

General Earthquake Assistance Provided by FOMIR/DAI Quarterly Report for January 1 – March 31, 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

Below is a summary of technical assistance provided by FOMIR. During the past quarter, FOMIR/DAI began an intensive technical assistance program to support ACCOVI in the implementation of its regularization plan with the Superintendency of the Financial System (SSF).

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). The justification and team for this support continue as described in the last quarterly report.

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

Regularization plan committee. FOMIR/DAI consultant Luis Lievano continues as the day-to-day coordinator of the plan and Robin Young as the overall project manager. Mr. Lievano coordinates and supports a broad base of staff and managers from ACCOVI to complete the tasks on the work plan. He reports to the President of ACCOVI. At the request of ACCOVI and concurrence of FOMIR/DAI, Mr. Lievano's support to ACCOVI has been extended into the coming quarter. Ms. Young monitors overall compliance, coordinates with the software customization project and other technical assistance for the credit union. Mr. Lievano and Ms. Young conduct bi-weekly meetings with the President, General Manager and newly created Senior Management team.

Development, approval and dissemination of several policy and procedures manuals. Revised savings and time deposit manuals based on Central Bank (BCR) observations, resubmitted and received approval from the BCR. Prepared and submitted policy manual on Administration and Accounting for Extraordinary Assets. Developed and submitted to the BCR the policy on the Interest Rate Variation Policy. Developed procedures manual on money laundering and risk assets in compliance with article 41 of the Non-bank Financial Intermediaries Law and observation of the SSF.

Verification of data, development and delivery of reports for the SSF's credit registry. With initiation of the internal auditor in January and the first tests on data for migration to the new software system, additional efforts were placed on data quality and reports. Monthly submission of all reports continues on schedule.

Clean up of accounting practices and account reconciliation. With the new Financial Manager and a new organizational structure for the department and accounting staff,

ACCOVI reports to have cleaned up its accounting practices, reconciled or written off all outstanding accounts, and created a position responsible for ongoing reconciliation to ensure consistency in the future.

Building Management Capacity. Both to comply with its regularization plan as approved by the SSF and to complete the basic management team required to manage the day-to-day operations of the organization, ACCOVI was required to hire several staff members. During the past quarter, the Internal Auditor and Legal Manger began working at ACCOVI. In addition, ACCOVI hired a new Operations Manager and named a new Credit and Collections Supervisor (upgrading the position from Credit Coordinator and giving it a new focus on risk management and arrears management). Two branch managers were replaced which have significantly upgraded the profile in all four branches over the past year. Finally, the new positions of Human Resources Coordinator, Compliance Officer and Legal Assistant were created. The first two being filled with internal candidates and the final with an external hire. The increased workload and requirements due to the regulatory process have put new levels of pressure on staff resulting in significant staff turnover during recent months. ACCOVI's management and President are aware of this situation and have taken steps to improve morale and quickly replace necessary staff with qualified candidates.

In addition to assisting in the hiring and induction process, FOMIR/DAI has been providing ongoing assistance from Mr. John Hallen to build the management team. This work began with a series of interviews and a workshop to define ACCOVI's new organizational chart and the key responsibilities and relationships of senior management. In addition, Mr. Hallen assisted ACCOVI to create an executive management team and directs their weekly meetings. Mr. Hallen assisted the new Operations Manager to create and direct Operations Department meetings that focus on branch administration. Finally, Mr. Hallen conducts individual coaching sessions for each senior manager in work planning and supervisory skills.

Development and implementation of an internal auditing plan. The internal auditor began working in January and has played an important role in her internal auditing function for the Board and SSF as well as providing valuable input to improve operations, organization, internal controls and certifying the new software system. She has conducted an orientation for management regarding the role and function of the internal audit.

Compliance and tracking system for related lending and financial indicators such as capital adequacy. Provisional systems were developed and data submitted to the SSF as required. Permanent tracking and reporting systems have been incorporated into the new Topaz software to be implemented in the coming quarter.

