



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

ACTION MEMORANDUM FOR THE MISSION DIRECTOR

TO: Kenneth C. Ellis, DIR

FROM: Mary Ott, Team Leader SO1 *for MUCO*

SUBJECT: Strategic Objective # 1: Rural Financial Services Results Package (RP 3.A) "Expanded Equitable Access to Financial [Technological and Marketing] Services by the Rural Poor".

I. Action

You are requested to formally approve the Rural Financial Services Results Package at a funding level not to exceed \$36,260,000 for an expected duration of six years. This amount includes currently authorized activities as well as the proposed amounts for new activities during the Strategy Period. A Mission Review of this RP document was held on May 9, 1997, at which time the document was verbally approved.

II. Background

Although El Salvador's economy has shown considerable improvement during the last 4-5 years, levels of poverty in the rural sector continue to be alarmingly high. The rural population is unable to access the economic opportunities of a growing economy and access to financial services is still an important constraint to developing income generating activities that would contribute to the improvement of the standard of living of the rural poor.

Strategic Objective No. 1 (SO1) "Expanded Access and Economic Opportunity for El Salvador's Rural Poor" will promote access by the Rural Poor to financial services such as credit and secure savings. For this purpose, the Rural Financial Services Results Package has been created under SO1.

III. Discussion

As a result of the Analytical/Consultation Process, the RP team has concluded that some of the following situations characterize the microfinance sector of the country:

- * There are many NGOs operating credit programs that are too small in scale to be financially self-sustaining and the majority of microfinance lending institutions present important financial/administrative performance problems.
- * The formal financial sector has great potential to reach smaller scale clients, but has not shown much interest in increasing its coverage.
- * Only credit unions are authorized to mobilize savings. NGOs are limited in their ability to mobilize savings, because they do not meet the financial norms needed to assure that savings are secure.
- * Most microfinance programs reach the urban poor more successfully than the rural poor.

To address some of these constraints, the RP is and will continue to provide technical assistance to microfinance lending institutions to institutionally strengthen them for the attainment of sustainability by improving their financial performance.

The following are current Activities under the Rural Financial Services Results Package and their link to the Intermediate Result of "Expanded Equitable Access to Financial, Technological and Marketing Services by the Rural Poor":

1. Microenterprise Development Activity (FINCA/CAM) No. 519-0318

This Activity started on August 1990, with total funding of \$10.0 million up to August 1997. The Activity's purpose was the creation of a sustainable financial institution. FINCA created the CAM (Centro de Apoyo a la Microempresa) in 1991. The CAM is directly supporting the Results Package Intermediate Result "Increased Coverage of Sustainable Financial Institutions in Rural Areas" by serving approximately 15,000 microentrepreneurs. There was no need to realign the FINCA/CAM Activity into the new SO1 and Results Package Framework.

2. Equitable Rural Economic Growth Activity (CRECER) No. 519-0397

CRECER's implementation began in September 1995, through a contract with Chemonics International. The Activity's termination date is May 2000. Through the World Council of Credit Unions (WOCCU), CRECER is providing technical assistance to the credit union system in El Salvador aimed at improving financial performance towards self-sustainability. Overall project funding is \$15.0 million. The WOCCU component is for approximately \$5.1 million. Based on its original design, by the end of the Activity CRECER expects to be serving approximately 20,000 new clients. The attainment of financial sustainability and the increased coverage of rural poor will significantly contribute to the achievement of the RP's intermediate result of "expanding access to financial services for the rural poor". The goal of CRECER agrees completely with SO1 and Results Package 3.A goals, requiring no adjustment to the new Mission Strategy.

3. Microenterprise 2000 Activity No. 519-0434-A-00-6198-00

The Global Bureau and USAID/El Salvador entered into a Cooperative Agreement with Catholic Relief Service (CRS) in September 1996 with the purpose of creating a viable financial institution within a period of four years. Total funding is \$566,000. The Activity's termination date is September 30, 2000. It is estimated that by the end of the Activity, the new financial institution will serve approximately 15,000 new clients responding directly to Results Package 3.A.

4. Microenterprise Innovation Program (MIP) No. 940-0406

The MIP is being implemented by Catholic Relief Services (CRS). The MIP Activity began on September 28, 1995. Six microenterprise lending institutions are participating in the MIP: CRS, CAM, FINCA, OEF (Women's Entrepreneurial Organization), SNF (National Secretariat of the Family) and FOMMI (Microenterprise Development Program in Poverty Areas). MIP total funding is \$600,000 and its termination date is September 28, 1998. The MIP is expected to: 1) improve the capacity of these NGOs to monitor and evaluate the impact of their credit programs; 2) carry out studies on microenterprise markets; and 3) coordinate project activities and improve the knowledge base of credit agencies in El Salvador.

The MIP's support to these NGOs and others in the future will permit them to improve their financial performance facilitating an increase of their client base. MIP activities are in agreement with the Rural Financial Services Results Package targets therefore requiring no adjustment.

5. Small Enterprise Support Activity (PROPEMI) No. 519-0387

A Cooperative Agreement with FUSADES was signed on September 30, 1993, with a total funding of \$5.0 million. The Activity's purpose was to promote the development of small enterprises in El Salvador, especially those located within the National Reconstruction Plan zones, through the provision of credit, training and technical assistance. This Activity finishes on May 31, 1997. Up until September 1996, PROPEMI was able to expand credit to a total of 1,306 clients, thus contributing to the achievement of one of the RP's Intermediate Result.

The activities under the Rural Financial Services Results Package are in line with the Intermediate Result and will be measured based on indicators developed by the RP team which have been communicated to our counterparts. Reporting will be carried out with SARs and R4 documentation.

IV. **Mission Review**

- A. On May 9, 1997, the Mission met to review the Rural Financial Services Results Package. Two major issues were discussed and their resolution follows:

Issue: With the Mission's rural focus there is a need to provide guidelines to our partners on what we consider to be rural areas.

Discussion: When it comes to developing sustainable financial institutions, the Mission's rural sector definition¹ cannot be interpreted strictly. A microfinance strategy for rural areas must be measured on the basis of increasing the number of rural clients accessing services, rather than on the basis of where the institutional

¹ Greater San Salvador and all the "cabecera municipales" are considered urban.

infrastructure is located². It is critical that these institutions develop, at a low cost per client served, a financially sound position and a secure physical image to facilitate savings mobilization and access to formal banking system financial resources. This can be better attained in areas considered urban by the Mission. In addition, in order to deliver efficient financial services, lending institutions require a minimum of public service infrastructure (electricity, telecommunications, water, etc.). The expectation is that rural clients will travel a reasonable distance to use centrally located services, eg. in municipal capitals, secondary cities.

Resolution: After discussing the implications for SO1 microfinance activities in applying the Mission's concept of urban/rural, it was concluded that current and new programs under this RP will promote the expansion of financial services for rural clients as defined by USAID. Because activities are likely to offer services from offices in "urban" areas, the RP team will ensure that the services provided from this office are directed towards expanding the rural client base.

Issue: If the Mission were to direct its support only to microfinance lending institutions that provide loans of \$300 or less and only in rural areas, which is logistically costly, can we also expect these institutions to become financially sustainable?

Discussion: The sustainability of microfinance lending institutions is based on the application of sound financial practices, broad coverage, and a diversified portfolio (in terms of loan size and type of activity being financed). If an institution were to be asked to do only poverty lending and no other size of microenterprise loans, its chances of becoming sustainable would be limited. Administrative costs are in part determined by the size of an institution's portfolio.

Resolution: The Rural Financial Services RP partners will be doing poverty lending (\$300 loans or less) as well as other types of microenterprise loan sizes in order to

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Even though microfinance lending institutions currently working within the Rural Financial Services Results Package portfolio are mainly located in areas considered urban (cabeceras municipales), they are serving clients living in rural areas.

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serve an important portion of the microenterprise universe in rural areas. An important goal for the RP will be to increase yearly the number of microentrepreneurs being served at the \$300 level loan or lower

B. Special Actions Required

Redefine the indicators and targets included in the RP Document to be consistent with the Mission's definition of rural. In addition, provide guidelines to our current counterparts on how to measure USAID's indicators.

C. Congressional Notifications

FINCA Activity No. 519-0318 most recent TN expired 2/28/95.

CRECER Activity No. 519-0397 most recent TN expired 9/28/95.

MIP Activity No. 940-0406 LAC Bureau notified in 9/95.

Microenterprise 2000 Activity No. 519-0434 LAC Bureau notified on 9/96.

PROPEMI Activity No. 519-0387 most recent TN expired 2/19/96.

