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QUARTERLY REPORT

OCTOBER 1, 2006 – DECEMBER 31, 2006

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FINANCIAL SERVICES FOR SMES PROGRAM

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USAID Financial Services for SMEs Program
Av. La Capilla 411, Colonia San Benito
San Salvador, El Salvador C.A.
(503) 2211-2351

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EXECUTIVE SUMMARY

The past quarter showed continued progress in the Program's individual work plans with its partners, as well as special events on matters of interest and importance to USAID, Program partners, and other stakeholders.

Technical assistance entered a second "execution" phase with partner banks, that is, a phase of design and implementation of SME business units, strategies and planning geared to addressing perceived weaknesses and deficiencies in SME business platforms that were identified in the earlier, diagnostic phase of technical assistance with these entities. These business platforms incorporate the commercial, product and risk areas, along with their supporting infrastructure in the systems and human resource units of the respective banks. This second phase of technical assistance also took into account the observations and recommendations of the SME study undertaken by Inversiones Columna, which were covered in detail in the previous quarterly report.

Special events included a forum with a focus on the importance of the SME segment and proper SME access to finance, in the context of current and future FTA regimes that are of relevance to El Salvador. This forum, which was carried out in both an executive summary format for high-level participants and an unabridged version for a general audience, highlighted the importance of developing a more effective and coordinated systemic effort to support Salvadoran SME development, particularly at the financial sector regulatory level. It was complemented by smaller, special purpose activities involving some of the forum's key foreign participants, including a luncheon for Salvadoran and Colombian banking regulatory officials at ABANSA, and visits by the senior SME executive of Bancolombia to a number of Program partner institutions.

This forum and related activities were geared to continuing to develop and reinforce the themes of earlier activities, such as the work study trip to Colombia and the SME client culture workshop. Collectively, they are aimed at demonstrating the importance of the SME segment and at highlighting ways of addressing the SME finance challenge creatively and effectively. They are intended to complement and make more broadly meaningful individual SME efforts at Program partner institutions.

As a result of all the preceding, including individually tailored consultant interventions at the institutional level, and special purpose forums and other activities for program partners and other stakeholders, an SME banking dynamic continues to gain an ever more solid and entrenched footing in El Salvador. Continued and intensifying interest in project technical assistance, on the part of partner banks, underscores the preceding observation.

Additional activities, such as the final phase of the Shorebank training program in SME lending for FEDECREDITO and affiliated entities, as well as efforts geared to enabling the program's two NBFIs partners to become regulated entities, were carried out successfully in tandem with all the above.

I. INTRODUCTION TO USAID'S FINANCIAL SERVICES FOR SMES PROGRAM

Chemonics International Inc. in conjunction with our consortium members Crimson Capital, Enterprising Solutions Global Consulting, International Consulting Consortium (ICC), Shorebank International, and Skol & Associates, is pleased to present our quarterly report for the Financial Services for SMEs program for the period October 2006 through December 2006. In Section I, we provide an overview of the objectives of the project and activities to date. In Section II, we provide a detailed summary of the main activities and accomplishments during the period.

A. Background

While El Salvador has developed a strong macroeconomic framework that has encouraged stability, allowed for dollarization, and encouraged lenders to make funding available, it has been unable to attract much investment, create new jobs, and make further inroads to reduce poverty. Growth and job creation will likely come from the diversification and expansion of more competitive SMEs in manufacturing, services, and agriculture. With the introduction of CAFTA, these SMEs are well positioned for significant growth and even greater contributions to El Salvador's economy over the next decade.

Despite their potential, however, SMEs face a number of challenges to reach new markets and grow their businesses. In a 2002 survey conducted by FUNDAPYME, an overwhelming number of SMEs cited the lack of access to financial services as the major constraint to the growth of their businesses. USAID/El Salvador has identified two major developmental challenges in the financial sector:

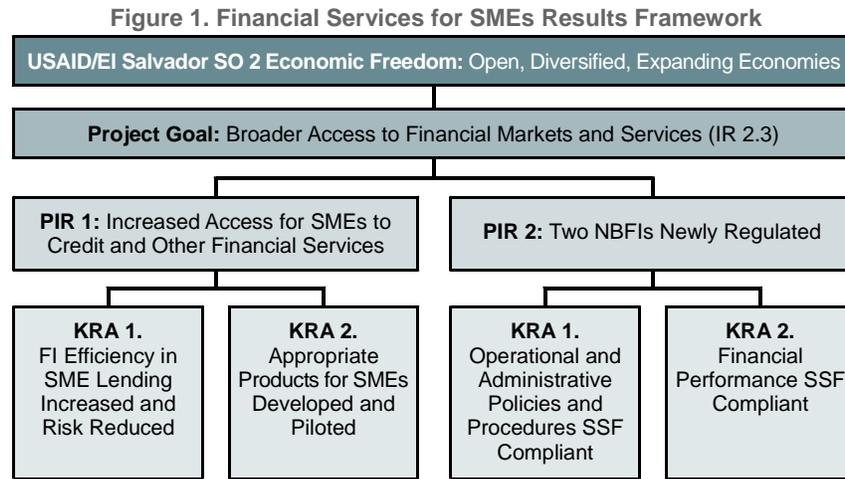
- SMEs lack access to appropriate financial products and services.
- Non-bank financial institutions (NBFIs) lack access to commercial sources of funds and savings.

USAID's Financial Services for SMEs program is addressing these problems by working with commercial financial institutions to increase access to credit and other financial services for small and medium enterprises as well as further strengthen the provision of microfinance in El Salvador by assisting two microfinance institutions (MFIs) to become regulated non-bank financial institutions (NBFIs) under the SSF.

