FINAL EVALUATION
OF THE
MICROENTERPRISE DEVELOPMENT ACTIVITY
Activity No. 519-0318

Through an cooperative agreement between
FINCA Internacional and USAID/El Salvador
(No. 519-0318-A-00-0352-00)

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I. INTRODUCTION

This evaluation of the Microenterprise Development Project of El Salvador was conducted by Weidemann Associates Inc. under the MicroServe Indefinite Quantity Contract, (Contract # PCE-0406-I-00-6012-00) in December 1997 through February 1998. This introductory chapter includes the purpose of the evaluation and a project description from the scope of work, and concludes with a description of the organization of the report.

A. PURPOSE OF THE EVALUATION

This is the final evaluation of Cooperative Agreement No. 519-0318-A-00-0352-00, Microenterprise Development Activity, signed between FINCA International and USAID/El Salvador on August 30, 1990. The evaluation has two purposes, namely to:

1. Assess and provide feedback to USAID on the progress made to achieve the objectives of the Cooperative Agreement; and

2. Make recommendations for next steps in advancing the development of the CAM [Centro de Apoyo a la Microempresa]

The evaluators hope that the information from the evaluation will help FINCA, the CAM, and the USAID Mission discuss future collaboration to advance the CAM's continued development.

B. PROJECT DESCRIPTION

FINCA International is an international private voluntary organization (PVO) promoting the economic and social development of the poorest segment of society, especially women, through El Salvador, using a methodology field tested in Latin America and more recently, in Africa, Central Asia, and the United States. This methodology involves the creation of village banks that are peer groups of 20-40 members who receive three critical services: 1) working capital loans to finance self employment (typically from $ 50 to $ 300); 2) a mechanism to promote savings; 3) a community-based system that is based upon mutual support and seeks to encourage self-worth. Some affiliates of FINCA, including CAM in El Salvador, also provide larger individual and solidarity group loans ($ 230 to $ 3,400) to microentrepreneurs with existing businesses and assets for guarantees.

The Cooperative Agreement between FINCA and USAID/El Salvador was for US$10 million. The goal of this Cooperative Agreement was "to increase income and productive employment opportunities for microenterprises, thereby enabling them to better contribute to and share in the benefits of economic growth." The purpose was "to establish a new, viable, sustainable Salvadoran institution for providing microentrepreneurs with increased access to financial and non-financial services." Over the past seven years, FINCA has worked with locally-hired employees, in-house and independent experts in microenterprise lending to carry out this mandate.

In 1990, through the funds provided by USAID under the Microenterprise Development Activity, FINCA created the Centro de Apoyo a la Microempresa (CAM), a legally registered Salvadoran NGO, with four regional offices, to manage the village bank and the microenterprise loan portfolios, as well as to provide training services.

In July 1994, a major embezzlement was discovered in the Regional Office of San Miguel. Immediate actions were taken to prosecute guilty parties and get CAM "back on track," attempting to minimize damage to its organization.

As of August 31, 1997, the CAM had 17,033 active clients, an outstanding loan portfolio of $ 1.44 million, and had reached 58% financial self-sufficiency (using FINCA's rates of inflation).

C. Organization of Report

Following this introductory chapter, Chapter II presents the evaluation's scope of work and the methodology used in this evaluation. Then four phases are discussed which describe the evolution of the Microenterprise Development Project. Chapter II concludes with a brief description of the members of the evaluation team.

Chapter III, entitled Project Activities, has two sections: the first covers the Village Banking Program and the second, the Microenterprise Program. Each section reviews findings of the Midterm Evaluation, examines current activities, analyzes impacts on beneficiaries, discusses the integration of women, and presents lessons learned and recommendations.

Chapter IV, entitled Institutional Sustainability of CAM, has three major sections, all of which conclude with Lessons Learned and/or Recommendations. The first addresses CAM's financial sustainability, focusing on what has occurred in the last few years and the prospects for the future. The second section similarly examines the organizational strength of CAM. The third section addresses the role of FINCA International in CAM.

Chapter V, Conclusions and Recommendations, includes material from previous chapters as well as recommendations concerning ways in which USAID/El Salvador could provide further assistance to CAM should the Mission decide to do so. The report's annexes include the statement of work for this evaluation and a report on the survey of village bank and microenterprise beneficiaries.

D. Acknowledgments

The evaluation team gratefully acknowledges the help of the many people who were interviewed for this evaluation; a list of interviewees is Annex 4. Of particular importance in providing information and clarifying issues were Lic. Sandra Lorena Duarte, the Mission official currently responsible for this project, and her colleagues. Similarly, CAM Executive Director, Lic. Ingrid de Segovia, and her staff contributed greatly to this evaluation. The team also appreciates the assistance of FINCA International, in Washington, DC, in providing documents on a timely basis to assist in the evaluation.

II. APPROACH

A. SCOPE OF WORK

The scope of work (see Annex 1) covered a broad range of topics. As required by the SOW, the evaluation team had an initial entry interview with the Mission project officer and participated in a meeting of the Mission's Project Evaluation Committee. Within three days of initiating the evaluation, the team submitted a draft detailed outline of the final report for the Mission review. Subsequent comments served to identify the issues to which the Mission assigned a high priority. These areas included the following topics:

- Current strengths and weaknesses of the Village Banking and Microenterprise Programs
- Current prospects for the CAM's administrative and financial sustainability
- Steps that can be taken to improve the programs and to contribute further to CAM's sustainability.
- The compliance of FINCA International with the Cooperative Agreement and the quality of its technical assistance
- Recommendations of kinds of assistance that USAID/El Salvador could provide now and in the near future directly to CAM to contribute further to the achievement of sustainability.

The outline and content of this report reflects the guidance provided to the evaluation team by the Mission.

B. METHODOLOGY

The evaluation team obtained information from a variety of sources. Using the services of subcontractor FUNDASALVA, two surveys were conducted; one of 225 clients of the Village Bank and one of 80 clients of the Microenterprise Program. The questionnaire was based on that used in the midterm evaluation, thus permitting comparisons over time as well as those within the current groups. Within the established budget for the evaluation, additional funds were allocated in December 1997 to FUNDASALVA in order to attain statistically significant numbers size in key cells in the stratified sample of respondents. These surveys provide new information pertinent to the impacts of the project on beneficiaries.

Other topics in the evaluation were researched by using existing documents, by conducting interviews with key informants, and by carrying out field visits. Given the breadth of the statement of work for the evaluation, the total of eight work-weeks for the three evaluation team members limited the time that could be devoted to any one topic. Given the time limitations, the team gave emphasis to the issues of highest priority for the Mission.

Key informants included CAM clients, management, and staff and one of the Hub/FINCA consultants. (Note: The Hub is FINCA's regional technical office in Central America.) USAID interviewees included those with current and previous responsibilities for the project. Site visits were made to CAM offices in San Salvador, Cojutepeque, and Santa Ana and to village bank meetings in Santa Ana and San Martín. Both USAID and CAM made documents readily available to the evaluation teams, and FINCA International, in Washington, DC, also provided the documents requested to the team.

C. Project Phases

It is useful in examining the evolution of the Microenterprise Development Project to use the four illustrative phases shown in Exhibit 1. Phase 1 begins with the August 1990 signing of the Cooperative Agreement and continues through June 1994. It was a period of rapid growth of borrowers and loans but with underlying weaknesses in the village banks and microenterprise solidarity groups and in CAM as an organization. Some of the those weaknesses were pointed out in the November 1993 Midterm Evaluation.[1] Phase 1 ends with the discovery in July 1994 of massive fraud in CAM regional office in San Miguel.

The Reaction to the Fraud, Phase 2, which lasted two years, emphasized internal controls and the other critical organizational issues. The bibliography lists key reports in chronological order (Annex 6). During Phase 2 the functions of internal control, external auditing, and accounting were improved greatly and the CAM Board of Directors delegated effective operational control to a Salvadoran Executive Director, Lic. Ana Ingrid de Segovia.

Reorientation, Phase 3, began in mid-1996 with changes in the Village Bank and Microenterprise Programs. The July 1996 financial and institutional evaluation of CAM by Hub/FINCA established the context for the continued technical assistance by FINCA to CAM. Phase 3 ended August 31, 1997, the expiration date of the Cooperative Agreement. Phase 4, Sustainability, is the subsequent (and current) forms drive of CAM toward achieving sustainability, which may continue through 2001.

D. Evaluation Team

The evaluation team consisted of team leader Dwight Bunce from Development Associates, and Dr. Lucy Creevey and Nancy Natilson, both from Weidemann Associates, Inc.

[1] Ganuza, M., Nash, J., and Rivarola, M.A. (Chemonics), Midterm Evaluation Microenterprise Development Project, El Salvador, November 1993

Dwight Bunce is an economist with extensive international experience, including service as Chief of Party of a project in Bolivia, which provided credit, technical assistance, and training to small agribusinesses. On numerous short-term assignments has designed and evaluated projects; he speaks Spanish fluently. He is familiar with El Salvador from his service as a Peace Corps Volunteer, consulting assignments in the 1980s, and long-term assignments on infrastructure and municipal projects in the 1990s.

Nancy Natilson is presently the Financial Advisor for a microcredit organization with programs in Bolivia and Nicaragua. She specializes in short-term consulting to microcredit and other lender projects in the developing world. With 10 years of international banking experience, Ms. Natilson has expertise in credit analysis, strategic planning, and management training. She has an M.B.A. in international finance and is fluent in Spanish.

Lucy Creevey, who earned a Ph.D. at Boston University in Political Science, is noted for her work in survey design and evaluation of impact of microenterprise programs. Dr. Creevey played a key role in development methodologies for microenterprise impact programs for UNIFEM, the World Bank, and USAID. The results of her work are in a recently published book, “Changing Women’s Lives and Work” and in a chapter of another book “Finance Against Poverty.” She has more than 25 years of experience in comparative politics, political development, and women in development.

III. Project Activities

A. Village Banking

1. Original Approach

The original objectives and approach for the Village Banking Program were set forth in the Cooperative Agreement.[2] The principal objectives included increasing enterprise productivity and individual and family incomes for the poor especially women. The Village Banking approach was designed to break the vicious circle of low income, low savings, low investment, low productivity, and, closing the circle, low income.

In a communal bank, friendship and mutual support would be combined with good administration and planning to realize human potential, resulting in attainment of a broad range of economic and social benefits, such as better housing, education, and nutrition. Beneficiaries become empowered as they administer their Village Banks as well as manage their own improving finances. Village Bank members start with small loans and pass through a number of cycles of borrowing and repaying increasing loan amounts. At the same time they build their savings. After three years or nine cycles members "graduate," that is, they can withdraw their savings to self-finance further investment. Or graduates can obtain credit from formal sector lenders.

2. Findings of Midterm Evaluation

The Midterm Evaluation noted that the rapid growth of the Village Banking Program (Phase 1) was accompanied by some adjustments in the approach taken.[3] Typical size of a communal bank was 15 rather than 50 members, although some banks had more than 15. When some members dropped out, they were replaced which made it harder to close a bank after nine cycles; that is, not all members would be ready to graduate. Inadequate reserves were established for loan losses.

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[2]U.S. Agency for International Development, "Microenterprise Development Project [Paper]," El Salvador, August 1990, Annex D.

[3]Ganuza, M., Nash, J., and Rivarola, M.A. (Chemonics), Midterm Evaluation Microenterprise Development Project, El Salvador, November 1993, pp. III-1 to III-9.