Microenterprise Institutional Support Activity³ No. 519-0435 Congressional Notification will be sent once the Activity Document is approved.

V. Authority

Under Delegation of Authority ADS 103 you have the authority to realign ongoing activities under strategic objectives and take necessary actions to make the transitions to the new ADS Managing for Results system so long as these actions do not represent significant policy issues, or require issuance of waivers that may only be approved by the Administrator or Assistant Administrator. None of these constraints apply to this request.

³

The name of this Activity is still under consideration.

VI. Recommendation

That you approve the Rural Financial Services Results Package No. 3A: Expanded Equitable Access to Financial Services for the Rural Poor at a funding level not to exceed \$36,260,000 and for an expected duration of six years.

Approved Jenn M. Elli
Disapproved _____
Date 5 June 1997

Attachment: Rural Financial Results Package

Drafted by: RBlanco, RP#3A Team Leader RB 5/28/97

Cleared by: DGardella, SO1
LPizarro, OCG
CAdams, CONT
PKranstover, SDO
MWilliams, ADDIR

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[initials] 5/29/97
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RURAL FINANCIAL RESULTS PACKAGE DOCUMENT

STRATEGIC OBJECTIVE #1 :

**EXPANDED ACCESS AND ECONOMIC
OPPORTUNITY FOR EL SALVADOR'S
RURAL POOR**

MAY 9, 1997

RURAL FINANCIAL RESULTS PACKAGE DOCUMENT INDEX

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**EXPANDED ACCESS AND ECONOMIC OPPORTUNITY FOR EL SALVADOR'S
RURAL POOR STRATEGIC OBJECTIVE
RURAL FINANCIAL SERVICES RESULTS PACKAGE**

Introduction

The Results Package (RP) document outlines the basic structure and possible implementation mechanisms for proposed activities in support of Strategic Objective No. 1: Expanded Access and Economic Opportunity for El Salvador's Rural Poor.

The following is the basic outline of the RP document:

- Problem Statement
- Relationship to USAID/El Salvador's Strategy
- Analytical/Consultation Process
- Summary of Activities/Expected Results
- Feasibility Analyses
- Customer Service
- Human Capacity Development Needs
- Implementation/Management Plan
- Financial Plan
- Performance Monitoring Plan

Annexes:

- A. Results Framework
- B. Assistance Checklist
- C. Congressional Notifications
- D. Initial Environmental Examination
- E. Analyses
- F. Performance Indicators/Expected Results

I. Problem Statement

El Salvador's economy has shown considerable improvement during the last 4-5 years, reducing fiscal deficits and attaining the highest rates of growth in the region (7.5% in 1992, 7.4% in 1993, 6% in 1994, and 6.3% in 1995). Nonetheless, this important achievement in macroeconomic stability has not benefitted all sectors of the country equally. Levels of poverty in the rural sector continue to be alarmingly high, while the rural population is unable to access the economic opportunities of a growing economy. Access to financial services is one important constraint to developing income generating activities that would contribute to the improvement of the standard of living of the rural poor.

As stated in the Mission's Strategy for 1997-2002, the Strategic Objective No. 1 (SO1) will promote access by the Rural Poor to financial services such as credit and secure savings.

For this purpose, the Rural Financial Services Results Package (Expanded Equitable Access to Financial Services by the Rural poor) has been created under the SO1.

The RP team has contacted other donors and GOES agencies that have activities relating to microfinance, and has looked into NGO programs in microenterprise credit. The USAID/W Global Bureau Microenterprise Center has assisted us in analyzing needs in the microfinance area. Based on these investigations, SO1 has tentatively concluded:

- (1) The microfinance area is crowded, in the sense that there are many players active. Most donors support microfinance programs, there are many NGOs providing credit and other financial services. El Salvador possesses the strong advantage that there has been a great deal of experimentation with different methodologies for providing financial services to the poor.
- (2) Nevertheless, there are many outstanding needs. Among the challenges identified are:
 - * There are many NGOs operating credit programs that are too small in scale to be financially self-sustaining. Such programs will have to grow and become technically more proficient, otherwise, their viability will diminish as donor grant funds become more scarce.
 - * The formal financial sector has great potential to reach smaller scale clients. Despite a Multisectorial Investment Bank (BMI) credit line that attempt to provide incentives for commercial banks to lend to NGO credit providers and to microentrepreneurs, such credit activity is growing slowly.
 - * There are few programs that attempt to mobilize the financial savings of the rural poor. One such effort, through rural credit unions, then channels mobilized savings as credit to its members.
 - * NGOs are limited in their ability to mobilize savings, because they do not meet the financial norms needed to assure that savings are secure. There is demand from the NGO sector that they be supervised in a similar form to banks, in order that they can expand their lending by on-lending savings. But to warrant supervision, NGOs will need to move toward formalization of their operations.
 - * Most microfinance programs reach the urban poor more successfully than the rural poor. Credit for agriculture is a particularly difficult area.

- * Finally, most surveys show that about a third of all rural households have some access to financial services. The main challenge is how to reach the two-thirds who do not have access. This group tends to include the households that are most poor and most remote from urban centers.

II. Relationship to USAID/El Salvador's Strategy

The Rural Financial Services Results Package will contribute to the Mission's Strategic Objective No. 1 "Expanded Access and Economic Opportunity for El Salvador's Rural Poor" through the Intermediate Result "Expanded Equitable Access to Financial, Technological and Marketing Services by the Rural Poor". The RP will focus its efforts on increasing the access of the rural poor to financial services (credit, savings accounts, and others), thus providing them with the means to invest in their farms and off-farm enterprises. Access to credit will enable the rural poor to have economic alternatives for improving family income.

The focus of RP activities will be on both new and selected prior Mission microenterprise credit programs, as well as on-going savings and loan credit union activities. This support is aimed at improving the performance of financial institutions serving the rural poor, providing specific technical assistance to assist them to become financially viable and in a better position to access formal banking system funds. In some cases, these financial institutions may eventually become formal "financieras". As a first stage, accessing fresh funds will permit rural financial institutions to increase their clientele, contributing to the achievement of the RP's goal of increased access to financial services by the rural poor. More importantly, becoming formal financial institutions will allow them to offer savings services, as well as other services. Capturing deposits will assure their self-sustainability by reducing their costs of acquiring funds for lending thus ensuring the provision of financial services in rural areas. Through this approach, the RP expects to significantly contribute to the expanded access to financial services by our target group, the rural poor, and thus achieve the RP's Intermediate Result.

III. Analytical/Consultation Process

The rural population in El Salvador has only limited access to financial services. Although the formal banking system is active in rural areas, mainly receiving deposits, most of this capital is utilized for credit activities in urban areas. During numerous focus group meetings with the rural poor, the lack of all-weather roads was also consistently mentioned as a primary constraint to economic growth, as well as the lack of credit in remote areas. Typically, rural residents related that it is

common practice to spend an entire day just to reach a provincial capital where financial services are available.

An underlying assumption of the Rural Financial Strategy is that many formal and informal financial institutions are in their present modes of operation unable to deliver services directly to the rural poor in remote areas. In order to overcome this logistical constraint the strategy will support those existing financial institutions such as local NGOs and credit unions that are already operating in rural areas to expand their services through the establishment of branch offices ("sucursales") in small towns that are located closer to our target population than provincial capitals.

Another underlying assumption is that developed financieras, credit unions and local financial NGOs can successfully compete with the commercial banking system for deposits and deliver financial services to rural residents at market rates of interest without resorting to subsidies or exorbitant loan interest rates. It is also assumed that these same financial institutions can depend on deposit mobilization, and to a lesser extent access to commercial lines of credit, to increase their capital base without relying solely on large infusions of outside donor grant funding.

Additionally, since Salvadoran law provides that only commercial banks, credit unions and financieras can legally receive deposits, local financial NGOs are legally barred from receiving deposits. Therefore they must rely exclusively on donor funding for their capital requirements. Further assistance to financial NGOs to help them reach financial sustainability will emphasize their eventual transformation into financieras that are capable of further capitalization through deposit mobilization activities. An additional constraint to the creation of financieras is a legal capitalization requirement of approximately \$3.6 million. This represents a formidable obstacle to becoming a financiera since most of the NGOs operating in rural areas have capital bases far below this legal threshold. It is assumed that in some cases the Mission will need to consider direct capitalization as a means of assisting an NGO to meet this legal requirement.

