

General Earthquake Assistance Provided by FOMIR/DAI Final Report for April 1 – June 30, 2003

Introduction

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. The credit union ACCOVI was the most severely affected. Accovi, located in San Vicente 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.

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 Financiera Calpia, ASEI, ACCOVI, Banco Agrícola, 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.

Earthquake Technical Assistance to ACCOVI

The credit union ACCOVI, located in San Vicente was especially hard hit. Headquarters is located in the middle of San Vicente and its branches are located in Ilobasco, Zacatecoluca and Cojutepeque. COEN reported that 63,500 homes were damaged and 69,000 homes destroyed in the departments served by ACCOVI. Ninety-seven percent of ACCOVI's clients are rural. After the earthquakes, arrears in the institution went to 26%. FOMIR/DAI intensified efforts to address the increased needs of the institution. 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.

In November 2002, USAID and FOMIR agreed that in order to complete the rebuilding effort, 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. By assuring ACCOVI's permanency, USAID and FOMIR will be supporting the creation of jobs and economic growth in one of the most severely-hit-by-the-earthquake departments.

USAID and FOMIR reasoned that if not assisted, ACCOVI would not be able to comply with all the SFS requirements. As a result, 4,750 of its total rural active loans and 11,592 depositors would be negatively affected since the institution would be forced to return deposits causing a liquidity crisis and putting the sustainability of the institution at risk.

Continued USAID assistance in helping ACCOVI become regulated will strengthen the institution and will expand access of financial services to current and future clients in search of resources required to re-build their livelihoods. Recent studies by FOMIR have demonstrated that microfinance loans increase income, create jobs and help poor families deal with economic shock caused by natural disasters. Technical assistance to ACCOVI will ensure that the institution provides sustainable financial support to earthquakes

victims in San Vicente, La Paz and Cuscatlan. As a regulated institution, ACCOVI services will be monitored to ensure effective and efficient operation and client services. A recent evaluation of the projects recommended that FOMIR accelerate assistance to ACCOVI to achieve its approval by the SSF by June 2003.

Summary of Activities for the Quarter

During the past quarter, FOMIR/DAI continued an intensive technical assistance program to support ACCOVI in the implementation of its regularization plan with the Superintendency of the Financial System (SSF), a process that was concluded at the end of June. The justification and team for this support continue as described in previous quarterly reports.

By the end of the quarter, ACCOVI had a fully functioning Topaz system, was on a downward trend in arrears and had submitted all required information to the SFS for completion of its regularization plan. The credit union is awaiting final review of this documentation and authorization of its system to ensure its full compliance and receipt of its Non-bank Financial Intermediary license from the SFS.

Following is a brief description of the progress to date in each area of the regularization work plan and additional activities that have arisen during development of the work plan.

Regularization plan committee. Ms. Robin Young and Mr. Luis Lievano conducted weekly meetings with ACCOVI's President, General Manager and newly created Executive Management Team to monitor progress on the regularization plan and new software system. Given the high level of activity during this final quarter, multiple meetings were held most weeks to address outstanding issues related to the Topaz system implementation, arrears management and additional requirements and observations of the SFS. In addition, on two occasions, and at the President's request, the FOMIR consultants met with members of ACCOVI's Board to discuss issues of particular urgency and importance, related to the above mentioned topics, which required Board decision making or support

Development, approval and dissemination of several policy and procedures manuals. Mr. Lievano assisted ACCOVI to develop additional policy and procedures manuals required by the SFS not originally in the regularization work plan. These include: Money laundering; cybernetic terrorism; accounting and MIS (and all IT systems documentation for review and acceptance by SFS). These manuals were drafted in conjunction with appropriate staff and managers, approved by the Board and submitted to the SFS for review.

Building Management Capacity. Mr. John Hallen continued to accompany ACCOVI in its weekly Executive Management Committee and Operations Department meetings. Mr. Hallen also offered workshops to the management team on managerial and leadership styles, communication, and the Myers Briggs personality assessment. In May, the Branch Managers and area Chiefs were included in this meeting, a practice to be repeated once a

month. Mr. Hallen organized and led a full Management and Board retreat in June to work on strategy, planning, communication and teamwork. Mr. Lievano and Ms. Young also participated. The reaction of participants to this session was very positive and ACCOVI's Board and Management expressed plans to continue periodic retreats of this kind in the future at least once or twice a year. Finally, Mr. Hallen assisted the newly appointed Human Resources Coordinator to refine and present the employee selection and hiring process policies and procedures, an area that has become critical given the significant employee turnover and newly created positions both of which have created the need for extensive hiring in recent months. In his closing report, Mr. Hallen recommended a review of the management and communication situation in August to evaluate how well the meeting and communication plans are working without direct involvement from FOMIR/DAI consultants.

In addition, in consultation with FOMIR/DAI, ACCOVI named a new Operations Manager and new Internal Auditor (essentially switching the people in these two positions) as well as a new Credit and Collections Supervisor. They also named the newly created position of Compliance Officer and hired, as replacements, new loan officers and collections agents. FOMIR/DAI assisted in the technical training of this new staff through discussions with the head of the Compliance Officers association of ABANSA and for the credit and collections staff through its ongoing arrears management and credit strengthening consultancy.

In general, the new Managers have assumed their responsibilities and improving communication and leadership with and across departments. However, conflicts between these new managers exist, while the somewhat passive leadership and communication style of the General Manager tends to leave a void at the top of the organization. Fortunately, the President has become very active in leading ACCOVI, is aware of the management situation and taking active steps to improve the team.

