

General Earthquake Assistance Provided by FOMIR/DAI Quarterly Report for July 1 – September 30, 2002

Introduction

Prior to January 13, 2001, El Salvador had a sound microfinance system that was, with USAID/El Salvador assistance, rapidly expanding into rural areas of the country. Through technical assistance, training, and limited financial support, the eleven MFIs participating in the FOMIR/DAI program had an expanding client base, a growing portfolio of loans in rural areas, and a relatively low rate of delinquency. MFI assisted under the project were ahead of schedule in achieving project targets in terms of outreach and sustainability. As a result of the recent earthquakes, project conditions changed.

The earthquake that struck El Salvador on January 13, 2001, caused widespread damage throughout the southern part of the country. Some 800 people died, another 4,500 were injured, and nearly 200,000 homes were damaged or destroyed. The initial damage to the MFIs participating in the FOMIR/DAI project, while considerable, appeared to be manageable.

However, a second major earthquake struck the country on February 13, killing another than 315 people and extending the damage to homes, public services and productive assets. A third substantial earthquake occurred on February 17 and three additional moderate earthquakes on February 23.

Nationally, at least 42,000 MYPE's experienced substantial or complete damage to homes and more importantly productive assets, with FOMIR institutions reporting 11,000 clients affected.

The earthquakes of 2001 had significant impact on micro enterprise owners and microfinance institutions throughout the country. In earthquake affected regions, eight institutions determined that a significant portion of their clients were affected. Calpia was provided with direct assistance in the forma of a guarantee. Of the remaining eight institutions, the credit union ACCOVI was the most severely affected. Accovi reported that nearly 40% of their clients were directly affected. In addition, ACCOVI main office was severely affected by the earthquake.

In response to the earthquake, USAID amended the DAI contract on July 23, 2001 with the following instruction:

DAI will respond to increasing technical assistance and financing needs faced by selected MFIs to better address micro-entrepreneurs' critical financial situation. This could include capital to increase lending for business activities, to cover loan losses and/or to create new credit lines and products for MFIs to provide an integrated response to their clients. Funds can be used to leverage USAID's guarantee mechanism to finance RFM grantees. This component will include

technical assistance to develop new products and to assist MFI restructuring their loan portfolios.

Under expected results the amendment stated “the assistance to grantees will permit these institutions to resolve the financial problems they have been facing since the earthquakes”.

Included in the amendment was USAID approval that DAI provide a combination of short term and long term technical assistance institutions affected by the earthquake. In respect to long term technical assistance, USAID approved the position of Senior Microfinance Advisors to plan and implement effective transformation plans and manage the final re-engineering of MFI systems, policies and procedures of assigned institutions.

The institutional development process required for transformation of FOMIR/DAI grantees became more complex as a result of the earthquakes. The 11 microfinance institutions supported by the program were all faced in with the tasks of measuring and responding to the impact of the earthquake while continuing to grow their portfolios, re-engineer internal systems, hire and train new staff and plan for transformation under new banking laws. In addition, new activities related to gathering and disseminating market information and increased coordination among earthquake response institutions augments the technical and managerial content of FOMIR/DAI.

Once receiving the contract amendment in July 2001, FOMIR reacted quickly and effectively to provide much needed technical assistance, training and increased access to finance to the microfinance institutions. These included ASEI, Banco Agricola, Banco Salvadoreño, CAM, FJND and FUSAI. As a result, the project helped local MFIs manage through the crisis and reverse what could have been a potentially devastating trend on credit portfolios.

Summary of Activities for the Quarter

Below is a summary of technical assistance provided by FOMIR and the Senior Microfinance Specialist during the quarter.

CALPIA

Credit Guarantee Program: In respect to the USAID Development Credit Authority portfolio guarantee developed by FOMIR and USAID in response to the earthquake, as of September 30, 2002, Calpia has made no claims. Management intends to submit claims during the last quarter of the year.

At the beginning of the USAID Loan Guarantee, June 30, 2001 Calpia submitted:

- 243 Small Enterprise Loans of an outstanding balance of US\$ 1,421,763.61
- 5,804 Micro Enterprise Loans of an outstanding balance of US\$ 3,076,518.66
- 6,047 Total Loans with an outstanding balance of US\$ 4,498,282.27

The status of the same loans per September 30, 2002 is the following:

- 94 Small Enterprise Loans with an outstanding balance of US\$ 594,442.49 is still under coverage
- 918 Micro Enterprise Loans with an outstanding balance of US\$ 487,778.28 is still under coverage
- 1,012 Loans with an outstanding balance of US\$ 1,082,220.78 is still under coverage
- 149 clients, (61.3% of the original number) Small Enterprise Loans to with an outstanding balance of US\$ 827,321.12 (58.2% of the original amount) have been fully repaid.
- 4,886 (84.2% of the original number) Micro Enterprise Loans with an outstanding balance of US\$ 2,588,740.38 (84.1% of the original amount) has been fully repaid.
- A total of 5,035 (83.3% of the original number) Loans with an outstanding balance of US\$ 3,416,061.49 (75.9% of the original amount) has been fully repaid.