B. Program Objectives

The specific objective of the Financial Services for SMEs Program is to enable no less than nine financial institutions (FIs) to expand lending and other financial services to underserved markets and introduce viable loan products that better serve the financing needs of SMEs. The Program is expected to increase the number of new SME borrowers by at least 10 percent. In addition, the program will increase the volume of loans to SMEs by at least 20 percent.

Bearing in mind USAID’s SO 2, *Economic Freedom: Open, Diversified Expanding Economies* and IR 2.3 *Broader Access to Financial Markets and Services*, the Program will work to achieve two project intermediate results (PIRs) based on program objectives and the tasks identified in the scope of work.



The program is providing direct technical assistance and training to six commercial financial institutions and one federation of credit unions and workers’ banks to increase productivity and reduce the costs of serving SMEs as well as facilitate the development of more demand-driven financial solutions for the SME market. The Program will also find opportunities to link SMEs receiving technical assistance directly with our FI partners. The Program will increase the number of SMEs with access to finance, the volume of financial services delivered to SMEs, and the quality of financial products and services directed at SMEs.

In addition, the program is working with two MFIs to ensure they will become regulated NBFIs within the first two years of implementation of this task order.

II. PROJECT ACTIVITIES AND ACCOMPLISHMENTS

This past quarter the project continued to operate actively with its partner entities, closely following on first phase technical assistance activities that were covered in the prior – and the project’s second – quarterly report. Second phases of technical assistance focusing on improving SME organization and business planning were undertaken with most partner financial institutions. A special purpose forum entitled “Free Trade Agreements, SMEs and the Financial Sector: Interlocking Challenges” was held in early December that proved to be extremely useful in increasing awareness of both SMEs and SME support efforts in an FTA environment. In summation, positive momentum continues to develop with partner entities as technical assistance and other activity moves forward.

A. PIR 1: Increased Access for SMEs to Credit and other Financial Services

Work plan implementation continued this past quarter, involving technical assistance for seven approved FI partners geared specifically to increasing and improving their engagement with local small and medium enterprises through improvements to their SME organizations and business planning. Our FI partners include:

- Banco Agrícola
- Banco Salvadoreño
- Banco Cuscatlán
- Banco de América Central
- Banco Hipotecario
- Banco Promérica
- Federation of Credit Unions and Workers’ Banks (FEDECREDITO).

The specific details of activities with these partners are provided in the following sections.

A1. SME Forum for Major Stakeholders of the Program

A day long seminar was held for representatives of all the program partners and other relevant parties this past December 5. In addition, an “executive summary” version of this event was held the evening of December 4 for high level participants. More than 160 people attended the seminar, including SME executives and relevant staff from local banks, senior officials from the Superintendency of Banks, government and NGOs, as well as the U.S. ambassador and key members of the USAID El Salvador Mission Strategic Objective 2 team. The title of the event was “Free Trade Agreements, Small and Medium Enterprises and the Financial Sector: Interlocking Challenges.” The event advanced the Program’s systemic support strategy of raising awareness of the importance of this segment in El Salvador, and the need to reduce obstacles to SME access to finance. The specific objectives of the event were the following:

- Increase awareness of the critical importance of SMEs to Salvadoran economic competitiveness and growth, especially in light of current and future free trade agreement regimes;
- Highlight the importance of SME access to bank credit against this backdrop;

- Identify (and highlight the importance of mitigating) barriers to SME credit of a regulatory nature;
- Stress the importance of an intensified and more coordinated effort in support of SMEs by pertinent public, private and financial sector actors.

Presenters included Salvadoran consultant Luis Membreño and economist Merlin Barrera, prominent Chilean SME/FTA expert Enrique Roman, and Gabriel Reyes, the former president of the Colombian National Guarantee Fund. The former two focused on opportunities and challenges, including the financing challenge, to Salvadoran SME in the FTA era, while the latter two focused on the Chilean FTA experience with SME finance and Colombian guarantee fund experience respectively. There was a significant element of audience participation in the course of the event, facilitated by Jose Basagoitia of the program, which resulted in, among other things, the following conclusions:

- SMEs are critical to national economic competitiveness and success in the era of CAFTA and other FTA regimes;
- SME access to finance is a critical element in ensuring that SMEs fully benefit from current and future FTA regimes;
- The financial regulatory environment for SMEs needs to improve: financial actor SME risk management and SSF supervisory norms relative to the SME segment require substantial adjustment to be effective—changes to client classification and provisioning practices seem especially urgent;
- Guarantee funds are mechanisms which can catalyze SME credit growth and the current guarantee fund apparatus in El Salvador is insufficient: a risk sharing type of model should be considered as an alternative.

Participant feedback on this event was highly positive. A success story is included in the annexes to this report.

A2. SME Technical Assistance with Partner Banks

The second phases of technical assistance with partner banks were carried out over the course of this past quarter. Seasoned external consultants were deployed for these second phase interventions, which were oriented around issues such as SME organizational structure and market/business strategy implementation. Having evaluated partner banks' current SME organizational configurations, client management practices, business goals, target market niches, credit procedures, product ranges, MIS systems, and other SME related factors in the previous quarter, technical assistance in this phase was geared to jointly developing and implementing plans geared to addressing perceived deficiencies and achieving higher levels of engagement with SMEs.