Average loan size remained small ($ 69) and there was little graduation of members into the Microenterprise Program. Operationally, CAM's Village Bank staff had little contact with the Microenterprise Program staff. The evaluation recommended more collaboration between the programs.

3. Current Report on Activities

a. Changes in Objectives and Methodology

The credit policy manual written in 1992 and revised in November 1993, was the only version available to the evaluation team. (FINCA's revised (draft) village banking manual from March 1997, was not available to the evaluation team.) Changes have taken place since then, but do not appear to be documented in one place. The FINCA Hub in Guatemala is evidently in the process of preparing a new manual for CAM.

In 1996, CAM went through a reorientation period as it had recovered from the fraud; the organization benefitted from the professional staff in place and used technical assistance effectively to make improvements.

According to Octavila de Alarcon, the new Program Manager, the most recent change occurred about five months ago, when the level of loan requiring at least 50% in savings was increased from c2,000 to c3,000. This means that the village bank loans in the range from c2,000 to c3,000 now carry a higher risk vis-a-vis savings required. For example, in the past a c2500 loan had to be backed by savings of c1250; now only 20%, or c500 in this case, is required. Since these savings are maintained by the village banks in their internal accounts, CAM does not liquidate them in the event of default, so the savings are not considered a formal guarantee (unlike the microenterprise loan program).

Another change in the credit policy was an increase in the penalty interest rate from 2% to 3% about two years ago.

Planned changes in marketing for 1998 include closing the San Miguel regional office, and converting it into a "satellite" office, or *oficina departmental*, of the Paracentral Region. Further expansion geographically will be well-studied and well-planned, with growth in field staff at the satellite offices, but not in administrative staff at the head office.

b. Loan Portfolio as of August 31, 1997

Given that CAM's primary method of achieving its programmatic objectives and financial objectives relies on its lending activities, an in-depth analysis of the loan portfolio is critical. Growth statistics will measure achievement of outreach as well as efficiency goals. Quality, as measured by various indicators, reveals risk factors and profitability, which together impact the sustainability of CAM.

Size. The village bank portfolio has shrunk considerably since the level of outstandings at the time of the Midterm Evaluation. This has been primarily due to the fraud, and to other write-offs of loans past-due more than 180 days. As one would suspect, the number of active village banks and members has also shrunk since 1994, although the recent trend does indicate growth. The average size of loans has been decreasing since 1994, perhaps indicating that the progression through the cycles to larger loans is not occurring as it should be. Whatever the reason, the trend negatively impacts the efficiency of the operations. In fact, the initial loan size is c 600, so the August 1997 average of c640 is barely above that, very odd for a program that has been lending for so many years. The present upper limit is c 8,000 for village bank loans, so there is a lot of room to grow!

Comparing the performance of the last couple of years to projections, the village bank program has grown more slowly than planned. Certainly the fraud, followed by stringent internal controls, harm to CAM's image in the market, and increased competition have contributed to the slow growth. In the Seventh Year Action Plan for the period September 1996 to August 1997, prepared by CAM and FINCA and submitted to USAID, the "recommended strategy" showed the number of village banks to reach 930 and 1140 by year ends 1996 and 1997, respectively, with membership reaching 24,180 and 29,640. Outstandings were projected to be c 12,715,000 at 12/31/96, and c 17,184,000 at 12/31/97. Only 61% of that goal was achieved as of 8/31/97. A draft of the latest five year strategic plan, discussed in more detail in Section IV. A. 3, shows the portfolio for village banks growing an average of 33% per year, and the number of village banks increasing by 200 over each of the next two years, with members increasing relative to the growth in banks. This seems very optimistic given the slow growth in the past year, no significant new strategies or policies, and increased competition from other microfinance institutions.

Savings generated from the village banking program are kept in the internal accounts of each village bank, and not only do not appear on CAM's financial statements, but are controlled entirely by the village bank and have not been used to guarantee defaults. The statistics from CAM show, however, that the savings have been growing as a percentage of loans outstanding, from 57.9% at 12/31/96 to 62.6% at 8/31/97. This is indeed encouraging, as the increase in size of subsequent loans depends entirely on accumulated savings.

Village Bank Portfolio

	12/31/94	**12/31/95**	**12/31/96**	**8/31/97**
Total amount disbursed	c 68,134,238	c 38,043,485	c 39,167,880	c 40,480,200*
Total loans outstanding	c 25,773,253	c 13,534,850	c 9,893,556	c 10,547,474
Active village banks	1,003	980	660	734
Active members	28,060	25,811	14,709	16,459
Avg. loan size	c 918	c 524	c 673	c 641
Total savings	NA	NA	c 5,733,017	c 6,606,409

Source: CAM internal reports and reports prepared by FINCA for AID
*Through November, 1997.

Quality. The good news is that since 1996, policies are in place and reports are being generated to categorize the aging of the portfolio correctly and to reserve for loan loss in an acceptable amount relative to delinquency. Loans that are written off, net of recuperations, appear as an "off-balance sheet item" or contingency, because it is CAM's hope to eventually recover some of these loans, although its expectations proved to be overly optimistic. However, it was not possible to reconcile the write-offs with the contingent balance. Another issue which merits close follow-up is the extent to which collection efforts are standardized and documented, ensuring due diligence and aggressive delinquency management. Each regional director is responsible for collection efforts, and has a lawyer available to help with the legal aspects.

An aging report of the village bank portfolio since the Midterm Evaluation shows that loans past due more than 180 days are indeed being written-off, and the quality of the portfolio is improving. In fact, loans past due more than 30 days have been reduced from 6.3% of the portfolio at 12/31/96 to only 4.7% as of August 31, 1997. (On the other hand, the microenterprise portfolio still has a significant delinquency problem as discussed in Section III.B.2. below.)

Treatment of the fraud, however, is not exactly as was understood from the quarterly reports. It was not written off, but re-categorized from the loan portfolio to "other assets" before year end 1996. As of August 31, 1997, its balance was c 7,884,843, with reserves equaling 98.6% of its value. (It is unclear why it is not 100% reserved, meaning that an additional c 110,848 should be added to the reserve account.) Although most of the probable loss has already flowed through the income statement when the reserves were established, and the net asset amount on the balance sheet will not be affected, these assets should be written off as they represent loans past due more than two years. If these "other assets" were to be considered part of the portfolio, the portfolio at risk over 30 days becomes ridiculously high at 47.7%, and over 90 days, 45.3%. According to Mr. Burgos, Finance Manager, and Lic. Segovia, the legal counsel has advised to keep this on the books as long as the legal proceedings are still open.

It is important to note that interest past due from 31 - 180 days is reserved 100%, and then written-off. Finally, the policy NOT to refinance or restructure loans is a prudent one and should be continued.

Village Bank Portfolio Quality

	12/31/94	12/31/95	12/31/96	8/31/97
Total portfolio	c 14, 408,170	c 13,534,850	c 9,893,556	c 10,547,473
% current	77.3%	44.5%	71.6%	81.4%
% past-due: 1-30 days	0.6%	25.4%	22.1%	13.9%
31-60 days	2.1%	6.9%	5.0%	2.6%
61-90 days	8.3%	1.4%	0.8%	0.5%
91-180 days	10.9%	0.1%	0.1%	0.1%
> 180 days	0.7%	21.7%	0.5%	1.5%
Portfolio at risk				
> 30 days	22.0%	30.1%	6.3%	4.7%
> 90 days	11.6%	21.8%	0.6%	1.6%

Source: Internal CAM reports

c. Training in the Village Bank Program

The latest document on training, dated October 1997, is entitled "Orientation of Training in the Village Bank Program." New procedures are outlined to meet the training needs of both CAM personnel and village bank leaders and members are described, since there is no longer a person at each regional office specifically hired to train. This section deals only with training of clients. (Staff training is covered in Section IV.B.) The only training manual is dated September 1992, but many changes have been made subsequently. (A revised training manual in draft from 1997, was not available to the team.)

Training is first introduced to village banks in formation. Members are required to attend four weekly training sessions for approximately one hour each. When new members join a bank already formed, they must first attend two weekly meetings before they can receive a loan. In addition, the leaders of the village banks have special training sessions geared to their responsibilities.

Once village banks enter loan cycles, the recommendation is to have four training sessions per 16 week cycle, or one per month. Each session is to last between 30 to 45 minutes. Since October 1997, the regional director and supervisor are each expected to teach one of the sessions during a cycle, and the promoters teach the other two. At the close of each month, the Training Assistant collects data from the regions including those actually trained compared to what was planned. Results for October and November 1997 indicate that under the previous system, about 50% of village bankers targeted for training actually received it, but that with the dedicated trainers gone, only some 21% of those planned to be trained actually received training. But perhaps more disconcerting, data from 1995, 1996, and through November 1997 indicate that only 14,160, 18,183, and 20,537 village bank members and leaders participated in training, respectively, i.e. each member had just over one formal session per year, and only about ½ session in 1995. This is a large shortfall from the intended one training session per month.

Some 45 modules have been developed by Rosangelica Hernandez, Training Assistant. Topics ranges from "How to Grow Your Business" to "Moral Values." The training notes are standardized, but the delivery appears to be rather informal; the sessions are referred to as "chats" in the October 1997 document. Although the style is very participatory, no handouts or workbooks are available, so participants cannot refer back to what they have learned. Nor is the learning reinforced as much as it could be with collateral materials.

It was encouraging to learn from Ms.Hernandez that three months ago *Seguros Social* began classes in the Central Region on health. It is hoped that these can continue to be provided, two per cycle, and can be expanded to other regions. Other organizations will also be approached to provide training.

4. Impacts of Village Banking on Participants

a. Background

The scope of work for this evaluation calls for a "limited survey with project participants" to assess "changes in levels of income, and/or the level and nature of client economic well-being (housing, education, nutrition), client self-confidence, community solidarity" among other issues.[4] This section discusses impacts on incomes, families, and the general well-being. The time allowed and financial resources provided did not permit a large scale survey of participants but restricted the work to a small stratified random sample drawn with the specific intention of seeing whether current perceived impacts of, and reactions to, the project differed in the Region of San Miguel (Oriente),where the project suffered a major fraud (in 1994), as opposed to the other three project regions.