CAM

During the last two quarters FOMIR/DAI has been closely involved with strategic discussions between CAM and FINCA. With the help of FOMIR/DAI, CAM has improved management resources in the branches and field, initiated new sales teams, introduced new products, and strengthened human resources and systems.

CAM reported 17,430 total active clients and 12,945 rural active clients for the period to September 2003. **In earthquake affected areas, CAM provided loans to 5,440 active clients, a decrease of 209 rural active clients over the 5,649 served in September 2001.** This reduction should be viewed in light of the fact that CAM wrote off over 1,000 clients for being unrecoverable. Furthermore CAM aims to write off another 800 clients in October. Arrears figures suggest that a similar exercise will not be necessary in December and March next year.

CAM managed to increase the underlying number of total active clients by over 800 during the period. Notwithstanding a write off of more than 1,000 clients CAM's reduction in overall clients was the lowest for any quarter since June 2001.

Assistance activities implemented by the Senior Microfinance Specialist included:

- Met with FINCA to discuss strategy for outstanding issues. (Management, pricing, salaries, investing resources, transport etc.)
- Implemented the mobile assessor teams in La Union and Morazan. Using the market penetration and mobile assessor surveys undertaken by FOMIR/DAI in the second quarter.

- Monitored internal training program for client groups (Virginia Quinta modules), including visits to branches to see training exercises and the development of monitoring tools.
- Review with CAM the feasibility of extending the individual credit product to all agencies and employing dedicated individual loan officers. (Issues to confront are system requirements, management ability and cost/benefit analysis).
- Review of existing Policies and Procedures manuals for existing individual loan product. Bulk of FORMIR/DAI suggestions were adopted before new individual product was presented to FINCA for approval.
- Procured and installed further hardware and software related in particular to the decentralisation of operations and mechanising payment process.

Banco Salvadoreño

During the quarter that ended September 2002, Banco Salvadoreño registered 1,521 total microfinance clients, 981 active rural clients. **In earthquake affected areas, the bank provided loans to 624 active clients, an increase of 128 rural active clients over the 496 served in September 2001.**

With the introduction of 15 new credit officers and 9 new branches in the second half of September the rate of increase which has been around an average of 60 per quarter should increase. Some of the new officers were recruited to replace officers promoted to management positions and others lost through resignations and firings. As has been the case in the previous two quarters increases from credit officers has been to an extent negated by losses in other branches.

Now that the bank has doubled the management team from 3 to 6 it is hoped that both the existing branch network and the 9 new branches will have sufficient management resources. In its letter requesting an extension to the Convenio the Bank estimated the its would achieve 846 and 1293 rural clients in June and September 2002 respectively. The Bank achieved 895 and 981 respectively. The overall micro finance portfolio increased to US\$1,000,030 the first time the portfolio has been over US\$1 million. The percentage of portfolio in arrears fell to 4.94% from 5.08% in June. This is the first time that the portfolio has been below 5% since the project under FOMIR/DAI began. The level of arrears has been successfully managed down from a high of 8.43% in March 2001. This has been achieved by ensuring a strong collection procedures for new executives and a focus of resources reducing high arrears in Santa Tecla and Santa Ana.

The number of branches providing micro credit increased from 15 to 24. A further new branch will open in La Union in the near future. The number of credit officers increased from 23 to 33, up from 14 at the beginning of the year.

Technical assistance provided by the senior microfinance specialist included:

- Developed and executed a training plan for 15 new executives for ten new branches to be opened in September.

- Prepared complete training manuals for future use by Bank (student and teacher manuals)
- Developed a logistical plan for the opening of ten new branches in September.
- Prepared a review of causes and action for arrears in Santa Ana.
- Prepared a review and proposals on collection policy.
- Developed an action plan based on daily activities for members of the enlarged management team. Plans included daily plans for the manager and coordinators.
- Developed specific guides for work activities for each supervisory position involved in the program (manager of program, branch managers, coordinators and mobile executives).
- Reviewed and developed proposals to improve the Policies and Procedures manuals.
- Arranged direct consultancy fieldwork with management team for one month to appraise and improve administration.
- Prepared desktop materials for credit officers including product pricing matrices, local economic/geographic information, Departmental and urban maps, and general guides for planning.
- Branch visits to all 9 new branches and original 10 branches to implement desktop tools and discuss work planning with credit officers, branch managers and assistants.