The Program's first phase "higher level" interventions exposed our FI partners to solid SME banking models in order to demonstrate the viability and profitability of serving this segment. Second phase activities during this quarter set the stage for developing integrated SME financial services delivery platforms, or business units within our FI partners. Subsequent phases will continue to focus on developing or improving SME delivery platforms and will also incorporate targeted technical assistance to strengthen SME product development and credit risk approval methodologies.

A brief summary of highlights of technical interventions, and impacts of same, with individual bank partners follows below:

Banco Promérica. Consultant Carlos Cortes worked with the institution in a second phase of technical assistance to help Promerica define an SME strategy and organizational configuration at the branch level that would best enable increased products and services to SMEs. Mr. Cortes helped Promerica to differentiate SME segments by sales levels, define potential SME market niches, and select branches for initial implementation of the new strategy. An SME focused customer relationship management culture and support/delivery apparatus at the branch level appears to be emerging within Promerica as a result of this TA.

Banco Salvadoreño. Consultant Gabriel Reyes, in his second phase of technical assistance at the bank, developed an SME business plan incorporating the following elements, among others: an SME strategy predicated on proximity to the client and ease of access to bank services; an SME sales force in strategically placed branches; and a segmentation of clients on a “managed” and “non-managed” basis, hinging on their actual or potential activity with the bank. The latter item involves making the most active and profitable clients “managed”, while making the less active and less remunerative clients “non-managed”. The bank has since moved to implement this strategy, including undertaking a SME “cluster” analysis, which was an important element in selecting and upgrading certain branches to serve as “pilots” in this process. This process is moving forward and will be augmented by complementary initiatives in the systems, product and risk areas in upcoming months.

Banco Agrícola. Consultant Eduardo Angel Reyes completed a second phase of technical assistance with the bank following Nelson Ramirez’ first phase comprehensive evaluation. In this second phase, Mr. Angel developed recommendations for adjustments to the bank’s SME strategy to make it more effective. Recommendations for adjustments included: more precise market segmentation, more focused client management/credit risk evaluation, and improvements to technology platforms to support the preceding. Banco Agrícola is being acquired by Bancolombia, one of the major Program allies as well as Latin American leaders in SME finance, but they have expressed a strong desire to continue to work with the project as they believe our technical assistance is making a real difference in their SME business initiatives.

Banco de América Central. Consultant Juan Carlos Ramirez undertook a comprehensive strategic realignment of the bank so as to enable Banco de America Cental to create an effective SME unit. This TA follows on the heels of the evaluation concluded by Carlos Cortes during the first phase of technical assistance. During this second phase intervention Mr. Ramirez aided the bank to design an integrated SME platform involving the marketing, client management, technology, product, and risk evaluation areas. He also developed a schedule of tasks to be undertaken by the project, the bank, or jointly, so as to enable the bank to develop this new platform. This bank appears quite committed and to be moving energetically to make this happen.

Banco Cuscatlán. Consultant Nelson Ramirez, in his second phase of technical assistance with the bank, undertook a comprehensive diagnostic and developed a set of precise recommended actions for the bank to develop a more effective SME business platform. Mr. Ramirez' diagnostic involved not only extensive in house analysis at the bank, but interviews with its SME clientele also. He concluded that the bank needs to breathe new life into its current SME platform, and should consider implementing the following measures, among others, in order to do so:

1. It should establish new client targets for its SME executives;
2. It should establish job descriptions and continuous improvement programs for its SME staff (to clearly differentiate them from other areas and focus them more effectively on SME needs and financial solutions);
3. It should adjust its product offerings and SME product knowledge at the branch level, based on input from its SME clientele;
4. It should adjust its SME risk management and credit approval criteria to make it more responsive to SME clients without sacrificing risk quality.

The bank, which has had a corporate banking orientation heretofore, continues to show a strong commitment at its senior executive level to developing its SME business. They have furthermore assured us that our joint SME initiative will not be affected by their imminent acquisition by Citigroup, the latter having explicitly endorsed their SME business initiative as a corporate priority in El Salvador as elsewhere in Latin America.

Banco Hipotecario. Due to the unexpected departure of Hipotecario's SME Director (the program counterpart) and the hiatus in locating and hiring a replacement for this individual, coupled with an intensive internal review of the bank this past quarter by the government (its major shareholder), technical assistance at this institution was temporarily suspended. It will move forward beginning early in the next quarter. We have received assurances from the bank's president that their "issues" are under control and that their commitment to this segment is unwavering.

A3. Training and Capacity Building for Workers' Banks through FEDECREDITO

The final eight modules of the SME credit training/capacity building initiative for the four workers' banks were carried out by Shorebank trainers Manuel Alegre, Edward Guerrero and Francisco Cazares this past quarter. This initiative was conducted under the auspices of FEDECREDITO, the supervisory federation with whom the participating workers' banks are affiliated, and was attended by more than 20 bank and federation staff members. The remaining eight modules presented practical tools and approaches to:

- Cash flow evaluation for SMEs
- Financial statements analysis
- Trends and ratio analysis
- Loan memorandum preparation
- Loan monitoring
- Problem loans
- Portfolio management
- Skills reinforcement for trainers.

These modules involved not only classroom training, but the provision of tools and methodologies which workers' bank participants could begin to put into practice to increase their SME lending and conduct proper SME portfolio management.

The line up of workers' bank participants was changed at the inception of the program, so as to substitute Banco Izalqueño for Bantpym, as per approval from USAID. Other workers' bank participants in the program are Banco de los Trabajadores de Soyapango, Primer Banco de los Trabajadores and Banco de Cooperación Financiera de los Trabajadores.