[4] **USAID, Scope of Work, Activity Name: Microenterprise Development Activity, Activity Number: 519-0318. San Salvador: USAID (Received December 1997), pp. 3-4.**

Despite the limited nature of the 1997 survey, it profited greatly from the existence of the questionnaire and survey results used in the Midterm Evaluation. By using the same survey instrument (see Annex 3) with a few additional questions, it became possible to contrast overall the general participant reactions and perceived individual and family impacts midway and at the end of the project.[5] However, the difference in the conditions and requirements for membership in the village banks suggests that any comparisons between June 1993 and December 1997 must be done very carefully. On a wave of enthusiasm in the early period, when repayment of loans or continued savings were not always enforced, the responses were almost uniformly positive. A slightly less enthusiastic or optimistic response from the 1997 sample might still indicate as great or even greater positive long term impacts on current members since the probabilities of bank sustainability have increased under new project organization and regulation (see above). Furthermore, given that the nature of the sampling procedure was perforce different (owing to restricted time and resources) -- even given continuous application of rules and requirements (which was not in fact the case) -- the results could not be considered to be exactly parallel. In addition, the economic environment has changed and more credit opportunities exist for the potential universe of village bank members than previously, a factor which also could potentially depress the overall enthusiasm of members in 1997 as compared to 1993. Accordingly, the results of the 1997 survey are analyzed first in the current 1997 context. Thereafter some comparisons with major findings from the earlier surveys are carried out to provide, as far as possible, a illustration of changes or continuities in impacts in the CAM Village Bank Project.

b. Midterm Evaluation Survey

The survey included in the Midterm Report was conducted by Daniel Carr and Associates in June 1993. A total of 386 village bank members with at least two completed loan cycles responded to a seven page (65 question) survey instrument. The sample was drawn from all five geographical regions of the project. A statistically significant number of village banks (41) with at least ten members was randomly selected. Thereafter, using an equal chance random probability sampling technique, the individual respondents were chosen. Upon completion of the survey and analysis of the findings, Daniel Carr & Associates prepared a full report on the survey results which was submitted separately from the Midterm Evaluation to USAID in San Salvador.[6]

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[5] **It was not possible to locate information on the actual identification of the original respondents which would have allowed a re-survey to show changes in attitudes and experience over time. Computer data from the original survey was also not available.**

[6] **See full description of methodology and results in Chemonics International/Daniel Carr & Associates, <u>CAM/FINCA Mid-Term Evaluation Project; Phase 1: Survey results of CAM/FINCA Evaluation Project</u>, Project 519-0318, San Salvador: USAID, July 1993.**

On the basis of findings from this survey, the Midterm Report concluded that the impact and outreach of the FINCA-CAM project had been "within the original project proposal." Further amplification pointed out:

> The direct impact at home has been better nutrition and health, as a result of the extra income. The program has also brought new expectations for potential personal and family development, since they feel they have climbed up the ladder of expectations since they joined the program a year ago and expect to advance more in another year.....
>
> ...The expected impact was the generation of self employment, which the project fully accomplished and at an implementation rate so fast that it was beyond the most ambitious expectations of the planning stage. However, this kind of impact is not extended to employment generation, as previous internal project, promotional, and working documents (such as CAM's annual plans) suggested....
>
> The project is not creating new microenterprises, since most beneficiaries were already in business when they joined the program. Notwithstanding, the project is highly effective in giving those already existing microenterprises access to working capital not available to these entrepreneurs, and possibilities for expansion and permanence. Thus far, the project does not provide the microentrepreneurs with the means to build up a complex or sophisticated business beyond what they have.[7]

Finally, the report concludes that the CAM Village Bank Program may have even more wide-reaching effects than originally proposed in the project plan:

> CAM's organization, flexibility, and training in the field can support a continued expansion to reach 100,000 beneficiaries after seven years of operation. In reaching this goal, the population directly benefitted may go up to 500,000. At such a level, other indirect types of impacts would become important, such as the formal/informal economy.[8]

c. Methodology of 1997 Survey

The 1997 survey was conducted December 18- 30, 1997, by Lic. Juan V. Alfaro, Director of Research, with his two associates : Margarita Montoya and Aradenia Guevara, who acted as field supervisors. All three are in the research department of FUNDASALVA (Fundación Antidrogas de El Salvador). Ten enumerators, regularly employed for survey work by FUNDASALVA,

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[7] **Mario Ganuza, Jeffrey Nash, Miguel Angel Rivarola (Chemonics International.), Midterm Evaluation Microenterprise Development Project, No. 519-0318, IQC Contract No. PCE-0001-I-00-2051-00, Delivery Order No. 5. San Salvador: U.S. Agency for International Development, November 1993, pp. III-48-49.**

[8] **Ibid., p. III-49.**

administered the survey instrument in the field under their supervision. Three researchers entered the data in to SPSS files once the survey was accomplished. None of the researchers engaged in conducting the survey or entering the data had had any previous working relationship with CAM. Following the data entry, the survey results were analyzed in the United States in January 1998 by a member of the Evaluation Team.[9]

The questionnaire included 84 questions and was almost identical to the 1993 instrument. Differences included some changes in questions to allow for more cycles of loans. In addition, questions were added to probe the experience of those who were no longer members of village banks but had been members previously. The survey was restricted for the reasons given above and it was necessary to make certain adjustments to a totally random sampling procedure. Zones with fewer banks and members which were extremely difficult to reach were excluded. In the remaining area, banks were randomly chosen from lists provided by CAM. Thereafter, the promoters of these banks were contacted and, from the promoters' lists of bank members, the final selection was randomly chosen by the field supervisors. The planned distribution of surveys was as follows:

1. Because only a very small total number of respondents could be included given time and resources and to ensure the impacts of the 1994 defalcation were shown, an initial selection was made to include a larger number of respondents in Oriente (59). Smaller samples (36), but also statistically significant, were to be administered questionnaires in each of the other regions were : Paracentral, Occidental and Central (San Salvador).

2. The earlier survey only administered questionnaires to active bank members with at least two cycles of loans. The 1997 did not restrict itself to active borrowers or by the number of cycles completed to get a broader picture of how reactions might differ. The sample included members primarily members of "active" banks (those which have met their obligations to CAM and whose members have outstanding loans). However a small number of members of "inactive" banks (where the bank has not met its obligations to CAM and may either be waiting for funds for the next cycle or may have more serious cash-flow problems such as severe internal repayment problems) were also surveyed as the experience of members who were not successful was also deemed important.

3. The 1993 survey had found over 90% of the bank members were women. Current figures from CAM show continuing dominance of women in the banks. As a result, the 1997 survey ensured that there was a statistically significant number of women in all four regions of the project. Questionnaires were also administered to men but the numbers of these were not statistically significant in any region, although as a whole group they could be reliably compared to the women members.

[9] **See survey instrument in Annex 3.**

The actual distribution of surveys defers slightly from that planned before the survey team went into the field. In fact, it was possible to administer more surveys than originally had been thought possible. The final actual distribution is shown in shown in Table III.4. A below:

Distribution of Village Bank Questionnaires

Region	Total Respondents	Total Women	Women: 1-3 Cycles	Women: 4+ Cycles	Women: Inactive Banks	Men
Oriente	88	78	53	23	12	10
Paracentral	46	33	17	13	6	13
Occidental	53	46	19	27	6	7
Central	38	30	15	15	6	8
Total	225	187	104	78	30	38

d. Characteristics of Respondents

More than half of the respondents were in the age range of 35 to 54 with slightly less than a quarter being either 19 to 24 or 55 and older. Fifty percent of the respondents had attended some or all of primary school. Slightly more than a quarter had had no education and were illiterate. About half of the respondents were heads of their household and the average household size was six persons. The average number of children per respondent was 3. Men respondents were significantly more likely to be in the older two groups than the women (significance level of .064). Men were also much more likely to be heads of household than the women (significant at .000). As in the earlier survey, most (more than 70%) were engaged in commercial activities, either in sale/resale or sales from inventories held at home. Men, however, were slightly more likely to be in service activities or production than were the women (32% compared to 22%). A third of the women said their income was the principal support of their families but male respondents were significantly more likely to say this or that their income from their business was very important to their households, while women respondents were more likely to say their income was complementary (significant at .049).

There was no significant difference in actual net profit earned from their enterprises, however. Nor was there a significant difference in the amount of money received as a loan from CAM or the amount of money saved in the village bank account. The average savings was 2,746 colones[10] and the average size of the last CAM loan was 1,478.22 colones. The overwhelming majority (69%) of respondents were in their first to fourth cycle indicating, as earlier sections of this report have suggested, that bank members drop out and new ones join on a regular basis. Of the respondents, 12% had had more than 10 loans. Only 22 respondents scattered out over the four regions had loans from any other source.

[10] **8.80 colones = $1.**

About half of the respondents said that making their loan payments to the bank was either difficult or very difficult for them and there were no significant differences among the four regions in this regard. However, there was a significant difference in regard to actual repayments. Paracentral (37%), followed by the Eastern Region (Oriente - 27%), had more respondents who had late or missing payments on their loans (significant at .033) than had the other two. Central (San Salvador) had the best record with only 11% saying they had any arrears.

e. Survey Findings: Economic Impacts

The 1993 survey found no significant employment generation resulting from the project. The 1997 data indicated similarly that most people had already been working when they joined their village bank and had on average now, as well as before, one employee. The 1993 survey found that bank members reported their savings had almost doubled since they joined the bank and that their weekly income (from the enterprise) had increased by 145%. In the 1997 survey, the members also reported an increase in their weekly net income although the average increase was not as high - 38%. In regard to savings the average increase was 144% but this finding differs sharply depending on the region. Indeed, amount of increase in weekly net income also differed substantially by region. The chart below illustrates the differences showing that Oriente region had the strongest improvements in savings while members in Paracentral and Central actually decreased the amount of money they saved and Occidental (the Western region) had only slightly increased their savings. All showed increased net income but Paracentral had a substantially greater increase than the others.

Chart: Percentage Changes in Weekly Income and Savings

The survey also asked bank members to tell whether they considered their standard of living (on a scale from 1 to 10) higher today then before joining the bank and what they predicted on the same scale for next year. The respondents were generally enthusiastic and optimistic. They saw their present position as better than before they joined the bank and believed that it would improve substantially in the following year. This was true for all regions although Central (San Salvador) had the most optimistic view of their current level of living.

PUT CHART HERE Chart: Perception of Living Standard

f. Survey Findings: Social Impact

The survey explored whether the village bank members' families now enjoyed a better quality of life than before the bank by looking at improvements in nutrition, ability to purchase needed medicines, more money for education and more leisure time for the respondent. Most respondents felt that their life was indeed better now and that they had more money for food and therefore better nutrition for the family. They also saw themselves as being more able to purchase medicines as needed. However, most did not feel they had enough extra funds to improve their ability to educate their children and only about a third felt they had more time for rest or leisure activities. A plurality felt their life went on as before with just as much work to do as they had always had. There were no significant differences among the regions. Comparing these results to the 1993 survey shows that the more recent survey responses are slightly less enthusiastic about the impacts of the village banks than were the respondents in 1993. The chart below illustrates the differences.

PUT CHART HERE Chart (2 pgs): Social Impacts of Program

page 2 of chart

page 3 of chart

g. Conclusions

One of the primary questions motivating this survey was whether or not the fraud which occurred in the Eastern Region (San Miguel) in 1994 had a lasting negative impact on the Village Bank Program. In exploring these data, there seems to be no evidence that the Eastern Region is significantly different than the other three regions in most matters. In fact, the best record of current savings is in the Eastern region. However, indirectly a negative impact is suggested by the findings: Oriente (San Miguel Region) has a significantly lower average among respondents of numbers of loan cycles in the program (Oriente has an average of 3, Central and Paracentral of 6, and Occidental of 7), this suggests that more members left the program than in the other regions which may be explained by the demoralization resulting from the fraud. The survey, however, can not substantiate this interpretation.

The other question was whether or not the overall reaction to the Village Bank Program would be less enthusiastic now than it was in 1993. In fact, this is the case. The respondents to the 1997 survey estimate lower income increases resulting from bank membership and, overall, less savings. Their perception changes in their families' lives were also less strong. On the other hand, despite the facts that the concept of village banks is no longer new, that other community banking programs now exist in El Salvador, and that there was a highly publicized fraud in the program, the CAM Village Bank Program is very positively reviewed by its members. Most feel they have improved their businesses productivity and their own economic situation significantly.

5. Gender and the Integration of Women into Village Banking

a. Background

End-of-project status indicators included having at least 50% of women as beneficiaries over the life of the project. The scope of work for this evaluation asks three things:[11]

- Did the design specially include women as participants and beneficiaries? In which activities/ sub activities? What specific objectives and targets were set for participation by women as compared to men? Are activity baseline and monitoring data gender-disaggregated?