Coordination with the development and implementation of the new software system to ensure compliance and approval by the SSF. FOMIR/DAI has established a complete and qualified team for the software customization project. To ensure the software meets the specific requirements of ACCOVI as a regulated institution, FOMIR/DAI has dedicated extra resources. These include the work of Claudia Ordoñez to review the credit module

and provide additional requirements and testing, Luis Lievano to discuss and review the accounting and reporting requirements, and an additional programmer during January and February 2003, paid half by ACCOVI, to respond to the particular requirements of the SSF. The SSF began reviewing the clients and savings modules of the new system Ms. Final training, testing, programming, migration and installation of the system were completed during the past quarter. Claramunt coordinates all these efforts. For a complete description of activities under the software customization plan, please refer to that section of this report.

Arrears Management. Reviewed portfolio reports and developed reports on portfolio quality, including loans in legal process, loans to be written off, and loans requiring special collections attention. Created a special reporting format to recommend to the Board loans for write-off or for special attention. Based on this process, the continued emphasis FOMIR/DAI has placed on arrears management, and the new managers ACCOVI has hired, the credit union has focused significant attention on reducing arrears. Specific steps taken include creating an executive management committee that can address problem loans and implement Arrears Committee recommendations, upgraded and restructured the Credit Coordinator position to Credit and Collections Supervisor and named a new Supervisor with strong experience in collections. The newly appointed Legal Manager has taken over tracking all loans in legal process and has consolidated information and improved contracts and filing of all loan documentation. The new Operations Manager and Branch Managers are conducting daily, weekly and monthly review of arrears and have set a goal of a monthly reduction of at least one percentage point in portfolio at risk over 90 days. ACCOVI has begun to write-off loans in compliance with SSF regulations and its own portfolio review and is fully provisioned based on SSF regulations. Based on these efforts and the requirement for increased training of existing and new credit and collections staff, ACCOVI has requested FOMIR/DAI implement a consultancy and training program during the next quarter. This activity was designed with ACCOVI's management and will begin in late April.

SSF Site Visits, Updates and Meetings. The SSF conducted a site visit to ACCOVI in February to check on compliance and progress on the credit union's regularization plan. While complete observations from this visit are yet to be received, initial comments and communications address issues related to authorization for remittances services, legal name of credit union on contracts in late 2002, official definition of directors (to include or not Junta de Vigilancia), inclusion in General Assembly agenda of naming of External Auditor, and creation of Compliance Officer position and procedures manuals. In addition, the consultant assisted the General Manager to prepare and submit monthly updates on institution's progress in complying with its regularization plan. The consultant also participated in meetings with the Legal Intendent of the SSF related to ACCOVI's contracts and representatives of the BCR related to ACCOVI's deposit and savings policy manuals and remittances services.

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 has made no claims. Management intends to submit claims during the first quarter of 2003.

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 below 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

Overall Impact

The seven FOMIR related MFIs that provided credit in areas determined to be affected by the earthquakes in January and February 2001, reported 16,614 rural active clients as September 30, 2001. As of the March 2003, the number of rural active clients served by these seven MFI's has increased by 16% from 16,614 to 19,728 or an increase of 3,114 rural active clients.

During the quarter ACCOVI increased rural active clients in earthquake affected areas by 344 clients going from 4,754 clients in December 2002 to 5,098 clients in March 2003.

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

Budget and Expenditure for Earthquake Activity under the Project

Below is revised earthquake budget approved by USAID, the amount of expenditure through March 2003 and the amount remaining.

CODE	Earthquake Activity	Grant	Amount Spent	IVA Reimbursement	Amount Available
5360-312	Earthquake Response	\$ 241,709	\$ 241,708.94	\$ -	\$ -
5360-313	Pag Administration	\$ 106,046	\$ 106,046.20	\$ -	\$ -
5360-314	Pag Grants	\$ 1,002,000	\$ 1,137,328.73	\$ (136,674.07)	\$ 1,345.34
5360-315 A	PAG TA Microfinance Specialist	\$ 225,000	\$ 225,000.00	\$ -	\$ -
5360-315 B	Pag TA - Preparing for Disaster	\$ 20,000.00	\$ 15,656.00	\$ -	\$ 4,344.00
5360-315 C	Pag TA - Accovi	\$ 105,245.00	\$ 57,748.89	\$ -	\$ 47,496.11
TOTAL		\$ 1,700,000	\$ 1,783,488.76	\$ (136,674.07)	\$ 53,185.45

*Amount listed for PAG reimbursement includes \$6,927.49 claimed but not yet reimbursed by GOS to USAID

Annex A: List of Clients as of March 31, 2003 by Institution and
Municipality Affected by the Earthquake