Participant feedback from this initiative has been extremely positive, to the point where FEDECREDITO has formally requested an expansion of the program.

A4. Major Successes and Lessons Learned

The program has advanced in joint activity initiatives with its partner banks in the SME area, building on the initial technical assistance efforts of the preceding quarter, while adjusting and adapting efforts as jointly agreed with partners wherever deemed appropriate. Another highly successful special event, as well as a number of focused newspaper articles, press releases and radio/TV segments continue to create a positive image of the project in its stakeholder community in El Salvador.

As highlighted in prior quarterly reports, it is proving useful to leverage regional centers with advanced SME expertise, such as Colombia and Chile, in order to further our efforts here in El Salvador. It is clear that there is SME cultural compatibility with those centers; SME experiences and lessons learned there are extremely relevant to the Salvadoran context and SME finance challenge. Our strategic alliances with entities based there, such as Bancolombia and the Colombian banking supervisory entity, have borne fruit, as is clear from David Boucanument and Luz Amanda Garcia's contributions to our special event in December. We shall continue to tap and develop our strategic alliances in Colombia, while expanding and diversifying our regional alliance network to other centers wherever feasible and appropriate.

It has become clearer to us that the impediments to SME access to finance reside not only in banks and SMEs, but also in the El Salvador's legal, tax and financial sector regulatory regime as well as the broader enabling environment in such areas as SME technical assistance, second story banks and guarantee funds. We anticipate playing a role to address some of these systemic support challenges in the course of 2007.

B. PIR 2: Two NBFIs Newly Regulated

As with partner financial institutions, the program signed MOUs and began technical assistance with MFI partners, Apoyo Integral and AMC to assist them in becoming regulated NBFIs under the Superintendency of Financial Systems (SSF). We continued to consult and coordinate closely with personnel from the Inter-American Development Bank (IDB) office in San Salvador, who share our interest in seeing these two MFIs become fully regulated. We describe below in greater detail initiatives undertaken with both participating entities during this reporting period.

B1. Technical Assistance with AMC

International consultant Miguel Rivarola was mobilized to conduct an in depth diagnostic of AMC in San Miguel, to identify critical needs in order to attain regulated status, and to develop a road map that might serve as the basis for a transformation work plan for 2007 and beyond. This intervention was highly effective in surfacing a number of key issues across a diverse range of areas that AMC will need to deal with in order to achieve regulated status. Findings of this analysis included weakness in the corporate governance area (both of an organizational configuration and professional quality nature) and the need for improvements in such areas as systems, security and controls. It also highlighted the need to develop a liability management plan and internal controls, among other things.

B2. Technical Assistance with Apoyo Integral

A multi-faceted work plan has been developed and agreed in collaboration with Apoyo Integral, encompassing such areas as software development, deposit and/or credit product design/implementation, internal audit and controls, management information systems, liability/treasury management, risk management and personnel development.

The initial phase of technical assistance focused on development of Integral's management information systems (MIS) in TOPAZ to support accounting and portfolio management functions appropriate for a regulated entity. Salvadoran consultants Idalia Estela Portillo Perez and William Castro carried out the TA. Apoyo Integral systems manager William Jacobo also traveled to Uruguay with Program support to receive training from TOPAZ software developers to upgrade current systems. Apoyo considers these elements essential to making a successful transition to fully regulated status, hence asked that they be priorities in our joint collaboration. .

Technical assistance to both Apoyo Integral and AMC are being closely coordinated with the Inter-American Development Bank (BID) to avoid duplication of efforts and ensure maximum synergies are realized between our two programs.

C. Work Plan and Performance Monitoring Plan Development

During this quarter, the first auditing process was conducted by USAID, to ensure the proper methodology was used to generate the key indicators and to verify that data from the institutions complied with program requirements.

The auditor found most of the processes to be correct and only suggested modifications in two areas:

1. Include all information from the Bancos de los Trabajadores in the number presented for FEDECREDITO.
2. Obtain new data for Banco PROMERICA. Due to PROMERICA's lack of a proper routine to extract up-to-date information from their system, data from June was used to generate September indicators.

3. Ensure that institutions not presenting gender segregation will work in their systems to include this information in the coming quarters. The auditor was initially concerned about the Program's methods for estimating gender for certain institutions, but following meetings with the Program's M&E specialist to review the processes concluded the process was adequate, considering the available data.

The Program's internal auditing process scheduled for this quarter was postponed for the next quarter, because December presented complications for the institutions due to the close of the year. The process has been rescheduled for February of 2007.

Details of indicators to end September are included in the annexes to this report.

III. ACTIVITIES PLANNED FOR NEXT QUARTER

This next quarter we plan to advance all technical assistance initiatives with partner institutions that are currently underway, refining and adapting these to each institution's evolving needs and objectives as we move forward. This quarter will also see an intensification of our systemic support efforts on a parallel track with individual partner work plan initiatives. Areas of focus with our institutional partners and other parties will include the following:

A. PIR 1: Increased Access for SMEs to Credit and other Financial Services

Definition of target segments/re-alignment to effectively penetrate and manage these. To assist certain FI partners, consultants will continue to work with their SME units to identify attractive and bankable niches within that segment. The program will help partner banks to develop or refine the business strategies, products and/or risk management methodologies appropriate for the customer bases selected.

Adjustment of SME organizational structure. The program will continue to assist certain bank partners, including Banco de America Central, Banco Hipotecario and Banco Cuscatlan, to more clearly define and/or implement specialized SME units, and possibly incentive schemes, to focus on the expansion of SME lending and other activity.