Lastly, it is assumed that many beneficiaries will resolve their problem of access to financial services through active membership in credit unions and by becoming "permanent clients" of other financial organizations. Beneficiaries of technical assistance and marketing services through their affiliation with cooperatives and producers associations are considered by financial institutions to be better credit risks. It is therefore assumed that as access to these non-financial services is expanded there should be an indirect, but significant impact on the access of organized producers to financial services.

USAID/Washington activities

There are two main USAID/Washington Programs related to microfinance activities that can support RP results: the Implementation Grant Program (IGP); and the PRIME Fund. The IGP with an annual funding of approximately \$10.0 million, has been designed to assist financial and non-financial projects. For the financial projects supported by the IGP, special emphasis is given to the attainment of financial sustainability. The program provides capacity building through technical assistance, training, marketing and research. This type of program could contribute to the achievement of one of the RP's main targets which is to assist financial institutions serving the rural poor to become *sustainable*.

The PRIME Fund is a component of the Microenterprise Innovation Project, which co-finances Mission designed and managed microenterprise activities. PRIME funds are available to Missions that incorporate microenterprise into country development strategies as one way of achieving strategic objectives. The purpose of the PRIME Fund is to improve the quality of microenterprise activities and to ensure that top quality microenterprise activities receive adequate support. The PRIME Fund contribution to any activity cannot exceed US\$1.5 million LOP. Missions have to meet a one to one matching requirement. The PRIME Fund is already contributing to the RP's efforts towards the improvement of the NGOs financial performance. One of the main objectives of the RP, as explained in other sections of this document, is the achievement of sustainable financial institutions serving the rural poor. A better financial situation will allow these institutions to expand their clientele since they would be in a better position to access banking system credit line resources and/or capture deposits if they become formal financial institutions. The RP views the PRIME Fund as an important mechanism to continue supporting RP's Intermediate Result of expanding financial services to rural poor.

In addition, there are two other small Projects which could support RP activities: the Microenterprise Impact Project, now known as AIMS (Assessing the Impact of Microenterprise Services); and the Microenterprise Best Practices (MBP) Project. The AIMS Project includes a research component and a short-term technical assistance and training component to provide services to USAID Missions and their partners. The following are some areas of assistance that the project supports: strategies for generating impact data for programs, monitoring and evaluations, customer surveys, program impact assessments, and analysis of microenterprise impact data. The AIMS Project could be a supporting tool to the RP for monitoring and evaluating

activities. At the intermediate result level it could assist in establishing/verifying the increased coverage of financial institutions in target areas.

The purpose of the MPB is to expand the knowledge base within the microenterprise field and *improve the capacity and performance of institutions providing services to microenterprises* through an action-oriented research program, an information dissemination program and a grant facility. The Grant facility offers "Capacity Building Grants" to support training, product or systems development and other activities that improve the technical skills and knowledge base of organizations and networks providing services to microentrepreneurs. The program can serve to strengthen the businesses of our partners by improving their capacity to achieve sustainability, which directly contributes to the expansion of financial services for the rural poor as established at the intermediate result level.

Other Donors' Activities

There are several key donors working in the area of microfinance in El Salvador. They include the InterAmerican Development Bank (IDB), the Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ), the European Union, the United Nations Development Program (UNDP), and the Central American Bank for Economic Integration (CABEI).

The IDB is working through the Multisectorial Investment Bank, allocating funds through the formal banking system. A total of \$24.0 million are dedicated to the microenterprise sector. The average loan size is \$1,000, and they are benefitting approximately 21,000 people country-wide. The IDB is also providing institutional strengthening to the GOES Superintendency of Banks.¹

The GTZ has been supporting the microenterprise sector since 1988. Among its current projects there are:

- a) Financiera Calpia (former NGO managed by AMPES, which receive assistance from GTZ), which supports its transition from an NGO to a financial institution, has a clientbase of 14,260 mainly urban clients (80%). The average size loan is less than \$600.
- b) GTZ/ANEP Project began in 1993 with the purpose of providing technical assistance to small and medium enterprises to improve their competitiveness.

¹ We have been informed that the IDB has developed a new Strategy for the microfinance sector, which we have requested a copy.

- c) GTZ/SRN Project began in June 1996 and includes only technical assistance and training.

The European Union is supporting the microenterprise sector through FOMMI, GENESIS and PRODESAR.

Their main program is FOMMI, with a funding level of \$10.0 million until 1999. FOMMI provides technical assistance, capacity building, institutional strengthening, training and credit. To date it has disbursed \$4.0 million, and shows a recovery rate of 80%. The average size loan is \$900. FOMMI currently has 7,325 clients through NGOs and cajas de credito. FOMMI prefers to work with the "cajas" as its intermediary institutions. FOMMI worked initially with ex-combatants and displaced people, but now serve all sectors in microfinance. FOMMI's clientbase has been 60% rural, and lending has been focused on the services and small industry sectors.

GENESIS² is a smaller project in urban areas providing similar services as those provided by FOMMI.

PRODESAR is a small program focused on the artisan community and which provides technical assistance, training and assist to artisans to access credit funds.

The UNDP works to mobilize resources provided via bilateral donors. UNDP is not providing resources for credits. It is currently providing technical assistance to the International Fund for Agricultural Development (IFAD) for two projects which have important credit components:

1) PRODAP (in San Vicente and Cabañas region) with a lending portfolio of \$8.3 million, focused on rural/agricultural development, which is due at the end of 1996; and

2) PROCHALATE, which just began and is scheduled to end in 2000. PROCHALATE has a lending portfolio of \$6.8 million. It provides loans for small business, artisans and food processing.

CABEI's lending portfolio for microenterprise totals \$21.0 million, implemented through PAPIC and PROMYPE Programs, which support micro and small enterprises. Funds are disbursed through commercial banks, cajas de credito and financieras. To date it has disbursed a total of \$5.0 million in credits to 3,787 clients.

² It was not possible to access more information.

GOES activities

Government of El Salvador's (GOES) major players in microfinance activities are: the Multisectoral Investment Bank (BMI), FEDECREDITO, FIGAPE, National Secretariat for the Family (SNF) and National Secretariat for Reconstruction (SRN). The SNF and the SRN work with USAID funding.

Multisectoral Investment Bank (BMI)

BMI's lending portfolio for the microenterprise sector totals \$45.0 million, distributed through the formal financial system. Total credits for microfinance currently number 37,000. A credit line for NGO lending to the microenterprise sector has been established by the BMI. To date this credit line has only been used by one NGO. BMI reported that there are several constraints to introducing strong microfinance lending programs in commercial banks, but that they are also interested in seeing the program grow.

FEDECREDITO

The first "caja" was established in 1940. Today FEDECREDITO works with 50 "cajas de credito" and seven workers banks. A total of 87,000 clients are currently part of the FEDECREDITO system. The FEDECREDITO portfolio amounts to nearly \$69.0 million. Average loan size is \$750, and the delinquency rate is under 5%. The "cajas de credito" are not authorized to capture savings, but currently they are negotiating with the Central Reserve Bank to change the governing law in order to be able to do so.

FIGAPE

FIGAPE was created 25 years ago and lends to small and medium enterprises, particularly in the transport sector. Its lending portfolio amounts to \$17.0 million, of which \$12.5 million comes from the BMI. Microfinance loans average \$5,700. Currently, it has 15,000 active loans, with a delinquency rate of 26%.

National Secretariat for the Family (SNF)

The SNF began activities in 1990, with USAID funds in the amount of \$2.7 million. It uses the village banking methodology and also makes individual loans to microentrepreneurs. Its clients are the "micro" entrepreneurs in the subsistence sector. SNF currently has 9,800 clients. The majority of the clients are located in the greater San Salvador metropolitan area. Average loan size in the village banking activity is \$110, and microenterprise loans range from \$110 to \$570. The current delinquency rate is 5%.

Other USAID Programs

Peace and National Recovery Activity No. 519-0394

National Secretariat for Reconstruction (SRN)

The work of the SRN began in 1992, as a result of the Peace Accords, funded by the donor community. Its current client base in the microenterprise sector numbers 20,000, working through FUSADAR, CARE, FEDECACES, REDES and CLUSA. SRN current total budget for credit programs is \$2.3 million.

Salvadoran Foundation for Development and Rural Assistance (FUSADAR)

This foundation was created in November of 1992 by TechnoServe. (TechnoServe held the original agreement with a small enterprise component, which included technical assistance and credit, focussed primarily on ex-combatants. The delinquency rate for this program was 98%). FUSADAR's total portfolio is \$5.9 million. FUSADAR began receiving funds from USAID in February of 1995. Currently, no new funds from USAID are being granted. Instead, they are using reflows from ex-combatants credit lines and the program is now a civilian program.