ACCOVI

The credit union ACCOVI, located in San Vicente was especially hard hit. Since the earthquake, FOMIR/DAI assistance to Accovi has addressed problems on a priority basis. First, FOMIR provided substantial assistance to address a serious problem with delinquency. By September 2001, Accovi's portfolio at risk more than 30 days had climbed to 21.6%. FOMIR responded with a combination of new portfolio management tools and assistance in redefining collection policies. As a result, portfolio at risk has declined to 15.84% at the end of September 2002. Second, FOMIR provided a combination of short and long term assistance to re-engineer the credit process and introduce new microfinance products targeted to the needs of the credit union clients. These changes have expanded ACCOVI's portfolio to include 691 new active loans for microfinance clients as of the end September 2002. These loans have provided clients with the resources they require to expand their income generating potential and rebuild homes and businesses. Third, FOMIR has provided ongoing assistance to improve their management information system. With FOMIR assistance Accovi, together with two other credit unions has procured and is customizing new financial service software. Finally, to complete the rebuilding effort, FOMIR/DAI believes that it is critical to assist ACCOVI in the process of regulation under the new Law for Non-Banking Financial Institutions. Implementation of required changes have delayed due to the need to address previously mentioned problems.

A recent evaluation of the projects recommended that FOMIR accelerate assistance to ACCOVI to achieve its approval by the SSF. The evaluation stated "ACCOVI is the pioneer in moving towards regulation under the new law for non-banking financial intermediaries. At present, most of the senior management's time is devoted to comply with the requirements and FOMIR is supporting his effort. However, ACCOVI is still

behind schedule and according to the Superintendent of the Financial System may not be to meet all the requirements by June 2003, the deadline for completing the process. FOMIR should bring specialized assistance to help ACCOVI to comply with the requirements of the new law.” The SSF has just recently approved the plan it is now critical to complete the process by June 2003.

During the quarter, ACCOVI continue to expand its microfinance portfolio by adding 121 new rural active clients, bringing the total number of active rural clients to 691. Portfolio at risk more than 30 days is still high but continued its downward trend from 18.06% in June to 15.84% at the end of September. **In earthquake affected areas, ACCOVI provided loans to 4,750 clients, an increase of 261 rural active clients over the 4,489 served in September 2001.**

Fomir/DAI technical Assistance during the quarter included:

- Implemented the new mini-portfolio system in all branches and for all its credit operations.
- During the month of September, the SSF approved ACCOVI’s regulation plan that was developed and completed with the support of FOMIR/DAI. Also during the quarter, FOMIR began working with ACCOVI on developing the internal structure required by the superintendent as part of the regulation plan.
- Trained the newly hired microcredit officers and managers of all branches as well as credit coordinators.

ASEI

During the quarter, ASEI increased total outreach by 214 clients, (159 new active rural clients) and total portfolio by almost \$30,000 dollars, while only experiencing a slight increase in portfolio at risk. **In earthquake affected areas, ASEI provided loans to 1,834 clients, a decrease of 46 rural active clients over the 1,880 served in September 2001.**

FOMIR technical assistance to ASEI during the quarter included:

- Completed consultancy and training program conducted by Reuben Summerlin of ACT. During this activity, Mr. Summerlin worked with ASEI's credit manager, supervisors, promoters and trainer to: (1) review and revise credit documentation, forms and create a user's manual; (2) review and evaluate a credit personnel trainer; (3) design and conduct training sessions for credit supervisors in administration, supervision and growth strategies as well as a training of trainers for supervisors to train promoters in group dynamics and conflict resolution.
- Collaborated with ASEI hired marketing consultant to provide information and data on the Salvadoran microfinance market for ASEI’s marketing plan.
- Reviewed and provided comments on ASEI’s revised strategic plan.
- Visited Cojutepeque branch and discussed framework for branch upgrades.

- Worked with ASEI's Computer Specialist and Administrative Manager to produce computer procurement requirements and to process procurement requests for headquarters and branch upgrades and continued computer training for ASEI's staff in New Horizons.

Banco Agricola

During the quarter, Banco Agrícola's overall microfinance portfolio increased by \$33,000. Total loans increased during the quarter by 14 but active rural borrowers declined by 12 to 1,344. Portfolio at risk more than 30 days improved to 5.20%. **In earthquake affected areas, the bank provided loans to 624 clients, an increase of 128 rural active clients over the 496 served in September 2001.**

FOMIR/DAI implemented the following activities during the part quarter:

- Conducted month long integral training program in microfinance for the Bank's new Microfinance, Micro and Small Enterprise Bankers.
- Finalized customized training manuals for the Bank's integral microfinance training program.
- Conducted visits to branches to follow-up on new Bankers performance.
- Prepared software evaluation and selection framework for Bank to use in evaluating new software for the Micro and Small Enterprise Banking Division.
- Participated in several meetings with Bank Managers to discuss and propose solutions to outstanding issues in microfinance program.