Risk management. We will provide targeted technical assistance geared to developing more effective SME oriented credit risk analysis and management methodologies in all partner banks. Please also see relevant activities in the "Special events" section below.

Product development. The program will assist all FI partners to develop new products for SMEs, based on careful analysis and identification of SME customer financial needs and deficiencies.

Special events. We plan to hold a major workshop this coming quarter, related to our systemic support efforts. This workshop will be for the local banking supervisory body and will focus on SME supervisory norms and best practices. We plan to feature a range of experienced speakers in this area, and propose to invite both high and mid level officials from the Superintendency of Financial Systems (SSF) to participate. We plan to hold a parallel event shortly following the SSF event, for partner financial institutions. This event will focus on best practices in SME credit risk management in the Latin American region. This event is seen as being a prelude and a complement to individual SME risk management initiatives with bank partners.

Guarantee fund development. We are actively planning to assess the possibility of creating a more effective guarantee fund capability here in El Salvador, as a means of catalyzing more accelerated SME credit expansion. Consultant Gabriel Reyes (former president and architect of the highly successful Colombian National Guarantee Fund system) will collaborate in this effort.

Risk management study tour. A further work/study trip with a focus on risk management, both at the supervisory and institutional level, is contemplated for late this quarter. It is

envisioned that two parallel groups of supervisory personnel and institutional personnel (SME client executives and risk management) might travel to well developed regional centers (Colombia and/or Chile) to spend time observing the practices in those places, at the supervisory bodies and major SME focused commercial banks respectively.

EXPRO collaboration. We have made a proposal geared to collaborating more actively with our sister USAID Export Promotion Program (EXPRO) to develop capacities to assist SME participants to improve their financial management/credit proposal presentation so as to improve their chances of obtaining needed financing. This proposal was developed in collaboration with EXPRO. We are hopeful this will be able to be implemented this coming quarter, hinging on agreement from our sister project.

Cost sharing with partner banks. We have developed a proposal for a payment/accounting mechanism that should enable us to share costs of technical assistance with partner banks in a straightforward and transparent fashion. We have now received USAID approval for this mechanism.

B. PIR 2: Two NBFIs Newly Regulated

AMC conversion. In the aftermath of Miguel Rivarola's comprehensive diagnostic, we propose to undertake the following activities in the upcoming quarter:

- A broad based feasibility study and business plan relating directly to the institution's conversion and the requirements of same;
- Elaboration of a prospectus geared to attracting foreign investors.

These items will focus on developing realistic financial projections for a post conversion period, as well as on qualitative issues such as internal controls, marketing, public relations and corporate governance, among others.

Apoyo Integral conversion. We anticipate the following activities in the quarter upcoming:

- Support in adapting TOPAZ 5.0 liability management modules;
- Design of security and controls systems in the operating, facilities and technical areas, as well as in the IT and data communications systems among the head office and agency network;
- Development and testing of liability products on a pilot basis.

C. Performance Monitoring

Monitoring and evaluation activities to be undertaken next quarter include:

- A thorough review and revision of Program targets
- A review of new baselines to be presented by Banco Salvadoreño
- A review of partner FI system improvements to generate indicator data.

ANNEX A. QUARTERLY INDICATORS

The following tables show the change between quarters for outreach indicators.

OI.3 Number of Active SME Borrowers	Baseline	Sep-06					Dec-06					Change for the Quarter				
	Total	Total	M	%	F	%	Total	M	%	F	%	Total	M	%	F	%
Banco Promérica	578	578	410	71%	168	29%	261	185	71%	76	29%	(317)	(225)	0%	(92)	0%
Banco de América Central	252	238	176	74%	62	26%	311	230	74%	81	26%	73	54	74%	19	26%
Banco Hipotecario	1,725	1,981	1,598	81%	383	19%	2,083	1,598	77%	485	23%	102	-	0%	102	100%
Banco Salvadoreño	2,310	2,395	1,700	71%	695	29%	2,601	1,821	70%	780	30%	206	121	59%	85	41%
Banco Cuscatlán	936	943	736	78%	207	22%	965	751	78%	214	22%	22	15	68%	7	32%
Banco Agrícola	3,315	3,392	2,099	62%	1,293	38%	3,504	2,183	62%	1,321	38%	112	84	75%	28	25%
FEDECREDITO	1,614	1,614	1,146	71%	468	29%	1,398	979	70%	419	30%	(216)	(167)	0%	(49)	0%
AMC Créditos ¹	108	134	72	54%	62	46%	158	87	55%	71	45%	24	15	63%	9	38%
Apoyo Integral ¹	101	110	79	72%	31	28%	150	107	71%	43	29%	40	28	70%	12	30%
TOTAL	10,939	11,385	8,016	70%	3,369	30%	11,431	7,941	69%	3,490	31%	46	(75)	-163%	121	263%