CARE

USAID has provided CARE a total of \$4.9 million since 1994 for its Credit for Sustainable Agriculture Project (CAS). This Project will end in July 1997. The objective of the Project is to improve the basic security and well-being of 7,000 families in ex-combatant areas. Each family receives a loan of approximately \$170, with an annual interest rate of 15%. CARE provides technical assistance, organizational work (communal organization) and credit programs. A new institution, Foundation Campo, has been established by CARE to manage their agricultural credit portfolio, with a delinquency rate of 20%, and renewed loan recovery efforts. CARE does not plan to continue the CAS program.

FEDECACES

USAID recently approved a microenterprise credit program for FEDECACES in the amount of \$708,570, to be disbursed through six credit unions located in/or near ex-conflictive areas. This is the first credit program that FEDECACES has with the SRN. The program was approved taking into account that FEDECACES and the credit union system is receiving technical assistance from the CRECER Activity (CRECER assistance is aimed at improving their financial performance to make them self-sustainable and to increase their clientele coverage). FEDECACES expects to reach at least 1000 new clients with this credit line, at a market interest rates. Average loan will range from \$685 to \$1,143.

The Cooperative League of the U.S.A. (CLUSA/El Salvador)

Also referred to as CLUSA/PROESA (No. 519-0394), this activity began in May of 1994 and will continue until September 1997. Total funding is \$3.4 million. The focus of the activity is on agricultural diversification, technical assistance and training. Currently, an agricultural credit line exists for \$300,000 and is distributed to over 1,000 clients, through loans to individuals as well as group members of the agricultural cooperatives. CLUSA and PROESA are attempting to integrate a portion of the demobilized forces into the local society. PROESA is dedicated to assisting ex-combatants in their reintegration into civil society, and CLUSA provides the means to do so through the production and export of non-traditional crops. CLUSA initiated a process of strengthening PROESA to continue working after USAID assistance ends.

Salvadoran Foundation for Reconstruction and Development (REDES)

REDES began receiving USAID assistance through the SNR in August 1995. The REDES program works to promote business in the Cuscatlan and Cabanas departments. REDES has a two-year contract for \$485,000. It has a credit line for production and another for commerce. Loan recipients are 75% women, primarily in Cuscatlan. A total of \$175,000 has been disbursed to 500 clients. The delinquency rate is 12%.

USAID's National Reconstruction Programs, managed by the SSO, are expected to finish by August 1997. The RP does not foresee a continuation of the National Reconstruction Programs (serving the microfinance sector) as a whole, but will instead evaluate those NRP microfinance programs that best fit the RP's selection criteria. Selection criteria are defined in the following Section of this document.

Consultation Process

During the process of developing the economic growth strategy (SO#1), Mission staff held frequent focus group meetings with the rural poor who repeatedly mentioned the lack of access to financial services as being one of their main concerns. The SO#1 Office also organized extended team meetings with its partners to first reconfirm the major constraints to economic growth in the rural sector and later discuss specific issues regarding the Rural Financial Strategy. The SO#1 Office has also maintained on-going consultations with the Global Bureau Economic Growth Office Microenterprise Development Division (G/EG/MD) during all stages of the preparation of the Strategy. Also the SO#1 Office arranged a TDY visit of G/EG/MD personnel to provide critical input into the draft Strategy and recommend specific types of activities to address priority constraints and problems. We have also made an conscious attempt to identify what other

donors are doing in the field of rural finance in order to avoid duplications of effort and identify opportunities to make meaningful impacts.

Consultation with RP partners and the donor community will be carried out through periodic meetings to address specific issues/concerns identified through implementation activities. The Rural Financial Services RP team will also obtain feedback from other donors and partners in periodic extended team meetings. The consultation system with our customers will be accomplished through direct field appraisals and focus group meetings.

IV. Summary of Activities/Expected Results

a) Proposed Activities

As mentioned in other Sections of this document, access to financial services by the poor remains an important constraint in rural areas, notwithstanding the fact that the commercial banking system is in these areas. The requirements imposed on microentrepreneurs to access credit continue to be a constraint to their development. On the other hand, the majority of microfinance lending institutions present important financial/administrative performance problems, such as: high delinquency rates, high administrative costs, inappropriate interest rate policies, poor loan recovery systems, deficient controls, high dependence on donor sources, multiservice operations, and low capacity of human resources. Considering the increasing financial needs of the rural poor, the inaccessible banking system, and the deficient situation of most of the institutions serving the microentrepreneurs, the RP sees a need to institutionally strengthen NGOs serving our target population, as a means to support the rural poor in their efforts to improve their financial situation.

Taking into account the large number of players in the microfinance sector, the RP believes that the best approach to achieve "Expanded Equitable Access to Financial [Technological, and Marketing] Services by the Rural Poor", is to concentrate our efforts in supporting a few select NGOs that fit the following selection criteria:

- 1) Demonstrated potential to increase the access of the rural poor to financial services;
- 2) Willingness of the potential implementing institution to work directly with USAID's customers;
- 3) Willingness to implement proven financial disciplines towards the attainment of sustainability;

- 4) Proven mechanisms to increase coverage in rural areas through the creation of branch offices, agencies and other outreach activities;
- 5) Flexibility to modify methodologies and procedures to address specific situations in the field; and
- 6) Potential to sustain activities beyond the termination of assistance.

Proposed activities will be selected, whenever possible, through full and open competition.

A Mission Microfinance Strategy will be developed within the next six months, and will be built mainly on the experience of prior USAID microenterprise credit programs. Based on Mission's current portfolio, the RP team foresees USAID's assistance directed towards institutionally strengthening five to six local NGOs. Funds have been programmed for this Activity (No. 519-0435) for a total of \$15.0 million. This assistance will begin in FY'97 and will last until FY 2002. The purpose of the Activity will be to provide technical assistance to microfinance lending institutions to help them attain self-sustainability, by improving their financial performance. Different alternatives to implementing the Activity will be evaluated during the Microfinance Strategy design phase (direct contract with an international microfinance specialized institution, an umbrella-type Activity with an NGO, etc.). The local NGOs will be selected based on the aforementioned criteria.

The RP team is also considering the need to introduce new international players for the provision of this technical assistance to local NGOs.

The following are some of the areas where the RP will be institutionally strengthening the microfinance lending institutions:

- a) Training staff to improving their credit analysis capacity; in better methodologies to calculate delinquency rate; improve accounting systems; improve reporting systems and loan recovery procedures;
- b) Advice on sound financial practices (i.e. creation of reserves; appropriate interest rate policies, timely accounting reports; reduction of administrative costs; and financial specialization).
- c) Revision and improvement of credit methodologies (i.e. village banks, solidarity groups, credit unions, individual loans) to address more appropriately customers' needs and assure loan repayment. Credit

diversification will be recommended to minimize risk and have more potential of expansion into rural areas.

- d) Assist new "financieras" to comply with Superintendency requirements, improving internal procedures and financial policies (audits, reporting morosity);
- e) NGOs efforts to improve their regulatory environment will be supported in order for them to access commercial banking system funds.
- f) Keeping in mind the goal of these institutions of becoming complete financial entities, assist them in setting up savings programs, including legal and financial requirements to appropriately capture and manage savings (creation of reserves, development of an appropriate interest rate policy, market programs, savings mobilization techniques, etc.).

The assistance may include capitalization of NGOs as a means to achieve sustainability and to support them in their efforts to become financieras. This assistance will be granted based on financial performance.

An activity to provide technical assistance to the Superintendency of Banks is also foreseen. This assistance will be aimed at improving the regulatory environment of the microfinance lending institutions. It will be concentrated in strengthening the Superintendency's capacity to more adequately supervise the increasing number of microfinance lending institutions in the sector.

Recommendations from the White Book will be reviewed during the development phase of the Mission's Microfinance Strategy. In addition, feedback from CONAMYPE (Comisión Nacional de la Micro y Pequeña Empresa) will be considered.