- Were these planned types and levels of participation for both women and men achieved (or exceeded)? Why or why not? How much and what kind of participation by women as compared with men occurred? Why did this occur?

[11] USAID, Scope of Work, Activity name: Microenterprise Development Activity, Activity Number: 519-0318, San Salvador: USAID (Received December 1997), p. 4.

- How did participation by women, compared with men, influence the degree of success of this activity?

The program itself was designed in a way which made the participation of women extremely likely. Poor women in El Salvador had little or no access to formal credit in 1990, when the project was established. They had no collateral and generally no formal savings accounts. They were also more likely to be illiterate and more likely to be constrained by family needs and social conventions from seeking formal loans outside their villages. The village bank lending provided a borrowing and savings plan which depended on a group of members located within a village to guarantee payment of each other's loans rather than using collateral. Given the absence of a demand for collateral, the scarcity of loans available to women, and the group and in-village organization which did not require members to deal with formal institutions, the village banks drew women members easily. Indeed, men were not as attracted to the program probably because more and larger loans with fewer strings attached were in fact available to them. This tendency was increased by the promoters who sought out women members and educated them in the desirability and feasibility of the scheme. As a result women dominated the village bank program from its inception - in the Midterm Evaluation, observers noted that 95% of the village bank members were women.

By the end of the project, the percentage of women in the village bank program had decreased (see III.A.5. Table 1 below). Women were now 84% of the total of bank members, the actual percentage varying slightly in each of the four regions of the project. The decline in female dominance is probably due to success rather than any declining emphasis on helping women. This trend has been observed in village bank programs in other countries. Although initially drawing mostly women for the reasons given, the success of the program makes it more attractive to men who begin to request inclusion as the program grows.

Consequently, the answers to the questions raised in the scope of work in regard to the village bank program are clear and easy to demonstrate: The program was designed to attract poor women particularly and, in fact, succeeded in helping primarily women thus satisfying one of its initial objectives. Well more than 75% of the beneficiaries of the village banks were and are women. Women were and are more than 90 % of the village bank agents or promoters. All the supervisors are women. Almost half of the staff (not including secretaries, janitors or drivers) are women, including the Executive Director. The Tables below contrasts the gender patterns of village bank membership in 1997 to 1993, and present the proportion of women currently in the administration of the program:[12]

[12] 1997 figures are provided by CAM central administration. The 1993 figures come from Mario Ganuza, Jeffrey Nash, Miguel Angel Rivarola (Chemonics International.), Midterm Evaluation Microenterprise Development Project, No. 519-0318, IQC Contract No. PCE-0001-I-00-2051-00, Delivery Order No. 5. San Salvador: U.S. Agency for International Development, November 1993, III-7.

Gender Disaggregation of the Village Bank Program

Region	Members of Active Village Banks (% Female) 1997	Members of Village Banks (% Female) 1993[13]
Oriental	**1,361 (81%)**	**8,488**
Occidental	**6,573 (83%)**	**7,529**
Central	**4,888 (88%)**	**5,407**
Paracentral	**3,637 (82%)**	**5,693**
Total	**16, 459 (84%)**	**27,117 (95%)**

III.A.5 Table 2: Women in the Administration of CAM 1997

REGION	Promoters Total (% Women)	Credit Officers Total (% Women)	Supervisors Total (% Women)	Administration Total (%Women)
Oriental	**6 (100%)**	**5 (80%)**	**0**	**4 (75%)**
Occidental	**20 (90%)**	**2 (50%)**	**3 (100%)**	**5 (40%)**
Central	**16 (94%)**	**2 (50%)**	**3 (100%)**	**7 (29%)**
Paracentral	**14 (93%)**	**0**	**3 (100%)**	**3 (33%)**
National Office				**35 (49%)**
TOTAL	**56 (93%)**	**9 (67%)**	**9 (100%)**	**54 (46%)**

b. The Midterm Assessment

The Midterm Evaluation Report included throughout references to the impacts on and participation of women in the village bank project. Its overall statement on the gender impacts of the project were as follows:

[13] Note: The 1993 report did not include a breakdown of the percentage of female respondents of the village banks by region.

In summary.. This project has had a major, positive impact on women in many ways, principally as borrowers because the vast majority of the beneficiaries are women. Impact was measured in terms of access to credit and training, sales and profit increases from the enterprises, and income increases used for the health and education needs of the family. Further, women in some of the poorest segments of society have been reached for the first time. Also the women participating in the program have indicated significant improvements in their self esteem and self confidence. Secondarily, women have been the implementors of the methodology and employees and volunteers of CAM. It seems safe to suggest that without the extensive participation as implementors, there might not have been the same degree of impact on women. Compared to men, where the direct benefits have been much more limited, the benefits to women have been overwhelmingly significant. To some degree, the nature and type of benefits to women was anticipated in the design and FINCA's proposal; however, the degree realized was beyond expectations. Results are likely to continue and they should be sustainable as long as approaches and methodologies used in both the Village Banking and Microenterprise Lending Programs are not modified significantly.[14]

c. Findings from the 1997 Survey

In the section above, an analysis was carried out on the impacts of the village bank project on the participants in 1997. These findings indicate that the positive reactions to the project and self-assessed improvements in family and individual well being have continued for the majority of participants who are - as the table above indicates - largely women. The overall findings from the 1997 survey are discussed above. It is worth noting again, however, that most village bank members experienced an increase in their net income from their enterprise and increased their savings. As well, a majority believe that their life is better now than it was before and that in the future it will get even better.

In one section of the survey, five questions were addressed only to female respondents to find out their individual reactions as to how participation in the village bank program had affected them as women. Answers to the questions could be either "no" or "yes."

1) "My life has not changed much over the last few years...."

2) "My husband does not like it when I go to meetings, but I do my best to go even though afterwards he gets angry."

3) "Now I no longer have difficulty in talking to people I don't know and I feel more secure in myself."

4) "Now I understand better the needs of my family and I feel that I have the possibility of helping to resolve them."

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[14] Mario Ganuza, Jeffrey Nash, Miguel Angel Rivarola, Midterm Evaluation, p. III-41.

5) “Now that I earn money, I make more decisions and I am contributing in a major way to supplying family necessities.”

Ninety percent of the women responded that their lives had not changed much over the last few years. However, in many ways they had experienced positive results. Eighty percent said they felt more confident now and were more easily able to interact with people. Virtually everyone said she understood family needs better now and was more able to help provide them and that she now had a larger decision making role in the family. Slightly more than a third of the women said their husbands resented their participation in the village bank meetings and got angry as a result. But, most women did not have this problem. In sum, the village bank program left its members feeling that they were empowered in terms of their ability and knowledge, their self confidence and their resources.

6. Lessons Learned and Recommendations

Lessons Learned

1) Members of the village bank program believe that their living standards have been significantly improved by joining the banks and will improve significantly in the coming year.

2) Village bank members believe they have more funds available to them to purchase better food for their families and buy medicines when needed.

3) Although the results from the 1997 survey are strong and positive in regard to economic and social impacts of membership in village banks, they are not as strong as were the results in the 1993 survey.

4) The region in which the 1994 fraud occurred has the same pattern of positive responses to the village bank program as do the other three regions. However, there are indirect indications that more of the old bank members left the program than in other regions which may indicate (at least in part) a reaction to the fraud.

0) The village bank program has reached poor rural women and helped them improve their income and savings possibilities.

6) The program is organized so that women are able to participate and most can do so with no opposition from their families.

7) More men are joining the program than in its early stages but the group format still favors and encourages women who have little or no collateral and few other options for credit.

8) The administration of the village bank program, especially at the regional levels, is dominated by women which facilitates communication with village women.

9) Growth has been slower than planned for this program over the past two years, as it recuperated from the fraud in 1994. Five-year projections indicate that growth will increase substantially; but without any significant changes or new initiatives, it is difficult not to view the projections as overly optimistic.

11) The portfolio has been performing very impressively since 1996, with only 1.6% of its loans past due more than 90 days as of 8/31/97.

Recommendations:

1) Average loan size is suspiciously low, (with CAM's average village banking loan was only $74 as of August 31, 1997),[15] and almost at the minimum for new loans. The causes for this low average loan size should be investigated further, so that CAM can benefit from economies of scale and improved efficiencies.

2) Without the trainers at the regional offices, and with pressure on the promoters to increase the portfolio but maintain quality, it is anticipated that training efforts will suffer, but operating costs will be reduced. It is recommended that outside training opportunities (fully-funded) continue to be explored (e.g., *Seguros Social*); these outside training organizations could supplement existing training with no additional cost to CAM. Also, workbooks and handouts generally enhance training efforts and should be considered in the future.

3) Manuals for both training and credit need to be updated and implemented. (FINCA's revised (draft) village banking manual from March 1997, and a draft training manual were not available to the evaluation team.) As changes are approved over time, these should be incorporated as appendices, so that the manuals are kept current.

B. MICROENTERPRISE LENDING

1. Original Approach

The original project design was described in the Cooperative Agreement between FINCA and USAID/El Salvador, and focused on village banking.

2. Findings of Midterm Evaluation

[15] Average loan size was calculated by dividing outstandings by active clients, as can be seen in the report, Section III.A.3.b. Another method of calculating average loan size is to divide disbursements by number of loans made, but unless there is an unusual trend occurring at year-end, the former method should be indicative.

The initial Microenterprise Program offered loans to individuals for working capital from $ 500 to $ 3,000 with solidarity groups used as a guarantee mechanism. In October 1991 AID approved a reduction in the minimum amount to $ 250; in July 1992 the lower limit was reduced further to $ 125 for solidarity groups.

The Midterm Evaluation concluded that the Microenterprise Program methodology was similar to that of "...other agencies in El Salvador and other countries in Latin America..."[16] It also found that, contrary to expectations, Village Banks did not generate clientele for the Microenterprise Program.[17] The evaluation advocated collaboration between the two programs to achieve such linkage.[18]

3. Current Report on Activities

a. Changes in Objectives and Methodology

Although the Midterm Evaluation indicates that pricing on the microenterprise loans will be reduced to 2.75% per month, and calculated on a declining balance,[19] Ms. Alarcon said that was not so; interest is charged the same as for the Village Bank Program, i.e. 3% per month flat. Credit approval is still centralized, even though the 7th Year Action Plan stated in its introduction that "centralization of loan approval and disbursements is too costly to maintain." The plan also proposed to not only limit microenterprise loans to individual borrowers, but to "require guarantees, and to base subsequent loans on a strong repayment history." According to Lic. Segovia, this has been done, including documenting the right of CAM to debit the savings account if a payment is not made on time. Initially savings of c 100 were to be added per month of outstanding loan, but in late 1996, the requirement changed to have 20% of the outstanding loan in savings.

b. Loan Portfolio as of August 31, 1997

Size. External evaluations as well as internal annual action plans have been stating since at least 1995 that high delinquencies are a serious concern and that new loans in this program should be stopped until collection efforts prove successful. Solidarity group loans were stopped in June 1996 in an attempt to improve the performance of this program. The reduction in loan balances has been very substantial, both because of the freeze and because of write-offs. The projections, however, in the 7th Year Action Plan called for year end figures for 1996 and 1997, respectively, to be c 8,604,000 and c 11,759,000 with 1,903 and 2,359 borrowers, respectively. In reality, the portfolio

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[16] Ganuza, M., Nash, J., and Rivarola, M.A. (Chemonics), Midterm Evaluation Microenterprise Development Project, El Salvador, November 1993, pp. III-12

[17] Ibid., pp. III-15

[18] Ibid.