¹Small enterprise only

OI.4 Number of Active SME Loans	Baseline	Sep-06					Dec-06					Change for the Quarter				
	Total	Total	M	%	F	%	Total	M	%	F	%	Total	M	%	F	%
Banco Promérica	889	889	649	73%	240	27%	513	364	71%	149	29%	(376)	(285)	0%	(91)	0%
Banco de América Central	344	323	233	72%	90	28%	587	435	74%	152	26%	264	202	77%	62	23%
Banco Hipotecario	2,866	3,359	2,738	82%	621	18%	3,621	2,736	76%	885	24%	262	(2)	-1%	264	101%
Banco Salvadoreño	3,908	4,981	3,636	73%	1,345	27%	5,973	4,181	70%	1,792	30%	992	545	55%	447	45%
Banco Cuscatlán	1,645	1,747	1,388	79%	359	21%	1,777	1,406	79%	371	21%	30	18	60%	12	40%
Banco Agrícola	4,894	5,020	3,332	66%	1,688	34%	5,168	3,165	61%	2,003	39%	148	(167)	-113%	315	213%
FEDECREDITO	1,856	1,856	1,353	73%	503	27%	1,478	1,035	70%	443	30%	(378)	(318)	0%	(60)	0%
AMC Créditos ²	108	139	74	53%	65	47%	165	90	55%	75	45%	26	16	62%	10	38%
Apoyo Integral ²	102	114	81	71%	33	29%	155	109	70%	46	30%	41	28	0%	13	0%
TOTAL	16,612	18,428	13,484	73%	4,944	27%	19,437	13,521	70%	5,916	30%	1,009	37	4%	972	96%

²Small enterprise only

OI.9 Number of Active Micro Loans	Baseline	Sep-06					Dec-06					Change for the Quarter				
	Total	Total	M	%	F	%	Total	M	%	F	%	Total	M	%	F	%
AMC Créditos	10,062	10,616	3,833	36%	6,783	64%	11,206	4,024	36%	7,182	64%	590	191	32%	399	68%
Apoyo Integral	16,082	19,413	4,753	24%	14,660	76%	21,818	5,287	24%	16,531	76%	2,405	534	22%	1,871	78%
TOTAL	26,144	30,029	8,586	29%	21,443	71%	33,024	9,311	28%	23,713	72%	2,995	725	24%	2,270	76%

OI.9a Number of Active Micro Borrowers	Baseline	Sep-06					Dec-06					Change for the Quarter				
	Total	Total	M	%	F	%	Total	M	%	F	%	Total	M	%	F	%
AMC Créditos	8,525	9,146	3,284	36%	5,862	64%	9,787	3,570	36%	6,217	64%	641	286	45%	355	55%
Apoyo Integral	11,254	14,394	3,538	25%	10,856	75%	17,522	4,538	26%	12,984	74%	3,128	1,000	32%	2,128	68%
TOTAL	19,779	23,540	6,822	29%	16,718	71%	27,309	8,108	30%	19,201	70%	3,769	1,286	34%	2,483	66%

OI.10 Number of active micro loans = \$400	Baseline	Sep-06					Dec-06					Change for the Quarter				
	Total	Total	M	%	F	%	Total	M	%	F	%	Total	M	%	F	%
AMC Créditos	3,460	3,808	1,187	31%	2,621	69%	3,862	1,225	32%	2,637	68%	54	38	70%	16	30%
Apoyo Integral	5,605	6,965	1,242	18%	5,723	82%	7,723	1,350	17%	6,373	83%	758	108	14%	650	86%
TOTAL	9,065	10,773	2,429	23%	8,344	77%	11,585	2,575	22%	9,010	78%	812	146	18%	666	82%

There was a net increase of only 46 clients from September to December. This small increment was the result of a decrease in SME clients in FEDECREDITO and PROMERICA. We are investigating this situation further, as the decrease in numbers of SME clients directly contradicts anecdotal information provided to us by both institutions.

Excluding these two institutions, growth averaged 83 clients per institution. Had PROMERICA and FEDECREDITO maintained their portfolios, total growth would have been 579 new SME clients this quarter, a growth rate of more than 5 percent. This was also true for the number of SME loans.

On contrast, the two MFIs presented a considerable growth in their portfolios. Apoyo Integral increased its number of clients by 21.7 percent from September to December. It is important to note however, that most of this growth is due to small seasonal loans provided around the Christmas holiday. We corroborated this increment to make sure it was accurate. In total, MFI partners averaged an increase of 16 percent in their number of clients.

Loans of \$400 or less also increased by 8 percent, or 812 new loans. Again, Apoyo Integral presented much higher growth.

ANNEX B. MONITORING AND PROGRESS REPORT

The following tables show change in SME borrowers and loans from baselines, segregated by institution, gender and enterprise size. Since there are no targets set for each quarter, the indicators reference sheets will not be presented in this report.

Indicator OI.3 Number of Borrowers disaggregated by Gender and Enterprise size							
As of December 31, 2006							
Banco Cuscatlán	Male	751	78%	Small	Male	165	71%
					Female	68	29%
					Total Small	233	
	Female	214	22%	Medium	Male	586	80%
					Female	146	20%
					Total Medium	732	
Totals	965				965		
Banco Agrícola	Male	2,183	62%	Small	Male	1,414	62%
					Female	874	38%
					Total Small	2,288	
	Female	1,321	38%	Medium	Male	769	63%
					Female	447	37%
					Total Medium	1,216	
Totals	3,504				3,504		
Banco de América Central	Male	230	74%	Small	Male	136	74%
					Female	48	26%
					Total Small	184	
	Female	81	26%	Medium	Male	94	74%
					Female	33	26%
					Total Medium	127	
Totals	311				311		
Banco Hipotecario	Male	1,598	77%	Small	Male	1,402	77%
					Female	412	23%
					Total Small	1,814	
	Female	485	23%	Medium	Male	196	73%
					Female	73	27%
					Total Medium	269	
Totals	2,083				2,083		
Banco Salvadoreño	Male	1,821	70%	Small	Male	1,409	70%
					Female	604	30%
					Total Small	2,013	
	Female	780	30%	Medium	Male	412	70%
					Female	176	30%
					Total Medium	588	
Totals	2,601				2,601		
Banco Promerica	Male	185	71%	Small	Male	130	71%
					Female	53	29%
					Total Small	183	
	Female	76	29%	Medium	Male	55	71%
					Female	23	29%
					Total Medium	78	
Totals	261				261		
AMC de R.L.	Male	87	55%	Small	Male	87	55%
					Female	71	45%
					Total Small	158	
	Female	71	45%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	158				158		
Apoyo Integral	Male	107	71%	Small	Male	107	71%
					Female	43	29%
					Total Small	150	
	Female	43	29%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	150				150		
FEDECREDITO	Male	979	70%	Small	Male	979	70%
					Female	419	30%
					Total Small	1,398	
	Female	419	30%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	1,398				1,398		
Totals	Male	7,941	69%	Small	Male	5,829	69%
					Female	2,592	31%
					Total Small	8,421	
	Female	3,490	31%	Medium	Male	2,112	70%
					Female	898	30%
					Total Medium	3,010	
Totals	11,431				11,431		