The rationale for the activities described in this section is based on the assumption that microfinance lending institutions receiving technical assistance to become financially stronger, will be in a better position to access commercial bank resources. This will allow them to expand their credit portfolio in a more sustainable way, and thus be able to become "financieras" (offering also secure savings programs to lower lending costs). Financial disciplines, and an improved legal and regulatory framework will permit these institutions to enter the formal financial system, and consequently expand their financial services, thus contributing to the RP's Intermediate Result.

b) Current ActivitiesMicroenterprise Development Activity (FINCA/CAM)

USAID Activity No. 519-0318

This Activity began in August 1990, with the purpose of establishing a new, viable, sustainable institution to provide microentrepreneurs with increased access to financial and non-financial services. Total Project funding is US\$10.0 million. The Center for the Support of Microenterprise (CAM) was created in 1991 and is providing the Salvadoran poor increased access to financial services through village banks, solidarity groups and individual loans. CAM is currently serving approximately 15,000 clients. CAM's microenterprise coverage is the most important in the country so far in terms of number of clients. The access to credit by these many clients results in support to the same number of households, allowing them to increase their income by counting on an additional economic alternative. The CAM Activity is contributing to the RP's Intermediate Result by serving an important number of microentrepreneurs with credit and training. CAM's methodology has proven to be successful by widely reaching poor families.

CAM was planned as an indigenous financial institution that would reach self-sustainability by the end of the Activity (PACD Aug.31, 1997). However, FINCA has advised USAID that it does not expect the CAM to achieve this major goal of financial sustainability by the end of the project. As the activity nears completion, the CAM is now initiating a process of institutional reforms to reduce elevated administrative costs by improving procedures, marketing, and reducing an unacceptably high loan delinquency rate.

USAID expects the CAM to continue to receive technical assistance from FINCA after our assistance ends.

Equitable Rural Economic Growth Activity (CRECER)

USAID Activity No. 519-0397

The CRECER Activity began implementation in September 1995, through a contract with Chemonics International. Overall funding is \$15.0 million and the Activity termination date is May 2000. The CRECER Activity is divided into three components: 1) Rural Enterprises, providing assistance in technological and marketing services to rural enterprises, through the National Cooperative Business Association (NCBA); 2) Rural Financial Services, giving technical assistance to credit unions for the improvement of their financial services, through the World Council of Credit Unions (WOCCU); and 3) Sectorial Policy, providing technical assistance to the GOES (Ministry of Agriculture) to improve the agricultural policy environment, through the Interamerican Institute for Agricultural Cooperation

(IICA).

Through the Rural Financial Component CRECER is providing assistance to FEDECACES, a secondary-level federation and its credit unions. The Rural Financial component totals approximately \$5.1 million. CRECER is providing assistance to institutionally strengthen FEDECACES and its affiliated credit unions, establishing sound financial practices (creation of a stabilization fund, creation of loan loss reserves, appropriate interest rate policy, etc.) and mobilizing deposits. CRECER's assistance will help them to become a sustainable system of credit unions providing increased access to financial services in rural areas. It is estimated that 20,000 new clients will be served through the FEDECACES System. The improvement of the credit union system financial performance will allow it to increase coverage by creating agencies, which is a low-cost mechanism to expand services, thus significantly contributing to the achievement of the RP's intermediate result of "expanding access to financial services for the rural poor." CRECER is also supporting the credit union system in the revision of the legal and regulatory framework that credit unions operate under. This should eventually lead to the redefinition of appropriate mechanisms for government supervision and regulation of the credit union system and may eventually facilitate access of FEDECACES or its credit unions to Multisectorial Investment Bank funds.

Microenterprise 2000 Activity

No. 519-0434-A-00-6198-00

The Microenterprise 2000 Cooperative Agreement was signed with Catholic Relief Service (CRS) in September 1996, with the purpose of establishing a viable financial institution within a period of four years. The Activity is funded through a Global Bureau matching grant and Mission funds for a total funding level of \$755,000. The activity's termination date is September 30, 2000. The Activity is designed to assist local NGOs to improve the quality of their financial delivery services for poor clients. If successful, the Activity will develop a consortium of financial NGOs (the Financial Institution or *Financiera*) to provide financial and non-financial services to more than 15,000 clients.

The Activity will be carried out in two phases: Phase I) development of the proposed financial institution's business plan (within a period of nine months); and Phase II) creation of the proposed financial institution. If the activity is successful in creating a *financiera*, it will be able to access formal banking system resources and provide secure financial services with Superintendency supervision. Being a *financiera* will automatically qualify it to capture savings and thus lower the cost of capital. Access to new resources (lines of credit and

deposits) will permit the financiera and associated local NGOs to increase coverage, thus directly supporting the RP's Intermediate Result.

Microenterprise Innovation Project (MIP) USAID Activity No. 9400406

This Activity began on September 28, 1995, and its purpose is to improve the client services of CRS and five NGOs operating credit programs in El Salvador. For the implementation of this Activity, a Cooperative Agreement was signed with Catholic Relief Services (CRS) with a total funding of \$600,000. The activity's termination date is September 28, 1998. The Activity has three components: 1) improve the capacity of five NGOs to monitor and evaluate the social and financial impact of credit programs; 2) conduct research to locate and exploit new microenterprise markets, identify rural credit demand and evaluate the capacity of the organizations to manage sustainable and efficient credit programs; and 3) coordinate project activities and improve the knowledge base of credit agencies in El Salvador with regard to information, technologies and methodologies; and administrative support. CRS, FINCA, CAM, SNF (Secretaria Nacional de la Familia), OEF (Women's Entrepreneurial Organization) and FOMMI (Microenterprise Development Program in Poverty Areas) are jointly working through the MIP.

The MIP's first component will help the NGOs to assess whether they are reaching their target groups. In addition, it will evaluate the impact they have had. This will also help them to adjust or take necessary actions to serve the microenterprise sector in a better way. For the RP team, this MIP component will be an important tool to determine the most appropriate way to provide financial services to the rural poor and assure that the target population is indeed having more access to these services. Through the second component, the MIP will support microenterprise NGOs to increase their clientele, and take the necessary steps to manage sustainable and efficient credit programs, and in so doing, contribute to the achievement of the RP's Intermediate Result. The third component supports the RP Intermediate Result by improving microfinance institutions' financial performance, towards the achievement of financial sustainability, which will in turn permit them to increase their clientele.

Small Enterprise Support Activity (PROPEMI)
USAID Activity No. 519-0387

A Cooperative Agreement with FUSADES was signed on September 30, 1993, with a total funding of \$5.0 million. The Activity's purpose is to promote the development of small enterprises in El Salvador, especially those located within the National Reconstruction Plan zones, through the provision of

25

credit, training and technical assistance. The activity's termination date is May 31, 1997. As of September 1996, PROPEMI has been able to expand credit to a total of 1,306 clients, thus contributing to the achievement of RP's Intermediate Result.

PROPEMI has been able to achieve the following: 1) It has reached operational sustainability; 2) It has gained experience in providing financial services to the small and microenterprise sectors; and 3) It has accumulated a loan portfolio of \$9.9 million. Taking this into account, the RP team believes that PROPEMI has the necessary tools to continue working on its own. Therefore the RP does not foresee a follow-on Activity with PROPEMI.

V. Feasibility Analyses

Each of the RP's activities performed various analyses as part of their individual designs. The following list identifies all analyses performed by each RP activity³. In addition Annex E includes further studies and analyses that could be useful during the design of future interventions supporting this RP.

FINCA/CAM Activity No. 519-0318

- A. Recurrent Cost Analysis
- B. Technical Analysis
- C. Economic Analysis
- D. Institutional Analysis
- E. Social Soundness Analysis

CRECER Activity No. 519-0397

- A. Recurrent Cost Analysis
- B. Social Soundness Analysis
 - 1. Rural Sociocultural Setting
 - 2. Target Population
- C. Economic Analysis
- D. Institutional Analysis
 - 1. Policy Analysis Unit (OAPA) Ministry of Agriculture
 - 2. General Directorate for Agricultural Economics (DGEA)
 - 3. NGOs
- E. Technical Analysis
 - 1. Rural Enterprises and Organizations
 - 2. Rural Financial Services

³ No analyses were carried out for MIP and Microenterprise 2000 Activities.

PROPEMI Activity No. 519-0387

- A. Recurrent Cost Analysis
- B. Economic Analysis
- C. Institutional Analysis
- D. Social Soundness Analysis

VI. Customer Service

Communication with the customer will be on-going and will be conducted whenever possible through organized groups (village bankers, and solidarity groups) and cooperatives (credit union members, by means of their representatives and FEDECACES), and also in general with microentrepreneurs from different regions throughout the country. Communication with and feedback from them will be deliberately arranged through field visits, workshops, surveys, and focus groups.

We will work as a team with partners and other donors through constant contact and through extended team meetings.

VII. Human Capacity Development Needs

The training strategy for the life of the RP will focus on institutional strengthening in order to increase coverage of sustainable financial institutions in rural areas.

Funds will be used to provide training and technical assistance to the staff of local institutions, as well as to the end-customer. Most seminars will take place in-country. Some foreign consultants will be utilized. In the design of new activities, the Global Training for Development mechanism will probably be used.