[19] Midterm Evaluation Microenterprise Development Project, Chemonics, November 1993, p. III. 36 -37.

has been reduced even more; the extremely low level has had a detrimental effect on income and sustainability. And exhibiting a similar trend as the loans to village bank borrows, the average size of microenterprise loans was only c 3,630, low in the range of loans permitted, and low compared to the projected average of c 4,464 in 1998.

Drafted but not-yet-approved projections for 1998 - 2001 show the microenterprise portfolio to grow by c 924,500 in 1998 and c 1,122,200 in 1999, increasing the client base by 150 each year. Technical assistance in microenterprise lending made recommendations to improve the methodology, and changes were implemented including deletion of the solidarity groups, analyzing the guarantor, and having strong legal recourse to use savings as well as property of the borrower to cancel past due debt. If the approval process is to be decentralized in 1998, extreme caution must be taken to ensure delinquency problems do not worsen.

Microenterprise Portfolio

	12/31/94	**12/31/95**	**12/31/96**	**8/31/97**
Total amount disbursed	c 19,748,000	c 23,286,500	c 9,849,000	c 1,252,000*
Total loans outstanding	c 10,797,430	c 15,951,197	c 4,338,151	c 2,083,546
Active borrowers	2,713	3,728	654	574
Avg. loan size	c 3,980	c 4,279	c 6,633	c 3,630
Total savings, and as % of loans outstanding	c 2,207,619 20.4%	c 3,245,018 20.3%	c 1,508,047 34.8%	c 706,812 33.9%

Source: CAM internal reports and reports prepared by FINCA for AID
*Through November, 1997.

Quality. Despite the fact that no new solidarity group loans were disbursed after June 1996, delinquency problem in this portfolio persist. Individual loans, which are projected to increase next year, have 53.4% past due more than 30 days as of 8/31/97, and 41.9% are past due more than 90 days.[20] Despite write-offs and the shrinkage of the microenterprise portfolio as a whole, the aging has deteriorated, with loans past due more than 30 days equaling 67.7% of the portfolio at 8/31/97. Loans past due more than 180 days should be written-off, per CAM's policy. However, CAM reports that the individual loans disbursed since June 1, 1996, only have 31% past due more than 30 days. This is still considerably higher than the performance of the village bank portfolio.

It is also important to note that CAM's Finance Manager brought up the important point that the reserve and write-off policy still isn't perfect for this program, because the savings are netted against the past-dues on an aggregate level, so that one borrower's savings erroneously reduces the past-due

[20] Internal CAM reports

balance of another borrower, as if they were in a solidarity group, but they are not. This is in the process of being corrected; there is no estimate as to the magnitude of under-reserves or insufficient write-offs at this time. If, on the other hand, no savings were netted from the past due balance, the required reserves for August 1997, calculated per CAM's policy according to days past due, would have to increase by approximately c 373,400. This would represent a very conservative reserve policy, based on the assumption that no savings would be available to liquidate past due microenterprise loans.

Microenterprise Portfolio Quality

	12/31/94	12/31/95	12/31/96	8/31/97
Total portfolio	c 10,797,430	c 15,951,197	c 4,338,151	c 2,083,546
% current	84.5%	77.7%	18.8%	24.9%
% past-due: 1-30 days	1.9%	1.9%	24.1%	7.4%
31-60 days	2.6%	1.6%	10.5%	3.3%
61-90 days	0.9%	1.3%	16.3%	4.8%
91-180 days	2.7%	3.2%	18.5%	0.8%
> 180 days	7.5%	14.3%	11.9%	58.8%
Portfolio at risk > 30 days > 90 days	13.7% 10.2%	20.4% 17.5%	57.1% 30.4%	67.7% 59.6%

Source: Internal CAM reports

c. Training as part of the Microenterprise Lending Program

Training was available to solidarity groups, until that lending program was dissolved in June 1996. Those borrowing under the individual loan program never had access to training, so presently the training for clients is exclusively for village bank members.

4. Impacts of Microenterprise Loans on Recipients

a. Background

Section B above presents the reasons for the need to do a limited survey of recipients of microenterprise loans as part of this final evaluation of FINCA-CAM to examine impacts on incomes, families and general well-being. Again, as in the case of the survey of members of village banks, the 1997 survey of loan recipients from the microenterprise program profited greatly from the existence of the questionnaire and survey results used in the Midterm Evaluation. Again, by using the same survey instrument (see Annex 3) with a few additional questions, it became possible to contrast overall the general participant reactions and perceived individual and family impacts midway and at the end of the project. However, as in the village bank survey, the difference in the conditions and requirements for loans were radically different than they had been in 1993 so that any comparisons between June 1993 responses and those from December 1997 must be done very carefully. Accordingly, the results of the 1997 microenterprise loan survey are analyzed first in the current 1997 context. Thereafter some comparisons with major findings from the earlier surveys are carried out to provide, as far as possible, a illustration of changes or continuities in impacts in the CAM Microenterprise project.

b. Midterm Evaluation Survey

The Microenterprise Loan Recipient survey included in the Midterm Report was conducted by Daniel Carr and Associates in June 1993. 102 loan recipients with at least four months of loan experiences responded to a 6 page (69 question) survey instrument. The sample was drawn from all five geographical regions of the project. The sample of 102 respondents was determined in proportion to the actual distribution of borrowers in each region and the final respondents chosen using a strict probability multi stage process. CAM staff did not make any decision regarding the selection of village banks or members. Findings from the microenterprise survey were included in the full report on the survey results referred to above.[21]

On the basis of findings from this survey, the Midterm Report concluded that the impact and outreach of the FINCA-Cam microenterprise loan project had not been as great as that of the Village Bank Program. Positive results had been experienced by most of the respondents however:

> The direct impact at home has been less than in the village program, but nutrition and health were reported as improved. The program also brought new expectations for potential personal and family development. They joined the program at one step higher than the village bank beneficiaries, and they feel they have climbed almost three more steps on the imaginary 10-rung ladder of expectations. They expect to advance two additional steps in one more year.
>
> The motive to join this program is less social and more pragmatic than in the village banks. The typical participant .....joins the program to get easy and cheaper credit and CAM does not need to spend resources, as in the village bank program, to bring in a potential client.... The program already reached a respected size among the microenterprise loan programs in the country, but its results are not as spectacular as the village banks. This program component in the CAM/FINCA project was not as

[21] See full description of methodology and results in Chemonics International/Daniel Carr & Associates, CAM/FINCA Mid-Term Evaluation Project; Phase 1: Survey results of CAM/FINCA Evaluation Project, Project 519-0318, San Salvador: USAID, July 1993.

clearly defined in the Cooperative Agreement and has still not been clearly defined for implementation purposes. Strategically, this program needs full revision to find ways to exploit the competitive advantages....

c. Methodology of 1997 Survey

The 1997 CAM microenterprise survey was also conducted December 18- December 30, 1997, by Lic. Juan V. Alfaro, Director of Research, with his two associates : Margarita Montoya and Aradenia Guevara, who acted as field supervisors (see above). Following the data entry, the survey results were analyzed in the United States in January 1998 by a member of the Evaluation Team[22]

The questionnaire included 82 questions and was almost identical to the 1993 Microenterprise Lending instrument. The universe of active microenterprise borrowers is much smaller than it was in 1993 - currently 385 compared to an earlier total of 945. These are distributed with 43% in Oriente Region (San Miguel), 28% in the Occidental region (Santa Ana), 23% in Central Region (San Salvador) and 6% in the Paracentral Region (Cojutepeque). The targeted number of respondents was 75. Initially a decision was made to include a statistically significant number of respondents in San Miguel for a comparison of the impacts there with all other regions because of the 1994 defalcation. Thereafter, questionnaires were distributed as closely as possible according to the proportion of borrowers in the project areas. The purpose of the survey was construed to be to assess the impacts of the current program with its new rules and much tighter regulation. The old program was greatly dissimilar and, given lack of resources to do a full study of the different client reactions to the two, only active borrowers were included in the target group for the questionnaire. There were no restrictions in the choice of respondent according to sex or number of loans (although most respondents were expected to be female as this program is also dominated by women, if not as heavily as the village bank program). Choice of respondents was made by random selection from a list of all active borrowers provided to the research team by the CAM Executive Director's office. The actual distribution of surveys was as follows:

Distribution of Microenterprise Lending Questionnaires

Region	Total Respondents/%	Total Universe of Borrowers (%)
Eastern (San Miguel)	40 (50%)	167 (43%)
Western (Santa Ana)	15 (19%)	106 (28%)
Central (San Salvador)	22 (28%)	87 (23%)
Paracentral (Cojutepeque)	3 (4 %)	25 (6%)
Total	80 (100%)	385 (100%)

[22] See the survey instrument in Annex 3.

d. Characteristics of Respondents

Sixty-six or 83% of the respondents were women and all of them came from urban areas.[23] Fifty-three percent were 35 to 54 years old; the rest were divided about equally between the 19 to 34 and over-55 categories. A plurality of respondents had been to some or all of primary school although a greater share had more schooling when compared to the respondents from the village bank survey.

[23] Ideally a full random sample survey of participants would have been done which would have resulted in a largely rural sample because of the actual client distribution; unfortunately, there was very little time or resources to conduct a survey. As a result, the team had to stratify the selection process and could not represent the proportion of rural and opposed to urban clients that exists in the program. It was felt that the information provided by the "urban" respondents still provided an update on what was known about the program's impacts over time. The team was further reassured in its results by finding no significant difference between the urban and rural respondents in the key points investigated.

INSERT CHART

Chart : Education among Survey Respondents

Half of the respondents were heads of their households while the other half was not. Again men were significantly more likely than women to be household heads (significant at.000). On average, the respondents had three children each. Just as in the village bank survey, the microenterprise borrowers were largely (72%) in commercial activities, either in sale/resale or sale from inventories held at home. However, in the microenterprise sample, men were significantly more likely to be engaged in service or production activities than were the women (significant at .05). Men were not more likely to say their income was the sole or major source of income for their families as they had in the village bank survey. There was, however, a difference in the amount of income received. Men had higher incomes (average 857.08 colones compared to 729.44 colones for women).