Baseline number of SME Borrowers	10,939
Number of new SME Borrowers	492

Indicator OI.3 Number of Loans disaggregated by Gender and Enterprise size							
As of December 31, 2006							
Banco Cuscatlán	Male	1,406	79%	Small	Male	227	71%
					Female	92	29%
					Total Small	319	
	Female	371	21%	Medium	Male	1,179	81%
					Female	279	19%
					Total Medium	1,458	
Totals	1,777				1,777		
Banco Agrícola	Male	3,165	61%	Small	Male	1,792	63%
					Female	1,063	37%
					Total Small	2,855	
	Female	2,003	39%	Medium	Male	1,373	59%
					Female	940	41%
					Total Medium	2,313	
Totals	5,168				5,168		
Banco de América Central	Male	435	74%	Small	Male	212	73%
					Female	78	27%
					Total Small	290	
	Female	152	26%	Medium	Male	223	75%
					Female	74	25%
					Total Medium	297	
Totals	587				587		
Banco Hipotecario	Male	2,736	76%	Small	Male	2,194	76%
					Female	678	24%
					Total Small	2,872	
	Female	885	24%	Medium	Male	542	72%
					Female	207	28%
					Total Medium	749	
Totals	3,621				3,621		
Banco Salvadoreño	Male	4,181	70%	Small	Male	3,058	70%
					Female	1,311	30%
					Total Small	4,369	
	Female	1,792	30%	Medium	Male	1,123	70%
					Female	481	30%
					Total Medium	1,604	
Totals	5,973				5,973		
Banco Promerica	Male	364	71%	Small	Male	218	71%
					Female	89	29%
					Total Small	307	
	Female	149	29%	Medium	Male	146	71%
					Female	60	29%
					Total Medium	206	
Totals	513				513		
AMC de R.L.	Male	90	55%	Small	Male	90	55%
					Female	75	45%
					Total Small	165	
	Female	75	45%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	165				165		
Apoyo Integral	Male	109	70%	Small	Male	109	70%
					Female	46	30%
					Total Small	155	
	Female	46	30%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	155				155		
FEDECREDITO	Male	1,035	70%	Small	Male	1,035	70%
					Female	443	30%
					Total Small	1,478	
	Female	443	30%	Medium	Male	-	0%
					Female	-	0%
					Total Medium	-	
Totals	1,478				1,478		
Totals	Male	13,521	70%	Small	Male	8,935	70%
					Female	3,875	30%
					Total Small	12,810	
	Female	5,916	30%	Medium	Male	4,586	69%
					Female	2,041	31%
					Total Medium	6,627	
Totals	19,437				19,437		

Baseline Number of SME loans	16,612
Number of New SME Loans	2,825

Indicator OI.5 Total value of active new loans to MSEs As of December 31, 2006		
	SME Portfolio	%
Banco Cuscatlán	\$ 161,603	19.3%
Banco Agrícola	\$ 251,000	30.0%
Banco América Central	\$ 20,063	2.4%
Banco Hipotecario	\$ 132,977	15.9%
Banco Salvadoreño	\$ 190,853	22.8%
Banco Promerica	\$ 38,460	4.6%
AMC de RL	\$ 9,785	1.2%
Apoyo Integral	\$ 17,978	2.2%
FEDECREDITO	\$ 13,152	1.6%
Total	\$ 835,871	100.0%
Baseline Value	\$ 734,877	
Total Value of New loans	\$ 100,994	

Overall partner FIs presented consistent growth in their portfolios. Banco Agrícola, Banco Salvadoreño and Banco Cuscatlán have somewhat higher portfolios; Banco de America Central, Promerica and FEDECREDITO presented the lowest SME portfolios.

Indicators PS.2, PS.3, PS.4 As of December 31, 2006				
Institution	Size	Average amount disbursed	Average Interest rate	Average loan term in months
Banco Cuscatlán	Small	\$ 70,928.17	10.30%	55
	Medium	\$ 125,899.63	8.90%	66
Banco Agrícola	Small	\$ 29,827.73	9.67%	83
	Medium	\$ 101,622.29	8.53%	107
Banco América Central	Small	\$ 18,597.18	10.38%	27
	Medium	\$ 62,406.71	9.42%	25
Banco Hipotecario	Small	\$ 28,510.11	8.80%	55.88
	Medium	\$ 136,307.95	8.42%	35.53
Banco Salvadoreño	Small	\$ 18,748.76	9.74%	N/A
	Medium	\$ 99,882.93	8.49%	N/A
Banco Promerica	Small	\$ 78,166.07	11.13%	N/A
	Medium	\$ 134,728.07	11.03%	N/A
FEDECREDITO	Small	\$ 8,899.00	22.29%	32
	Medium	N/A	N/A	N/A

The previous table segregates loans by the average amount disbursed, the average interest rate and average loan term, for the banks and FEDECREDITO. To present a valid average, both the highest and the lowest loans in each institution were checked and removed to avoid distortion of the average.