Coordination with the development and implementation of the new software system to ensure compliance and approval by the SSF. With the final phase of parallel and production of the Topaz system, most of ACCOVI's staff efforts were focused on this project during April and May as well as much of June. The FOMIR consultants assisted by tracking, communicating and resolving ongoing systems problems and transferring this work methodology to the credit union IT and management committee. ACCOVI, at FOMIR's recommendation, hired a new systems engineer to assist with ongoing programming and system administration. Additional work was done on customizing the system and preparing its documentation per the SFS requirements. For more details on the work completed on Topaz please see the Credit Union IT project section of the quarterly report.

Arrears Management. FOMIR assigned two consultant/trainers (Mr. Ignacio Estevez and Mr. Hector Cisneros) to work with ACCOVI's Operations staff (Operations Manager, Credit and Collections Supervisor, Microcredit Coordinator, Branch Managers, Credit Officers and Collections Agents) to design and implement a plan to improve portfolio quality and strengthen overall credit operations. The consultants, in collaboration with

managers and staff at ACCOVI developed and put into practice a number of policies and procedures which immediately began to reduce arrears (tracking systems, collections techniques, write-off and restructuring guidelines), worked with ACCOVI's Board and staff to restructure the credit and collections committees, revised credit worksheets and reports, and conducted an extensive training program (including classroom and field work). Based on the success of this first phase, and at the request of ACCOVI's President and Managers, the consultancy was extended to conduct additional training, revise credit forms and policies, and assist in overall restructuring of ACCOIV's credit operations in June and July. Complete reports on this consultancy are available in FOMIR/DAI's offices.

SSF Site Visits, Updates and Meetings. During the past quarter, ACCOVI received a summary report of the SFS's December site visit. FOMIR assisted the credit union to prepare and action plan to respond to the observations identified in the report and held weekly follow-up meetings to ensure all new tasks assigned were completed satisfactorily. Mr. Lievano assisted with monthly updates and reports to the SFS on ACCOVI's progress on its regularization plan, analysis of the Central Bank's reserve requirements, and investments in Fedecaces, Seguros Futuros and other cooperative organizations for eventual withdrawal of its participation. Mr. Lievano also participated, along with managers from ACCOVI, in meetings with the Legal Intendent of the SFS to review pending issues related to the SFS's observations regarding these investments as well as family remittances, the legal name of cooperative and contracts issued, the exclusion of the Oversight Committee (Comité de Vigilancia) from the list of directors, and the naming of external auditor. In June, Ms. Young and Mr. Doug McLean of FOMIR/DAI and Ms. Sandra Duarte CTO USAID met with the Superintendent Montenegro and Intendent William Duran to discuss ACCOVI's situation and the SFS indicated that ACCOVI appears on track for compliance with its regularization

Earthquake Technical Assistance to CALPIA

In respect to the USAID Development Credit Authority portfolio guarantee developed by FOMIR and USAID in response to the earthquake, as of December 31, 2002, Calpia reported no new claims during the month of end of June.

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 table on the following page provides a lists of claims made to date against the portfolio guarantee.

USAID Guarantee Against Earthquake Affected Portfolio						
	Microenterprise		Small Business		Total	
	No.	Monto	No.	Monto	No.	Monto
Claims for Sept 01 - Sept 02	54	27,615.07	2	7,808.84	56	35,423.91
Claims fro October 02	21	31,248.88	2	10,238.79	23	41,487.67
Calims for Dec. 02	21	5,316.02	0	0.00	21	5,316.02
Judgements Pending	3	4,912.63	1	38,059.55	4	42,972.18
Total	99	69,092.60	5	56,107.18	104	125,199.78
% Guarantee		70%		50%		
Amount Claimed		48,364.82		28,053.59		76,418.41

Financiera Calpia received a check for \$76,418.41 from USAID as payment against claims made earlier in the year.

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 14,858¹ rural active clients as September 30, 2001. As of the June 2003, the number of rural active clients served by these seven MFI's has increased by 35% from 14,858 to 19,968 or an increase of 5,110 rural active clients. The seven institutions supported with increased technical assistance after the earthquakes all reported an increase in number of clients service in earthquake affected areas.

ACCOVI increased rural active clients in earthquake affected areas by 337 clients going from 4,489 clients in September 2001 to 4,826 clients in June 2003.

¹ In March 2002, FOMIR reported a baseline of 16,614 clients. During an internal audit of data pertaining to clients conducted by FOMIR as part of the final report, it was discovered that due to a programming error, the spreadsheet miscalculated clients for ASEI located in earthquake affected areas. This miscalculation overstated ASEI's baseline of 1,756. The ASEI baseline verified by FOMIR for clients in earthquake affected areas for September 2001 is 1,539.

Budget and Expenditure for Earthquake Activity under the Project

Below is earthquake budget approved by USAID, the amount of expenditure through July 2003. As seen in the table below, total expenditure in respect to earthquake support provided by FOMIR/DAI was \$1,717, 431.

FOMIR Earthquake Activity	Budget	Amount Spent
Earthquake Resources	\$ 241,709	\$ 241,709
Pag Administration	\$ 106,046	\$ 106,046
PAG Grants (Not including IVA)	\$ 1,002,175	\$ 1,002,175
TA to MFI's Affected by Earthquake	\$ 350,070	\$ 367,501
Total	\$ 1,700,000	\$ 1,717,431

Conclusion

This report is the final report to be submitted on General Earthquake Assistance provide by FOMIR DAI in response to the devastating earthquake experienced in January and February 2001. Readers should note that in addition to general assistance provided to FOMIR grantee institutions and the microfinance community, FOMIR/DAI implemented a grant program called the Productive Assets Grants or "PAG" Program that provided direct assistance to microenterprise owners affected by the earthquake. For information on this program see final report on PAG Program submitted to USAID in October 2002.

Annex A: Number of Clients as of June 30, 2003 by Institution and Municipality Affected by the Earthquake