93% of the respondents were still in the microenterprise loan program (on the books) of whom 48% were in solidarity groups and 52% were individual borrowers. Few of the respondents had had more than three loans (34% had had only one loan, 19% 2 and 29% three). There was no difference between men and women in this regard. In strong contrast to the respondents to the village bank survey, more than half of the microenterprise borrowers had late or missing payments to their last loans and two thirds said that it was difficult or, indeed, very difficult to pay the required amount on time.

e. Economic and Social Impacts of the Microenterprise Loans

There was no significant difference in reported levels of savings before and after getting one of the microenterprise loans. But, despite their late or missing payments, most of the recipients of the microenterprise loans had registered improvements in their weekly incomes derived from their enterprises. The average increase was 42% which is higher than the increase experienced by the village bank members. This impact becomes larger when it is disaggregated between Oriente (San Miguel) and other regions. Apparently San Miguel borrowers are not doing as well on average. Their weekly net income has decreased by 61% which means the actual average increase for all others is 121%. The chart below illustrates these findings.

insert chart
Chart: % Changes in Weekly Net Income Among Microenterprise Loan Recipients

The greatest difference between the microenterprise and village bank surveys, however, is registered in the perception of the clients of both programs of the impacts on their lives of participating. Overall the village bank members were very positive about their experience with the program and reported improvements in the economic situation of their families because of the banks even though they were not quite as positive as respondents in 1993. The Microenterprise loan recipients showed a completely different perspective. In 1993 they had reported positive changes in their lives although these changes were not perceived as strongly as village bank members. In 1997, the microenterprise loan recipients were far more likely to say things had remained the same or, even, were better before. Especially among those from the Oriente (San Miguel), the respondents reported that they had a better life before, were able to buy better food for their families, and had more money to purchase medicine. They also said that they had had more money for their children's education before and more leisure time in that period as well. Even when the sample is disaggregated to distinguish individual borrowers from solidarity group borrowers (on the theory that in the present list of individual borrowers a significant number are successful repeat borrowers), the results are quite similar. The microenterprise borrowers overall do not see participation in the program as making their lives today better.

f. Conclusions

The negative perception of the loan recipients is clearly colored by the fact that so many of them can not pay their interest plus principal payments on time, or indeed at all. This is not unique to Oriente (San Miguel) where the fraud occurred. In fact, Central Region has a higher percentage of reported arrears/defaults than Oriente (73% compared to 69%). A larger sample might have allowed investigation in more detail and revealed certain sub groups within the program who are positive about the impacts of the microenterprise lending scheme. In the absence of this information, however, and with caution because of the small survey, a significant difference in attitude between village bank and microenterprise members can be noted here. Again, actual incomes from enterprise net profits appear to have risen. But, the participants are nonetheless not attributing all of this to the microenterprise program as their compatriots in the village banking scheme seem to be doing. Difficulties and uncertainties in the microenterprise program and the lack of group business training and follow up may contribute to this result.

5. Gender and the Integration of Women into the Microenterprise Lending Program

a. Background

As Section III A.5 above indicates, CAM in both its programs was established to promote "the economic and social development of the poorest segment of society, especially women, throughout El Salvador..."[24] In the design of the Microenterprise Lending Program, the needs and social restrictions of poor women were again considered. In this program, loans were to be larger -- $500 to

[24]Ibid., p.1.

$3,000 - and were for those with businesses already established. However, the use of solidarity group of two or three individuals to guarantee each other's loans was adopted as a replacement for collateral.[25] Again this formation, as in the village bank case, was more attractive to women than to men although a larger percentage of men participated than had in the former (as the loans were larger). This attraction to women was increased when, in 1991, the project decreased the minimum loan in the program to $250 and average size of loans dropped substantially.

In the most recent phase of the project, the number of borrowers is substantially reduced from the midterm period and the solidarity groups are being phased out. Current new loans are being made primarily to individuals and require a co-signature or collateral, thus becoming more similar to the requirements of formal financial institutions. However, there is an effort to identify successful participants from the earlier solidarity groups to receive the new loans which will ensure, since these were largely women, that the borrowers are still predominantly women in 1997. Nonetheless, a larger proportion of men have entered the program than in the earlier period. This change is probably due to the increasing strict enforcement of on-time payments and requirement of credit worthiness to obtain loans which have made it harder for poor women. Nonetheless, as the statistics on the program at present indicate, there is a continuing effort to attract and keep women.

Consequently, the answers to the questions raised in the SOW in regard to the microenterprise lending program are also clear : The program was designed to attract poor women particularly and, in fact, succeeded in helping primarily women thus satisfying one of its initial objectives. Almost three quarters of the beneficiaries of the microenterprise credit program are women. About the same proportion of the microenterprise credit officers are also women (See Section III.A.5 above).The Table below contrasts the gender patterns of membership in 1997 to that when the Midterm Evaluation was written in 1993:[26]

[25] In principle, individual loans were also to be made by the program but the predominant form of loans was through solidarity groups.

[26]Current figures were provided by the CAM administration. The number of borrowers includes 215 individual borrowers while the rest are in solidarity groups and are still on the books with outstanding loans. The 1993 figure is from Mario Ganuza, Jeffrey Nash, Miguel Angel Rivarola (Chemonics International.), Midterm Evaluation Microenterprise Development Project, No. 519-0318, IQC Contract No. PCE-0001-I-00-2051-00, Delivery Order No. 5. San Salvador: U.S. Agency for International Development, November 1993, III-17.

Gender Disaggregation of the Microenterprise Lending Program

Region	Active Borrowers - Individual Loans (% Female) 1997	Active Borrowers - Solidarity & Individual (% Female) 1993 [27]
Oriental	**279 (74%)**	
Occidental	**98 (66%)**	
Central	**134 (75%)**	
Paracentral	**63 (76%)**	
Total	**574 (73%)**	**945 (83%)**

b. Findings from the 1997 Survey and Conclusions

In the section above, an analysis was carried out on the impacts of the microenterprise lending project on the participants in the active program in 1997. These findings indicate rather negative reactions. Few perceive major improvements in family and individual well being although this had been reported by respondents in 1993, although net income from enterprises had actually risen among the recipients, female as well as male. Whatever the reasons for the less positive reaction to the program, it did not result from any gender bias. This program was geared to be appropriate to women at least as much as men and had significantly more female than male participants in it. One other consideration is that the lack of attribution of impacts among microenterprise borrowers in some way validates the positive responses among the village bank members. It is NOT the case, as some said in USAID El Salvador during meetings in December, that a survey of participants in this kind of program will always find positive impacts because respondents try to please. In the case of the microenterprise respondents they did not mirror what might have been thought to be the placating response. The village bank women, in contrast, were truly enthusiastic about their experience and what it meant to them.

6. Lessons Learned and Recommendations

Lessons Learned:

1) Borrowers from the Microenterprise Lending Program are much less satisfied with it and much less likely to attribute positive impacts on their lives and work to it.

[27] Note: The 1993 report did not include a breakdown of the percentage of female respondents of the village banks by region.

2) Respondents in the Eastern Region (Oriente) report a significantly worse experience than those in other regions both in terms of income (this decreased in Oriente where others had a strong increase) and in terms of reactions to the program.

3) Although there is no direct proof in the survey that negative reactions are caused by a lack of training and follow up, this is a real probability.

4) The microenterprise lending program was geared to reach poor women and in fact more women than men participated in it.

5) Because of serious problems within the microenterprise lending program, female participants did not report major positive economic and social impacts on their lives.

6) The income of women who had been given loans actually increased significantly between the periods before the loan and currently.

Recommendations:

1) Since the Microenterprise Program does not work nearly as well as the Village Banking Program, CAM should carefully examine the potential benefits of eliminating it.

2) Ensure that the methodology is appropriate to avoid continued problems in delinquency. The changes made in 1996 have not resulted in improved portfolio quality.

3) Ensure that the cost per unit lent in this program is competitive with the costs for the Village Bank Program. Otherwise, seriously consider abandoning this program.

4) Correct the system so that savings from another client are not netted out against past due loans, and adjust reserves and write-offs accordingly.

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IV. INSTITUTIONAL SUSTAINABILITY OF CAM

A. FINANCIAL MANAGEMENT AND SUSTAINABILITY

Much has been written analyzing CAM's financial performance during the second half of the project, including the Institutional Review by Price Waterhouse (11/94), the Viability Study by William Tucker (12/95), and the evaluation by the FINCA Hub in Guatemala (7/96). The latter report analyzed ten categories and gave CAM the lowest score in the "Financial Situation" category (44%) for the following reasons:

(1) CAM has not accessed external credit.
(2) The quality of the portfolio is problematical, and the resulting reserves and write-offs have significant negative effects on expenses, asset size and equity base.
(3) CAM's activities have resulted in operating losses.
(4) Lack of liquidity is a potential problem.

Other major findings will be categorized and commented on, leading to an similar analysis of CAM's performance from January through August, 1997, and finally to an analysis of the draft five year projections.

1. Past Performance - 1994 through 1996

a. Qualitative financial management

CAM has been criticized in the past for having inadequate financial management mechanisms and inaccurate financial information[28], as well as "a lack of consolidated responsibility for budget and planning."[29] The FINCA Hub evaluation done in 1996 stated that financial statements were accurate and externally audited, and used, as they should be, as a management tool. The evaluation went on to criticize CAM, however, for not making timely financial decisions.[30] Under the direction of Mr. José Burgos, Finance Manager, the quality of information has vastly improved. The credit system can now be reconciled with the accounting system, and the planning process is quite advanced, with valuable technical assistance provided by FINCA. All information requested was readily available, with supporting information provided to explain specific situations. The reserve policy was changed per William Tucker's recommendation.[31] And many of the recommendations made by FINCA

[28] Midterm Evaluation, Chemonics, November 1993, p. III-30-31.

[29] Evaluation, Price Waterhouse, November 1994, p. 5.

[30] Institutional and Financial Evaluation of CAM, FINCA-Hub, June 1996, p. 20.

[31] The Institutional Viability of the CAM, William Tucker, December 1995, Annex II.

regarding financial and credit management[32] have been implemented, or are in the process of being implemented, some with the assistance of FINCA.

b. Balance Sheet structure

Due to the fraud and other delinquent loans, the balance sheet has shrunk 33% since its all time high on 12/31/93 to c 23,652,933 at 12/31/96. Balance sheet ratios have changed substantially, again due to reserves and write-offs. The net portfolio has shrunk in absolute and relative terms, indicating that asset productivity must increase in order to generate more income and improve sustainability. And until profits begin to increase retained earnings, the eroding net worth will have to be supplemented if the portfolio is to grow.

Liquidity and leverage were not as strong in 1995 due to an increase in accounts payable, but did improve by year-end 1996. In fact, the finding by the FINCA Hub that liquid assets to current liabilities was dangerously low at year-end 1995[33] has been corrected; liquid assets to current liabilities increased from less than 1.0 to 1.0 at 12/31/95 to 3.2 to 1.0 at 12/31/96 (and 7.1 to 1.0 at 8/31/97). But until CAM borrows funds in the market, these liquidity and leverage ratios are not particularly meaningful.

Balance Sheet Ratios

	12/31/94	12/31/95	12/31/96
Net Portfolio/Total Assets	69.6%	81.5%	56.5%
Current Assets/Current Liabilities	10.1	4.65	8.42
Total Liabilities/Net Worth	0.12	0.33	0.21

Source: CAM financial statements.
(Note: Projections were not available for the ratio of liquid assets to current liabilities.)

FINCA, in its June 1996 evaluation, also cited as a problem the fact that CAM has not been successful in obtaining funding from external sources. It was also stated that until the delinquency was reduced, creditors would not consider CAM an acceptable risk.[34]

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[32] Institutional and Financial Evaluation of CAM, FINCA-Hub, pp. 23-24, 28.

[33] Ibid, p. 13.

[34] Ibid, p.12.

c. Productivity and efficiency

The Midterm Evaluation indicated that while productivity was increasing and village bank promoters were reaching their limit, the credit officers for the microenterprise program were well below industry productivity standards. The June 1996 FINCA-Hub Report also highlighted the high number of staff relative to the size of the portfolio. In fact, productivity in the village bank program has deteriorated since 1995.The ratio of microenterprise clients per credit officer has also been reduced dramatically, even though the number of credit officers has shrunk substantially, because solidarity groups are no longer being used.