The following projections by activity include training funded with activity funds, counterpart contributions, and in some cases, funding has not been identified.

Microenterprise Development Activity (FINCA/CAM)

USAID Activity No. 519-0318 (PACD: August 1997)

All training activities for the CAM are in-country seminars. The training provider will be the training unit of the CAM and consultants hired by FINCA. The main topics are: Management skills, financial methodologies, human development and team work, reengineering, the village bank methodology. Beneficiaries are CAM's staff and credit beneficiaries. Estimated number of trainees: 3,703 men and 16,632 women for a total of 20,335.

Total budget for the period October 96-September 97 is

Microenterprise 2000 (CRS)

Activity 519-0434 PACD: September 2000

Training activities for 1997 and 1998 include: seminars for the staff of CRS and 13 NGOs involved in the activity and for the end-customers of the village banks. The following are main training topics: Business plans, sustainability, portfolio management, accounting and portfolio monitoring, community banking methodology, etc. Training seminars will take place in-country. The seminar, "Technology Transfer Systems", will take place in a third country.

A total of 8,228 persons will be trained: 6,167 men and 2,065 women. The cost of this training will be approximately \$70,000 for FY'97. A small part of this expense will be covered by the activity. The rest will be covered by counterpart and by funding still to be negotiated.

New Activities

Training plans/projections will be developed as soon as the new activities are designed.

VIII. Implementation/Management PlanRural Financial Results Package Team Members:

Technical	(3)	Roxana Blanco (RP Team Leader and Activity Manager) David Gardella (Technical Advisor), and Sandra Lorena Duarte (Activity Manager).
Administrative	(1)	(no person assigned yet)
Support Offices	(5)	Julio Segovia, SDO Mercy Castillo, SDO Marielos de Quiñonez, OCG Silvia Mejía, CONT and Carlos Milla, CONT

Roles/Responsibilities of RP members:

Active participation from all team members is expected. Each member is responsible for carrying out specific tasks assigned by the team. All team members are accountable for the achievement of planned results.

Team Leader-and Activity Manager (Roxana Blanco)

Coordinates RP activities; assures the timely submission of documents or information requested from the RP; initiates actions needed to carry out RP tasks and activities; monitors and up-dates indicators and goals; reviews and approves training and educational programs; maintains frequent contacts with institutional contractors, donors, partners; advises the team of training opportunities; and manages the Rural Financial Enterprises Component within the CRECER Activity.

Technical Advisor (David Gardella)

Provides technical advice; maintains good working relationships with other team members and monitors closely all activities with institutional contractors, donors, partners; is responsible for monitoring and up-dating indicators and goals; reviews and provides clearances of training and educational programs; and advises the team of training opportunities.

Activity Manager (Sandra Lorena Duarte)

Manages the CAM, PROPEMI, MIP, and Microenterprise 2000 Activities; provides technical advice; monitors and up-dates indicators and goals; reviews and approves training and educational programs; maintains frequent contacts with institutional contractors, donors, partners; and advises the team of training opportunities.

Administrative Support (not assigned)

Draft RP Team meeting aide memoires; assists RP Team Leader in the coordination of RP meetings and in document drafting; coordinates and provides documents and information to team members and relevant parties; coordinates TDY's logistical facilities and transportation; maintains RP Activities files up-dated.

CONT/Financial Manager: (Silvia Mejía and Carlos Milla)

Participate actively in RP activities/meetings; identify potential financial problems and propose possible solutions; provide advice and assistance to team members, contractors and counterparts in a wide variety of financial and accounting issues; responsible for funds control management and provide assistance in budget reprogramming; develop and prepare special customized financial reports to interested parties as scheduled or requested; document, review and verify financial data and present information to the SO team; assist in the preparation of the RP implementing documents; i.e., PILs, requests, etc.; assist in the design of new activities, and amendments to existing activities; responsible for financial management of RP

activities; and perform field trips to observe implementation.

SDO (Julio Segovia and Mercy Castillo)

Active participation in all RP activities/meetings; provides assistance and guidance to the RP Team to ensure activity design and implementation documentation is timely and prepared in accordance with Automated Directives System (ADS) guidance; assists in strategic planning and new activity design planning for the RP and coordinates RP Team input to the R4 process and other Mission program documents; ensures inter-SO coordination; reviews funding actions and other documents (as specified in the Mission DOA) for quality, compliance with Mission and Agency policies and procedures, and adherence to the Mission's Strategic Plan; provides guidance for the Semi-Annual Review process and ensures that RP Team complies with recommendations and actions to be taken after the SAR review; provides guidance on programming and implementation to assist in achieving results and coordinates the RP budget and obligation planning; coordinates activity evaluations and provides guidance as necessary to the overall RP monitoring and evaluation process; keeps the RP Team updated on USAID's policies and Mission-wide guidance.

OCG (Marielos Quiñónez)

1) Provides guidance/assistance to RP team members regarding contracting/procurement guidelines and requirements, including issues that might arise during contract performance, such as assessment of liquidated damages for late delivery, claims of recovery under insurance, waivers of source and origin requirements, past performance requirements and their importance, performance based contracting, etc.; 2) suggests appropriate actions to meet RP goals, including reviewing statements of work to determine whether the needs of the RP have been adequately defined; determining the most appropriate contractual arrangement, i.e. contract vs cooperative agreement and brings irregularities to the attention of the RP Team Leader with recommendations for corrections; 3) coordinates implementation of the Annual Procurement Planning (APPS) and emphasizes its importance in order to meet required deadlines; 4) participates actively in all RP activities, including field trips, conferences, seminars, etc. in order to become an integral part of the team; and 5) attends meetings as time and priorities permit.

Contractors and Implementors

Chemonics International (Contractor) - CRECER (implementor) -
 WOCCU (subcontractor)
 FINCA International (implementor) - Centro de Apoyo a la
 Microempresa (CAM)
 Catholic Relief Service (CRS)
 PROPEMI/FUSADES (implementor) - Small Enterprise Support Activity

Implementing institutions are responsible for carrying out specific activities defined in contracts and agreements accepted by all parties (USAID and contractors/implementors), aimed at the achievement of the activity goals. Activities should be carried out within the agreed timeframe and according to estimated budgets. Contractors/implementors are responsible for assuring the best use of USAID's funds, as well as of the commodities purchased under Activities. The provision of established counterpart contribution is also under their responsibility. In addition, implementing institutions are to be responsive to USAID's request for additional information and for necessary changes in implementing activities aimed at improving performance and assuring the achievement of goals. Action Plans and reports (annual, quarterly, counterpart contribution, etc.) should be provided complete and on time. Implementing institutions should inform USAID of constraints encountered in carrying out activities and/or in attaining overall activity goals.

Partners and Donors

Banco Multisectorial de Inversiones (BMI)
 Interamerican Development Bank (IDB)
 European Union (EU)
 Central American Bank for Economic Integration (CABEI)
 United Nations Development Program (UNDP)
 Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ)

The RP team will maintain close contact with donors and other partners to obtain feedback from them about USAID activities in the rural finance sector in El Salvador. The RP team will also coordinate actions with other donors implementing rural finance activities in order to avoid duplication of efforts.

Customers

- Microentrepreneurs
- Credit union system
- NGOs that serve the microentrepreneurs including organizations such as: Asociación Benéfica Cultural Alfalit de El Salvador (ALFALIT); Fundación Salvadoreña de Apoyo Integral (FUSAI); Asociación Salvadoreña de Desarrollo Integral (ASALDI); Asociación Salvadoreña de Extensionistas Empresariales de INCAE

(ASEI); Caritas de Santa Ana; Caritas de Sonsonate; Caritas de San Vicente; Centro de Reorientación Familiar Comunitario (CREFAC); Fundación para el Desarrollo de la Mujer y el Niño (FUNDEMUN); Iglesia Episcopal de El Salvador; Promotora para el Desarrollo Comunal Salvadoreño (PRODECOSAL); Corporación de Proyectos Comunales de El Salvador (PROCOMES); CAM, SNF (Secretaria Nacional de la Familia), OEF and Microenterprise Development Program in Poverty Areas (FOMMI)

Customers are responsible for making the best use of the assistance provided and for the provision of counterpart contributions. In addition, they are expected to facilitate USAID's monitoring activities in the field and provide feedback.