Event list - FY 2006

Below is a list of the number of participants in the two-day FTA conference held in December. Only the details of participants of partner FIs are presented. Other attendees are grouped into the "Otros" category. This category includes participants from government institutions, SME support agencies, USAID and other institutions related to the SME sector.

Evento: El Tratado de Libre Comercio, las PyME y el Sector Financiero: Retos Vinculados (resumen ejecutivo)			
Date: December 4 2006	Hombres	Mujeres	Total
Agrícola			1
Promerica		1	1
Salvadoreño		1	1
Cuscatlán		1	1
BAC		1	1
Hipotecario		2	2
AMC		1	1
Apoyo Integral		1	1
FEDECREDITO		2	2
Otros		11	7
Totales x Evento		21	10
		68%	32%

Evento: El Tratado de Libre Comercio, las PyME y el Sector Financiero: Retos Vinculados			
Date: Sept - Oct 2006	Hombres	Mujeres	Total
Agrícola		3	3
Promerica			2
Salvadoreño		5	4
Cuscatlán		6	6
BAC		1	3
Hipotecario		7	3
AMC		2	2
Apoyo Integral		3	3
FEDECREDITO		1	1
Otros (Clients and other institutions)		42	28
Totales x Evento		70	49
		59%	41%

	Hombres	Mujeres	Total
People trained for quarter Oct-Dec 2006	91	59	150
	61%	39%	
Number of events	2		

	Hombres	Mujeres	Total
Cummulative People trained (Feb-Dec 2006)	230	189	419
	55%	45%	
Number of events	6		

Other Indicators

The following tables present information about loans to the poor of less than \$400 made by our partner microfinance institutions. The second table shows financial indicators for the two MFIs.

Indicator OI.10 Number of active microloans <= \$400 As of December 2006			
AMC de RL	Micro Loans <= \$400		%
	Male	1,225	32%
	Female	2,637	68%
			3,862 100%
Apoyo Integral	Micro Creditos <= \$400		%
	Male	1,350	17%
	Female	6,373	83%
			7,723 100%
Total		11,585	
Number at baseline		9,065	
New Loans		2,520	

Indicators RE.6, RE.7, RE.8, RE.9 and RE.10 As of December 2006		
AMC de R.L.	Operational Efficiency	114.50%
	Financial Self-Sufficiency	111.20%
	Risk coverage ratio	79.90%
	Current liquidity ratio	12.90%
	Debt-to-Equity Ratio	3.7
Apoyo Integral	Operational Efficiency	118.00%
	Financial Self-Sufficiency	115.10%
	Risk coverage ratio	112.24%
	Current liquidity ratio	7.5%
	Debt-to-Equity Ratio	4.5

For this quarter, no maps will be presented, since there was no change in the municipalities served by the institutions. A follow up is being done for those institutions which still are not capable of segregating loans by municipality.



SUCCESS STORY

Los Retos del Libre Comercio



Vista del Seminario

FOTO: PROGRAMA SERVICIOS
FINANCIEROS PARA LAS PYME

El Libre Comercio abre una puerta de oportunidades, pero representa desafíos tanto para la banca salvadoreña, las PYME y el Gobierno.

En la última década el país se ha caracterizado por implementar medidas de cambio que han marcado una nueva dinámica, en la que los Tratados de Libre Comercio (TLC) se presentan como oportunidad y desafío.

El país ha firmado TLCs con países como: México, Chile, República Dominicana, Panamá y el más reciente Estados Unidos. Todos presentan una oportunidad para que las Pequeñas y Medianas Empresas (PYME) puedan llevar sus productos y/o servicios a nuevos clientes en el extranjero.

Oportunidad para todos, pero ¿que tan preparadas están las PYME?, ¿Está la banca lista para apoyar al sector con créditos ad hoc? Estos y algunos temas más fueron desarrollados en un seminario que el Programa de USAID de Servicios Financieros para las PYME realizó en el mes de diciembre de 2006.

Bajo el nombre “El Libre Comercio, las PYME y el Sector Financiero: Retos Vinculados,” el Programa reunió a la Banca Salvadoreña, empresarios PYME y la Superintendencia del Sistema Financiero (SSF), para discutir temas como entorno nacional en el caso de los TLC, fondos de garantía, supervisión bancaria y la experiencia de la banca privada colombiana.

El seminario dejó varias lecciones para cada una de las partes, pero todas ellas se encierran en la palabra: desafío. La banca debe asumir el reto de abrir más la cartera a créditos productivos, la cual sobrepasa los mil millones de dólares entre pequeñas y medianas empresas.

Como resultado de la asistencia del programa, la Banca está conciente de que el crédito PYME puede ser un gran negocio, pero debe trabajar en coordinación con la SSF, para que los fondos y los programas de garantías cubran sus necesidades y se puedan crear programas “ad hoc” para el segmento PYME.

La PYME por su parte debe reorganizarse, cumplir con todos los requisitos de ley para formalizar su negocio y lograr que la banca financie sus proyectos.

El Programa está proporcionando asistencia técnica a siete instituciones financieras para expandir y desarrollar carteras de crédito y otros servicios financieros para las PYME. Y poder así, apoyar a El Salvador en este nuevo desafío.