Clients per promoter in the village bank program was 289 as of August 31, 1997. This represents a modest increase over the 250 per promoter at year-end 1996, but well below the high in 1995 of 380 per promoter. This trend reflects the fact that the average number of members per village bank is also low: 22 compared to a highs of 26 and 28 at year-ends 1995 and 1994, respectively. Microenterprise clients per credit officer has been reduced dramatically since the solidarity groups are no longer being utilized. At year-end 1995, the average client load per credit officer was 124; at 8/31/97, it was down to only 57. Compared to ADEMI in the Dominican Republic, which lends only to individual microentrepreneurs, CAM has to increase the productivity of its credit officers. ADEMI advisers are responsible for 90-140 individual borrowers.[35]

Further, it was noted in 11/93, that the labor costs represented portions too high to be sustainable; either changes in methodologies or in salary policies would be necessary.[36] Personnel costs are the largest single expense item, so staff productivity is a crucial variable in achieving sustainability. One would expect that as the program matures, and in order to reach efficiency targets, economies of scale from larger average loans should reduce unit costs; however, this has not been the case during the period 1994 through 1996.

If one looks at operating costs (not including loan loss provisions) as a ratio to average gross portfolio, as FINCA did in its June 1996 evaluation, the trend is discouraging. FINCA stated that this ratio should be in the order of 20%[37]; it had increased to 50% in 1996 (and was as high as 75% as of 8/31/97, annualizing the expenses). This is due to the fact that the slight reduction in operating expenses have not come close to keeping relative pace with the dramatic reduction in the portfolio.

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[35] The ADEMI Approach to Microenterprise Credit, A. Christopher Lewin, June, 1991, p. 89.

[36] Midterm Evaluation, Chemonics, November 1993, pp. III-33, III-35.

[37] Institutional and Financial Evaluation of CAM, p. 10.

Granted, some expenses are fixed, but an increasingly large percentage should vary with portfolio size because they should be expenses of credit staff in the field.

On the positive side, personnel costs as a percentage of total administrative costs (not including financial costs or loan loss provisions) have been reducing steadily, proof that CAM is making strides in cutting costs and working more efficiently. But since the loan volume has also been substantially reduced and the expenses relating to managing microenterprise delinquencies are high and often with low return, the efficiency ratios have greatly deteriorated in 1996 despite the reduction in personnel costs, as can be seen in the table below. The ratio of credit and field staff to other personnel has been decreasing over these three years, also not indicative of a trend toward greater productivity.

Efficiency Indicators on a Consolidated Basis

	12/31/94	**12/31/95**	**12/31/96**	**8/31/97**
Cost per colon lent	c 0.12	c 0.18	c 0.22	c 0.23
Personnel costs/ Total admin. costs	79%	76%	74%	72%
Active borrowers/ field credit staff	240	264	181	218
Active borrowers/ total staff	145	152	98	115
O/S portfolio/ field credit staff	c 194,846	c 263,358	c 167,432	c 161,936

Source: CAM Internal Reports

Analysis of the costs for each separate program was not done for this report, as cost allocation methods are anything but scientific, especially given the delinquency problem in the microenterprise portfolio, and its decreasing size relative to the village bank portfolio. As mentioned previously, CAM, however, should carefully analyze the cost per colón lent in each program to justify its continued efforts in the microenterprise program, given its high delinquency rates.

d. Sustainability

CAM has been running operating losses since 1993, which have seriously eroded its equity base (by an accumulated total of some c 11.5 million[38]). However, in 1994 CAM's financial income was able to cover its financial and operating costs, *excluding* loan loss provision. This ratio is what USAID

[38]CAM internal financial statement dated August 31, 1997.

defines as short term operational self-sufficiency.[39] It was 106% as of 12/31/94, but deteriorated to 95% and 99% in the following two years. Further analysis indicates that operating costs did not decrease even though financial income did. Interest rates have been 3% per month since the program began, but costs are rising. Nevertheless, increased competition mandates that interests rates cannot rise, so CAM is pressured to become more efficient, through reduction of expenses as well as economies of scale. Once CAM has to borrow funds in the marketplace, financial costs will increase substantially, causing a negative impact on operational sustainability.

When looking at the next level of sustainability, that of long term operational self-sufficiency, loan loss provisions are included, as well they should be when analyzing a financial institution. By far, the most volatile component of this ratio, with the most substantial impact, is loan loss provisions. Because of the fraud in 1994 and the high level of delinquent loans, the resulting increase in reserves has had a substantial negative impact on CAM's profitability and sustainability. The largest reserves were taken in 1994 c 9,384,375), reducing operational self-sufficiency to 56%. Since then, the ratio has steadily improved due primarily to decreased loan loss provisions.

Finally, financial self-sustainability, which adjusts subsidized loans and capital for inflation, has followed the same trend as long term operational self-sufficiency. But the key variable for this indicator is the rate of inflation. The range seems to be anywhere from an official rate of 11.4% and 7.4% in 1995 and 1996, respectively, according to the Bureau of Statistics and Census in El Salvador, to 20% for 1996 according to the draft five year strategic plan. So the calculations below are based on both a constant 10%, as well as the official rates. Since CAM does not have any subsidized loans, nor any new donated equity, the base for this adjustment is diminishing given CAM's losses. This also diminishes the effect of inflation on self-sustainability.

Sustainability Indicators

	12/31/94	12/31/95	12/31/96
Operational, ST	106%	95%	99%
Operational, LT	56%	64%	82%
Financial, w/ 10% inflation	50%	57%	72%
w/ official rates	NA	56%	74%

Source: CAM financial statements.

2. Current Performance and Comparison to Projections (1997 to 2000)

a. Balance Sheet Growth

[39] Designing for Financial Viability of Microenterprise Programs, USAID/El Salvador, p.25.

Using the actual figures from August, 1997 and the projections from the draft strategic plan for the years 1997 to 2001, CAM and FINCA appear to be optimistic regarding growth. These figures imply not only substantial increases in the number of clients (Annual percentage increases of village bank clients varies from 23 to 31%, and microenterprise borrowers from 38 to 67%.), but of the average size of the loans as well. (Village bank loans presently average c 641 and are projected to steadily increase to an average of c 1059 by the year 2000; microenterprise loans presently average c 3,630 and are projected to be c 6,394 by the year 2000.)

Consolidated Loan Portfolio

expressed in thousands of colones or as a percentage of total portfolio

	12/96 proj.	**12/97 proj.**	**12/96 actual**	**8/97 actual**	**12/98 proj.**	**12/99 proj.**	**12/00 proj.**
Total clients (#)	26,083	31,999	15,363	17,033	23,167	29,108	35,999
Gross portfolio, c	21,319	28,843	14,232	12,631	21,935	29,561	41,974
Portfolio at risk: (%) > 30 days	15.0%	6.0%	21.8%	15.1%	6.0%	4.0%	3.0%

Sources: Projections for 1996 and 1997 - Seventh Annual Plan; projections for 1998 - 2000 - Draft strategic plan; actuals - CAM internal reports.

This fast growth, if indeed it can be achieved, will have major implications for portfolio quality as well. Projections in the draft strategic plan indicate that loans over 30 days past due will represent only 6%, 4% and 3% of the total portfolio in 1998, 1999 and 2000, respectively. But since the level at 8/31/97 was 15.1%, this can be achieved only by writing off the loans past due more than 180 days, which represent 11% of the 15.1%, and then not allowing the remaining loans or new loans to ever reach that level of delinquency.

b. Balance Sheet Structure

Because the projections show the portfolio growing substantially, productivity of the assets is also projected to increase substantially. If the assumptions are realistic, this will greatly improve CAM's profitability, but to increase net portfolio to total assets from 52% to 90% is very ambitious. Liquidity and leverage ratios are projected to be well within acceptable levels, even with some outside borrowing beginning in 1999. (See Section e. below.)

Balance Sheet, at 12/31

	97-proj.	**97 -Aug**	**1998**	**1999**	**2000**
Net Portfolio, in colones, thousands	13,209	11,542	20,582	28,646	40,926
Net Portfolio/Total Assets	60%	52%	89%	90%	90%
Current Assets/Current Liabilities	28.3	16.5	21.4	17.2	16.2

Total Liabilities/Net Worth	0.00	0.2	0.1	0.4	0.9

Sources: Draft strategic plan and financial statement for August 31, 1997.

c. Productivity and Efficiency

As is indicated in the table in Section IV.A.1.c. above, so far in 1997, CAM has slightly improved its productivity as shown by active borrowers to staff and outstanding portfolio to credit staff ratios, as well as personnel costs as a percentage of total administrative costs. Although there were no salary increases in 1997, projections indicate an 8% increase in 1998, and 10% annually thereafter. Some 18 administrative support positions were to be eliminated during the last trimester of 1997; as of November 30, 1997, there were some 22 fewer employees compared to 8/31/97, including 10 administrative personnel and 4 trainers. Projections indicate a relationship of field to administrative staff of 3 to 1, but as of November 30, 1997 the ratio was only 2.6 to 1.0 of credit-related and field staff to administrative staff. This represents a reduction from 4.2 to 1.0 at 12/31/96. As the portfolio grows, more field staff will be hired, but CAM will have to make a concerted effort not to increase the administrative staff above its desired ratio.

d. Sustainability

Using the same definitions for sustainability as in Section IV.A.1.d. above, and comparing these figures to the past, it is clear that the trends continue to improve. CAM is projected to be operationally sustainable, including loan loss provisions, in 1998; this seems attainable given the improvement from 1996 to 1997, of 82% to 94%. Inflation is again the "wild card" when analyzing financial sustainability. The official rates are radically lower than the rates FINCA used in the draft strategic plan, indicating that financial sustainability could be reached before the projected 103% in 2001 (using 6% inflation rate), IF all the portfolio and expense assumptions prove correct. What we do know, however, is that CAM was unable to reach self-sustainability by the end of the project, no matter what definition or inflation rate is used. The near-term future, however, should provide realistic opportunities for CAM to reach the sustainability goal if the portfolio can grow without having delinquency problems, and if costs can be contained to allow for reasonable profitability.

Sustainability Indicators

	8/31/97	1998	1999	2000	2001
Operational, ST	99%	NA	NA	NA	NA
Operational, LT	94%	102%	106%	111%	116%
Financial, w/ 10% inflation	80%	NA	NA	NA	NA
w/ official rates*	89%	NA	NA	NA	NA
w/ FINCA's rates**	57%	70%	82%	93%	103%

Sources: Draft strategic plan and CAM financial statement dated 8/31/97.
*Rounded-up for conservatism, 3% in 1997, and 5% thereafter.
**Per the draft strategic plan (p. 32), 37% in 1997, 24% in 1998, 15% in 1999, 9% in 2000, and 6% in 2001.

e. Funding Strategies

CAM has not procured funding from external sources other than USAID and FINCA. During 1995 and 1996, CAM discussed with Cooperacion Tecnica Espanola (CODESPA) and the Inter-American Development Bank (IDB) prospects for funding[40], but to date, nothing has moved forward. Nor did the discussions with FIS/ALA/EEC[41] in 1993 ever result in any funding. In addition, FINCA was to have contributed $4.9 million to CAM over the life of the project.

The only new source of funds that is mentioned in the draft strategic plan is accessing commercial loans beginning in 1999, using FINCA's guarantee program. It is estimated that c 7.5 million will be needed in 1999, increasing to c 19.8 million and c 30 million in 2000 and 2001, respectively. Neither the requirements for CAM to qualify, nor the costs have been detailed. The Executive Director indicated that funding for 1998 will come from more frequent repayment to CAM by the village banks; instead of monthly, the village banks will repay every 15 days, and by the end of 1998, repayments will be weekly. This can provide liquidity for rapid turnover of loans, but not for the projected growth in the portfolio.

3. Recommendations

1) CAM should finalize its five year strategic plan, and use it as a management tool to measure performance on a regular basis.

2) In order to become sustainable, CAM must increase its loan portfolio, **while maintaining quality**. Careful assessment of the microenterprise program is needed to analyze its profitability vis-a-vis the village bank program.