Fundación Jose Napoleón Duarte (FJND)

The main achievements of the previous quarter included a 737 increase in total loans and the addition of 473 new active clients in rural areas. Total portfolio increased by 12% or \$125,619. FJND continued to lower arrears, reporting 12.98% in the portfolio at risk over 30 days. **In earthquake affected areas, FJND provided loans to 542 clients, an increase of 241 rural active clients over the 301 served in September 2001.**

FOMIR/DAI implemented the following activities during the part quarter:

- Followed-up on approval of portfolio write-off and provisioning policies.
- Evaluated and proposed of a new incentive plan.
- Evaluated financial impact of new growth strategy.

FUSAI/INTEGRAL

As a result of the acquisition of the solidarity loan portfolio and legally establishing the new specialized microfinance institution, Integral has become the second largest specialized microfinance institution in terms of credit portfolio. The institution registered a net increase of 649 new active rural clients during the quarter. Total outstanding portfolio increased by 7% or \$590,107, while portfolio at risk over 30 days declined by

1.08%. In earthquake affected areas, FUSAI/INTEGRAL provided loans to 5,311 clients, an increase of 3,288 rural active clients over the 2,023 served in September 2001.

FOMIR technical assistance to ASEI during the quarter included:

- Continued assistance in credit as Business Manager (ACCION International Long Term Consultant Manuel Torres)
- Reviewed problems related to implementation of new portfolio management and accounting software.
- Assisted in renegotiating bank financing.
- Assisted in designing technical consultancy in operations management.

Overall Impact

The seven FOMIR related MFIs that provided credit in areas determined to be affected by the earthquakes in January and February 2001, reported 16,614 rural active clients. As of the September 2002, the number of rural active clients served by these seven MFI's has increased by 14.1% from 16,616 to 18,960 or an increase of 2,344 rural active clients.

Annex A provided of breakdown of clients by institution and municipality.

Budget and Expenditure for Earthquake Activity under the Project

The amendment to the DAI contract on July 23, 2001 allocated \$700,000 to provide earthquake TA and staff for management of the PAG grants. The table below provided a breakdown of the budget across various sub-projects.

Use of Earthquake Assistance Related Funds						
	Original Budget	Amount Utilized	Amount Remaining	Increase/Decrease Required	Revised Budget	
1	IMPACT ASSESMENT/RESPONSE	\$ 27,500	\$ 53,312	\$ (29,000)	\$ 29,000	\$ 56,500
2	DEVELOPMENT CREDIT AUTHORITY F/CALPIA	\$ 12,500	\$ 8,202	\$ 4,298	\$ (4,298)	\$ 8,202
3	EARTHQ.STUDY HOUSING CONSTRUC.	\$ 22,000	\$ 7,139	\$ 14,861	\$ (14,861)	\$ 7,139
4	EARTHQ.STUDY DAMAGE TO PHYSYCAL MKT	\$ 35,000	\$ 23,718	\$ 9,000	\$ (9,000)	\$ 26,000
5	EARTHQ.BMI NEW PRODUCT DEVEL. PROG.	\$ 95,000	\$ 84,801	\$ 10,199	\$ (14,779)	\$ 80,221
6	SENIOR MICROFINANCE SPECIALIST	\$ 323,000	\$ 223,685	\$ 99,315	\$ (80,000)	\$ 243,000
9	PRA Studies/Tools Kit	\$ 65,000	\$ 66,819	\$ (1,819)	\$ 24,000	\$ 89,000
7	TECHNCIAL ASSSITANCE FOR ACCOVI	\$ -	\$ -	\$ -	\$ 81,338	\$ 81,338
8	Earthquake Related Technical Asstance	\$ 580,000	\$ 467,675	\$ 106,854	\$ 11,400	\$ 591,400
9	PAG Program Adminstration	\$ 120,000	105,987	14,013	(14,000)	106,000
10	Earthquake Vouchers	\$ 1,000,000	\$ 1,002,600	\$ (2,600)	\$ 2,600	\$ 1,002,600
	Total Budget	\$ 1,700,000				\$ 1,700,000

During the remainder of the project due to end in September 2003, FOMIR intend to direct the majority of remaining earthquake assistance resources (\$81,338) toward direct assistance to ACCOVI. This assistance will include:

- \$25,000 to support to strengthen the financial management of the institution
- \$15,000 to finalize the application of new credit policies and procedures, and
- \$41,338 to provide project management support to ensure that the institution meet the requirements imposed by the Superintendent of the Financial System.

The final portion of remaining earthquake funds (\$22,281) will be utilized to produce a set of guidelines and tools for responding to natural disasters for future use by USAID funded projects.

Annex A: List of Clients as of September 30, 2002 by Institution and
Municipality Affected by the Earthquake