 after combining the loan portfolio of CHISPA, InterFin and Servicredit. As of June 2002, main shareholders were MEDA, Fundacion CHISPA, IMI, Profund and Doen Foundation.

### Mission

To offer credit services to small and micro-businesspeople, as well as providing services of savings accounts and certificates of deposit to all economic sectors.

### Vision

Confia has the long-term vision of becoming a bank for the micro enterprise in order to continue serving the same sector of people with a greater diversity of services that will cause the micro-entrepreneurs to feel like they have a bank that serves them and is interested in resolving their problems and needs.

### Objectives

- To be the lead institution in our market segment in less than 3 years.
- To have satisfied clients.
- To efficiently offer all the financial services required by the target group.

### Offices and Staff

Besides the Main Office, CONFIA has a network of twelve branch offices distributed in: Managua (4), Estelí, Matagalpa, Ocotal, Chinandega, León. Rivas, Carazo, Granada, and Masaya.

There are 180 employees on the payroll, of which 58 are credit officers for the small business and micro-enterprise, 4 officers for corporative credits, 12 branch managers specialized in micro-finances for a total of approximately 80 people dedicated exclusively to the productive part, which represents 50% of the total number of employees. The remaining employees are administrative personnel, distributed among the branch offices and the main office, carrying out operations and marketing activities in order to attract resources from the general public for savings accounts and certificates of deposit.

CONFIA has a software designed exclusively for managing a portfolio of micro-credit, which has been used in more than 50 institutions in Latin America and Europe, with the capacity of managing approximately 80,000 clients. This system is also being used in all the branch offices, allowing us daily to measure our growth, index of arrears, control of collection, as well as the generation of management reports and information to prepare reports for institutions and organizations from whom we receive financing.

## FUNDACION CHISPA

Small Business and Micro-Enterprise Expanding Program (SPP)

### Main products

With the goal of offering more and better products to micro and small entrepreneurs, several products were designed.

Product	Conditions	Interest Rate over balance	Average Term
Automatic Credit	Capacity and the intention of paying	5.5% monthly	24 months
Housing Credit	Capacity and the intention of paying, plus previous savings	2.5% Micro, 2% deduction from payroll	60 months
Seasonal Credit	Capacity and the intention of paying plus a high season	5% monthly	2 months to 3 months
Opportunity Credit	Capacity and intention of paying	5% monthly	1 month to 2 months

Automatic Credit. This credit is designed to more efficiently serve those micro-entrepreneurs with an excellent credit record, with at least three previous credits and a minimum of one year of working with CONFIA. The business is evaluated once they have fulfilled the previously mentioned requirements and they are automatically authorized a maximum sum, which they can make use of when they decide.

Housing Credit. CONFIA has introduced a product to finance home improvements on lower-income housing. This product is a combination of previous savings and a loan. Based on the design of this product, another product was prepared to provide solutions for the financing of complete housing to be financed by the IDB. The credits will have a term of up to 60 months to be paid in fixed monthly payments. If the demand exceeds US\$1,000,000, CONFIA will continue funding these loans with their own resources. Due to this fact, it is necessary for CONFIA to charge an interest rate of approximately 16% annually.

Seasonal Credit. It has the objective of providing loans to small businesspeople with an excellent credit record for sales to be made during the high seasons of the year when they have already received a loan and require more resources. They receive authorization for another credit depending on the volume of sales during this period of the year; for example, Holy Week, Christmas, and others.

Opportunity Credit. This loan also requires an excellent credit record and is associated to short-term business opportunities, which a micro-entrepreneur might have when he or she already has a loan with CONFIA. The client must have an excellent credit record and the loan must not exceed his or her capacity to pay; for example, the purchase of a shipment of onions at a very low price.