RP Activities' Implementing Mechanisms

Activity	Mechanism/Number	Contractor/Implementor
CAM	Cooperative Agreement No. 519-0318-A-00-0352-00	FINCA
CRECER	Contract No. 519-0397-C-00-4154-00	Chemonics International
Microenterprise 2000	Cooperative Agreement No. 519-0434-A-00-6198-00	Catholic Relief Services (CRS)
Small Enterprise Support	Cooperative Agreement No. 519-0387-A-00-3233-00	PROPEMI/FUSADES
Microenterprise Innovation Project	Cooperative Agreement No. 940-0406-A-00-5246-00	Catholic Relief Services (CRS)

Monitoring, Measuring and Reporting

The current Activities managed by the RP Team already have monitoring and reporting systems in place. Reporting is included as a requirement in contractual/implementation documents, clearly defining the type of information needed. While carrying out this RP document exercise, which includes the redefinition of indicators, baseline and targets, a need to adjust activities' indicators, and measuring systems has been identified. The RP Team will be working with counterparts to clearly define measuring procedures and obtain consensus on different financial concepts in order to have a unified monitoring, measuring and reporting systems.

IX. Financial Plan

The USAID resources contributing to the objectives of this Results Package (RP) currently amount to approximately \$21,260,000. Other donors are providing approximately \$90.3 million in related activities. These donor activities are not directly financing RP activities, but are complementary programs that support this RP. USAID/El Salvador and its counterparts are currently implementing the following Activities to accomplish the goals of this RP:

(In 000 US Dollars)

Activity PACD	Authorized USAID/ES	Obligated USAID/ES	MORTGAGE	Counterpart	TOTAL
519-0318 08/97 (CAM)	\$10,000	\$10,000	\$ 0	\$ 4,919	\$14,919
519-0387 5/97 (PROPEMI)	\$ 5,000	\$ 5,000	\$ 0	\$ 1,250	\$ 6,250
519-0397 05/00 (CRECER)	\$ 5,094	\$ 1,606	\$ 3,488	\$ 4,000	\$ 9,094
940-0406 09/98 (MIP)	\$ 600	\$ 600	\$ 0	\$ 157	\$ 757
519-0434 09/00 (Micro 2000)	\$ 566	\$ 283	\$ 283	\$ 189	\$ 755
TOTAL	\$21,260	\$17,489	\$3,771	\$10,515	\$31,775

In order to assure the appropriate implementation and management of USAID funds, the Mission provides follow-up of each Activity through the Activity Managers and the RP team members. In addition, recipients are required to carry out annual audits that meet generally accepted government auditing standards as promulgated by the United States General Accounting Office. Counterpart contribution reports are required every quarter and are followed up by the offices of SDO and CONT together with the Activity Managers.

For new starts under the RP, in order to determine if the prospective recipient is eligible to receive funding from USAID,

a pre-award survey will be conducted by the Office of the Controller and the Office of Contracts and Grants, as applicable. With regards to counterpart contributions, it is the policy of the Mission to negotiate and try to obtain as much counterpart contribution as possible to obtain maximum impact from the assistance, subject to the minimum of 25% mandated by law or USAID regulations. This requirement is not applicable, as a matter of law, to non-profit organizations or to Economic Support Funds (ESF). However, USAID/El Salvador has administratively determined to apply this requirement whenever possible.

The obligation plan by fiscal year for the RP is the following (in US\$000):

Activity	FY-97	FY-98	FY-99	FY-00	FY-01	FY-02	TOTAL
519-0397 (CRECER)	998	800	1,000	690	0	0	3,488
519-0434 (Micro 2000)	283	0	0	0	0	0	283
519-0435 (new activity)	2,200	2,900	2,700	2,700	2,500	2,000	15,000
TOTAL	3,481	3,700	3,700	3,390	2,500	2,000	18,771

USAID Management Costs

As indicated in the table below, the total USAID management costs dedicated to this RP are estimated to be US\$147,800 per year, of which US\$74,000 are financed from current activities under the RP, US\$44,100 are financed from Operating Expenses and the remaining US\$29,700 are financed from Trust Funds.

Org. Unit	Employee Type	Person/ Years	Source of Funding			TOTAL COST
			RP	OE	TF	
SO1	FSN-PSC	2.00	X			\$ 74,000
SO1	FSN-PSC	1.00			X	9,500
SO1	FSN-PSC	0.60			X	9,600
SO1	US-DH	0.50		X		40,000
SDO	FSN-PSC	0.10			X	3,100
SDO	US-DH	0.20		X		4,100
OCG	FSN-PSC	0.15			X	1,550
CONT	FSN-PSC	0.15			X	1,850
CONT	FSN-DH	0.15			X	4,100
T O T A L		4.85				\$ 147,800

Note: This workforce table represents USAID/El Salvador's estimate of its resources used in project management, and does not reflect any AID/W instructions in this regard.

Recurrent costs

Since the RP will support microenterprise programs/institutions to improve their financial performance in order to be financially sustainable; we do not foresee a need to take other actions to address the issue of recurrent costs. The approach that each of the current activities will employ is described below:

CAM

It is considered that this Activity may reach financial sustainability by 1998⁵. Currently the CAM is undergoing a reengineering process in order to improve its financial performance and is expected to achieve operational sustainability⁶ by 1997.

⁵ Financial sustainability is defined as Operating income covering adjusted total costs. Costs should be adjusted for inflation, commercial rates on loan capital, and loss reserves.

⁶ Operational sustainability is defined as: operating income over total costs (without including loan loss reserves).

CRECER

The purpose of CRECER's assistance to FEDECACES and the credit union system is to institutionally strengthen them to attain financial sustainability. Of the 14 credit unions assisted, 13 are already operationally sustainable and 1 financially sustainable. It is expected that by 1999, FEDECACES and all the credit unions will be financially sustainable.

Microenterprise 2000

The purpose of the Activity is the creation of a financially sustainable institution. CRS estimates that by 1999, the new financial institution will be financially sustainable.

MIP

The NGOs accessing the information systems developed by the MIP will pay for the service. Therefore it is estimated that the Activity will have financial resources to support these services.

PROPEMI

PROPEMI has attained operational sustainability. The RP does not expect to have a follow-on activity with PROPEMI. PROPEMI will evaluate the need to review its current financial situation (a financial program within FUSADES) in order to determine the best alternative to further capitalization of the Program.

In regards to proposed activities, the RP will support only microenterprise programs/NGOs that have a potential to become financially sustainable. Therefore, recurrent costs are not foreseen as a major issue.

X. Performance Monitoring Plan

RP's results will be reported through the SAR and R4 documents, based on counterparts quarterly reports. The relevance of activities in attaining expected results and the need to correct the activities or expected results, will be reviewed during SAR and R4 exercises.

Based on information provided by our counterparts, the estimated cost for monitoring and reporting RP current activities until their termination date is \$400,000⁷.

⁷ It only includes CRECER (covered w/Prj. funds) and FINCA (covered w/counterpart funds).

It is estimated that in case there is a need to obtain additional information on any specific Activity's impact (i.e. if microentrepreneurs have improved their standards of living as a result of accessing financial services), an evaluation may be needed. To carry out the evaluation, a scope of work will be designed in coordination with the counterpart to assure that all relevant aspects are covered.

Please refer to Annex F for a detailed description of the RP's performance indicators, expected results and time frame for achieving these results.

Drafted by: All Rural Financial Results Package Team Members

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RESULTS FRAMEWORK
S.O.N

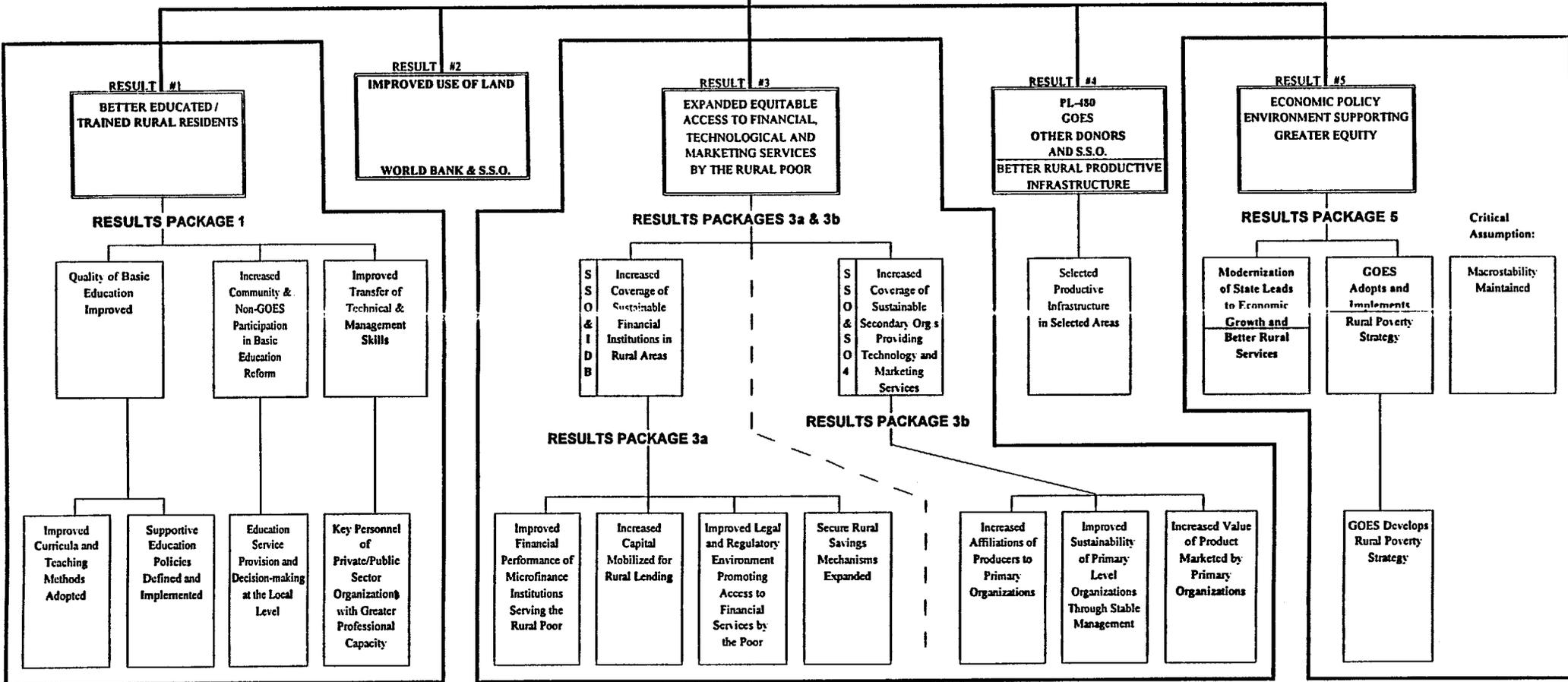
Agency Goal No.1: Broad-based Economic Growth Achieved

Mission Strategic
Objective No. 1

Expanded Access and Economic
Opportunity for El Salvador's
Rural Poor

GOES and
other donors = FULL IMPLEMENTATION

S.O.s. = PARTIAL IMPLEMENTATION



ANNEX B

USAID Statutory Checklists will be prepared for all new activities supporting this results package. These statutory checklists will be incorporated in the Activity Documents prepared during the design of each new activity. All current ongoing activities supporting this results package have complied with such checklist requirements.

ANNEX C

CONGRESSIONAL NOTIFICATION

FINCA Activity No. 519-0318 most recent TN expired 2/28/95

CRECER Activity No. 519-0397 most recent TN expired 9/28/95

MIP Activity No. 940-0406 LAC Bureau notified in 9/95

Microenterprise 2000 Activity No. 519-0434 LAC Bureau notified in 9/96

PROPEMI Activity No. 519-0387 most recent TN expired 2/19/96



LAC-IEE-97-04

U. S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

INITIAL ENVIRONMENTAL EXAMINATION

Project Location : El Salvador

Project Title : Rural Finance Results Package

Project Number : 519-0397
519-0387
519-0318
940-0406
519-0434

Funding : See attached

Life of Project : See attached

IEE Prepared by : Peter Gore, MEO

Recommended Threshold Decision: Categorical Exclusion/
Bureau Threshold Decision : Concur with Recommendation

Comments Categorical Exclusions issued, as stated/requested in attached IEE, for 940-0406, 519-0434, 519-0387, and 519-0318.

For the Equitable Rural Economic Growth project (519-0397), a Categorical Exclusion is issued for the policy formulation and the rural finance components. The rural organizations component is reviewed under LAC-IEE-97-05.


 _____ Date 2/2/87
 Jeffrey J. Brokaw
 Bureau Environmental Officer
 Bureau for Latin America
 and the Caribbean

Copy to : Carl H. Leonard, Director
USAID/El Salvador

Copy to : Peter Gore, USAID/El Salvador

Copy to : Paul Thorn, LAC/SPM-CAC

Copy to : Kathleen Barrett, LAC/CEN

Copy to : IEE File

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<p>STRATEGIC OBJECTIVE : EXPANDED ACCESS AND ECONOMIC OPPORTUNITY FOR EL SALVADOR'S RURAL POOR FAMILIES</p> <p>APPROVED: 06/07/96 COUNTRY/ORGANIZATION: USAID/EI Salvador</p>			
<p>RESULT NAME: 3 Expanded equitable access to financial, technological and marketing services by the rural poor.</p>			
<p>INDICATOR 3: Active clients</p>			
<p>UNIT OF MEASURE: Number of people</p> <p>SOURCE: Credit Unions, Centro de Apoyo a la Microempresa (CAM), Catholic Relief Services (CRS)-Microenterprise 2000 and New Activities.</p> <p>INDICATOR DESCRIPTION: An Active Client is a person who has an outstanding loan, a savings account, or both.</p> <p>COMMENTS: Active clients from rural areas. Rural is considered all the country with the exception of San Salvador and the metropolitan area. (It includes the following "Municipios": San Salvador, Mejicanos, San Marcos, Ayutuxtepeque, Cuscatancingo, Ciudad Delgado, Ilopango, Soyapango, Antigua Cuscatlán, Nueva San Salvador).</p>	YEAR	PLANNED	ACTUAL
	6/96 (B)		28,642
	1997	39,427	
	1998	51,647	
	1999	63,857	
	2000	78,052	
	2001	80,119	
	2002 (T)	82,185	

STRATEGIC OBJECTIVE : EXPANDED ACCESS AND ECONOMIC OPPORTUNITY FOR EL SALVADOR'S RURAL POOR FAMILIES

APPROVED: 06/07/96 COUNTRY/ORGANIZATION: USAID/EI Salvador

RESULT NAME: 3 Expanded equitable access to financial, technological and marketing services by the rural poor.

INDICATOR 2: Depositors

UNIT OF MEASURE: Number of people

**SOURCE: Credit Unions and Catholic Relief Services (CRS)-
Microenterprise 2000**

INDICATOR DESCRIPTION:

COMMENTS: Indicator represents number of depositors in legal financial institutions. Savings in NGOs not being supervised by the Superintendency are not being reported.

*** USAID activities end in the year 2000. After such date the number of depositors has been kept constant.**

YEAR	PLANNED	ACTUAL
6/96 (B)		8,910
1997	12,526	
1998	15,810	
1999	26,294	
2000 *	33,636	
2001	33,636	
2002 (T)	33,636	

We assume a spin-off from Micro 2000 to a new financial institution in 1999 and as such it will be able to capture savings.

STRATEGIC OBJECTIVE : EXPANDED ACCESS AND ECONOMIC OPPORTUNITY FOR EL SALVADOR'S RURAL POOR FAMILIES			
APPROVED: 06/07/96 COUNTRY/ORGANIZATION: USAID/EI Salvador			
RESULT NAME: 3 Expanded equitable access to financial, technological and marketing services by the rural poor.			
INDICATOR 1: Active Borrowers			
UNIT OF MEASURE: Number of people	YEAR	PLANNED	ACTUAL
SOURCE: Credit Unions, Centro de Apoyo a la Microempresa (CAM), Catholic Relief Services (CRS)-Microenterprise 2000 and new activity.	6/96* (B)		24,936
INDICATOR DESCRIPTION: People that have an outstanding loan with the aforementioned financial institutions.	1997	35,253	
COMMENTS: Active borrowers from rural areas will be reported. Rural is considered all the country with the exception of San Salvador and the metropolitan area. (It includes the following "Municipios": San Salvador, Mejicanos, San Marcos, Ayutuxtepeque, Cuscatancingo, Ciudad Delgado, Ilopango, Soyapango, Antiguo Cuscatlán, Nueva San Salvador).	1998**	43,743	
	1999	54,879	
	2000	67,852	
	2001	69,919	
	2002 (T)	71,985	

* Baseline for Micro 2000 and CRECER is June 96. For the CAM is September 96. The CAM went through a write off process during the month of September 96 reducing the number of active clients from 27,398 in August 96 to 14,557 in September 96.

** Includes new activities: One beginning in 1997 projecting 16,965 active borrowers for 1998; and another new start for 1998, reporting 2,500 for the same year.

MICRO 2000: Phase II is contingent upon results of Phase I (Oct 96-June 97)