3) Staff productivity needs to increase to industry standards.

4) Costs must be contained, especially personnel costs. CAM should be careful not to permit salary increases or incentive plans to erode the progress it has recently made in this area.

5) In order to fund the projected growth, CAM will need to obtain loans or capital, recognizing that the former may substantially increase its expenses if it has to borrow

[40] CAM's Seventh Annual Plan, p. 4

[41] Midterm Evaluation, Chemonics, p. III-39

at market rates and pay FINCA for a guarantee. Sources of these funds remain vague, and lack of viable options could halt CAM's growth and prevent it from becoming financially sustainable.

B. MANAGEMENT AND ADMINISTRATIVE STRUCTURE AND PERFORMANCE

1. Early Institutional Weakness

In Phase 1 of the Microenterprise Development Project, that is, before the mid-1994 discovery of massive fraud in CAM's regional office in San Miguel, weaknesses in CAM's management and administration had been flagged and recommendations made for FINCA's technical assistance to help CAM move toward institutional sustainability. Although lauding the "programmatic success" of the Village Bank Program, the May 1993 Carana evaluation said the fast growth of the project in the field, including its loan portfolio, was outstripping the project's "management capabilities."[42] There were communication and line-of-authority problems in the relationships among USAID/El Salvador, FINCA (Alexandria, Virginia, office), the Salvadoran office of FINCA, and CAM. Carana concluded that FINCA needed to do much more to help CAM achieve self-sufficiency, including improving its management information system.

Six months later (November 1993) the Midterm Evaluation by Chemonics also praised the rapid loan growth in the field while pointing out CAM's organizational weaknesses and stressing the need for better technical assistance by FINCA in the institutional area to CAM. Rapid loan portfolio growth was achieved through the promotional efforts of field staff, who had benefitted from CAM's regional trainers; regional offices effectively supported promoters. On the other hand, the Central Office, which existed to support the field activity and to provide the information to external organizations was ineffective. CAM as an organization was not growing pursuant to a well-conceived long-term' development plan. As the Chemonics report noted:

> The institutional development component lags behind field operations, despite the emphasis on this component by FINCA the last six months....FINCA did not take a prudent approach to build up CAM.[43]

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[42] Carana Corporation, Institutional Assessment of FINCA International, May (?) 1993, Executive Summary, p.2

[43] Ganuza, M., Nash, J., and Rivarola, M.A. (Chemonics), Midterm Evaluation Microenterprise Development p. I-2.

CAM was sharply criticized for its lack of internal controls. Chemonics perspicaciously noted that inaccurate information and poor cash management provide ..."a fertile ground for fraud..."[44]

Although both the Carana and Chemonics reports were critical of CAM's institutional shortcomings and the related technical assistance being provided by FINCA, the reports made these observations and recommendations in the context of the perceived success of the project in helping thousands of poverty-stricken beneficiaries, mostly women, who were learning to borrow and repay loans and to accumulate savings for the first time in their lives.

As discussed elsewhere in this report, the growth in CAM's loan portfolio was overstated; inadequate provisions had been made for loan losses and delinquency was underestimated. The effects of the fraud, together with write-offs reduced the value of CAM's assets and equity. While USAID is promoting poverty lending and "promoting loans under $300," the team found that CAM's average village banking loan was only $74 as of August 31, 1997. This low average loan size and limited economies of scale resulted in operating costs which were high relative to interest income, creating the need to hold down administrative costs in order to reduce the operating deficit and to move toward financial sustainability. Yet some of the needed organizational improvements implied additional costs: for example, adaption and utilization of new integrated software; and increased staff training.

In Phase 2 of the Project, beginning in the second half of 1994, FINCA/CAM had to confront the immediate financial losses of the fraud, the need to reform both the Village Banking and Microenterprise Programs, and the continuing need to strengthen CAM as an institution in order to attain self-sufficiency. Although the Mission did choose to continue on with the project, it subjected FINCA and CAM to even more scrutiny, including the following studies financed by the Mission: Evaluación de Control Interno by Marion International Development Services (October 1994); Evaluation of the Center for Microenterprise Support Project (CAM) by Price Waterhouse (November 1994); and The Institutional Viability of the Centro de Apoyo a la Microempresa by William Tucker (December 1995). The Mission also reviewed the Informe de la Evaluación Administrativa Realizada en el Centro de Apoyo a la Microempresa (CAM) en el Período del 29 de Agosto al 20 de Septiembre de 1994 prepared by Castellanos Campos y CIA directly for CAM.

2. Current Performance and Comparison to Recommendations

a. Board and Management Structure

The original concept of the project envisioned a process from the bottom-up that would eventually result in a client controlled entity:

[44] Ibid., P. III-31.

> The basic strategy will be to develop, from the **bottom up**, a new financial institution which will service the needs of microentrepreneurs. A participatory institution is contemplated, which is increasingly controlled by a board whose directors are elected representatives of the client population. Thus, in the first stages of its development, more emphasis will be placed on promotion of **sound grassroots institutions (village banks or other forms of primary societies)** than on the "overnight" creation of a national level financial institution. It is expected, in other words, that the grassroots and national organizations will grow in tandem, with the latter remaining responsive to the evolving needs of its clients and resisting the bureaucratic sclerosis which so often affects institutions created in a "top down" manner. [emphasis added][45]

Reduction of FINCA Participation Even when the village banking and microenterprise program appeared to be going well in Phase 1, FINCA retained much policy and operating control. Although the Mission favored turning over more control to a Salvadoran-controlled CAM Board of Directors, FINCA retained its influence arguing that " ...the ownership/governance question needed to be resolved before the organization could be independent of FINCA and USAID."[46] As FINCA and CAM grappled with the fraud in Phase 2, it became apparent that CAM was weak as an organization and that the underlying grassroots organizations were not "sound." FINCA found that as of August 1994:

> ...CAM [was] essentially leaderless, its Executive Director having resigned, and its Board of Directors divided and ineffective in its efforts to design and implement a viable recovery plan....The strategic planning process had been placed on indefinite hold, as were the questions of institutional governance and ownership.[47]

Salvadoran representatives were elected to the Board of Directors in January 1995, including two women members of Village Banks. But FINCA continued to retain significant influence on the Board. FINCA argued that CAM's problems were so severe that FINCA's withdrawal from CAM's policy-making and management had to be deferred. FINCA assumed the responsibility of "stabilizing" CAM and was to have a "controlling interest" in the CAM Board of Directors.[48]

Far from FINCA's role being gradually reduced, as anticipated in the project design, FINCA's involvement continued. On March 9, 1996, the General Assembly of CAM voted for CAM to become an affiliate of FINCA International. CAM pays fees to FINCA for this status, based on a charge of 1% of the value of loans, a charge which CAM passes on to its borrowers. Some individuals have questioned whether affiliate status is worth what CAM is paying for it. Affiliate

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[45] RFA El Salvador 90-013, Microenterprise Development Project, June 12, 1990, p. 5

[46] FINCA International, Inc., CAM Fifth Year Workplan, [revised text], February 14, 1995, Introduction, p. 3.

[47] Ibid., Introduction, p. 2

[48] Ibid., Executive Summary

status, FINCA asserted, will provide CAM with FINCA support after the project ends and facilitate its access to the Village Bank Capital Fund, which FINCA administers. This status is intended to facilitate a sharing of lessons learned among the FINCA affiliates.

In 1996, FINCA's practical importance to CAM at the operational level took on new life when FINCA received grant funds from USAID to operate a regional office or Hub, which then provided technical assistance to microfinance institutions in seven Latin American countries (Guatemala, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, and Peru). The FINCA Hub receives funds from the USAID Bureau for Humanitarian Response, Office of Private and Voluntary Cooperation (BHR/PVC) in Washington, D.C., and operates out of Guatemala. According to FINCA International, FINCA was also awarded World Bank funds from CGAP to cover some Hub costs. Although there has been some communication from time to time between the BHR/PVC and USAID/El Salvador, the latter is not part of any USAID committee or group (virtual or otherwise) providing oversight or feedback on the Hub. In mid-1996, the FINCA Hub conducted a comprehensive review of CAM,[49] which currently provides the context for FINCA's continuing technical assistance to CAM.

In short, as the project ended in August 1997, FINCA's role in CAM, contrary to the project design, continues to be major: FINCA provides leadership on the CAM Board of Directors and through the Hub continues to be an important source of technical assistance to CAM as it embarks on its current drive (Phase 4) toward sustainabililty. The benefits to CAM from its affiliate status should be monitored periodically, in particular to assess assistance which FINCA is providing and access to the Village Bank Capital Fund.

Anticipated Salvadoran Operation of CAM In Phase 2 and 3 increasing responsibility was delegated from the CAM Board of Directors to the Executive Director; the hierarchy is shown in the Organization Chart (Exhibit 2). Lic. Ana Ingrid de Segovia was appointed on January 12, 1995, a position, she continues to occupy. In contrast to Phase 1, in which FINCA was directly involved in day-to-day operations, the Executive Director does exercise decision-making power with policy guidance and oversight from the Board of Directors. This "definition of the decision making process" as well as the separation of the responsibilities of the Board from those of the Executive Director set forth in the Fifth Annual Workplan[50] was implemented and continued to function through August 1997.

Providing the Executive Director with sufficient authority to manage and make decisions contributed to the administrative, personnel, and internal control improvements discussed below. The staff and management of CAM are now able to engage the FINCA Hub advisors in substantive two-way dialogue during technical assistance activities.

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[49]Hub Centroamericano de Asistencia Técnica, Evaluación Institucional y Financiera del Centro de Apoyo a la Microempresa, Guatemala, July 1996

[50]Fifth Annual Work Plan, OP.CIT., Executive Summary

Thus, although FINCA retained substantial control at the level of the Board of Directors, CAM is functioning well at the operational level under the direction of the Salvadoran Executive Director.

Anticipated Dominance of Borrowers on Board In Phases 2 and 3 an essentially "top-down" process operated, as FINCA and the senior management and the Board of Directors of CAM coped with the unsound grassroots village banks and microenterprise solidarity groups, the fraud and portfolio problems, and the weaknesses in CAM itself. The anticipated "bottom-up" process did not happen nor did the project end with a participant-dominated Board of Directors.

The maximum authority in CAM is the General Assembly (Asamblea General). It has various important powers including approval of CAM's statutes; election of the members of the Board of Directors; approval of the budget, policies, and strategies; and naming of the external auditor. The General Assembly consists of founding associates and active associates.

It is indeed arguable that there was not the latitude to engender a participant-determined process of development for CAM. Even with the efforts of the Mission, FINCA, and the CAM Board of Directors, it was a struggle simply to keep CAM alive.

Ideally, the Board of Directors would be controlled by Salvadorans who are personally committed to the social purpose of CAM, operational efficiency, and institutional and financial sustainability. Some Board members would be active borrowers of CAM; others would offer skills and knowledge from their private sector, PVO, or other pertinent experience. In practice CAM has had difficulty in finding Board members outside of the program, who meet these standards.

Faced with this reality it has reasonably been suggested that expatriate FINCA representatives continue to have a useful role. Both the original and the revised CAM statutes provide for FINCA representation on the CAM Board of Directors due to their status as founders.

In order to make the General Assembly more effective and to prepare active associates for potential Board membership, the CAM statutes were amended in 1997.[51] To become an active associate, an individual must be older than 18 years, be an ethical person, and have some verifiable experience in the activities which CAM carries out. An active associate may not be a public official, be a delinquent debtor in CAM's program, be related by blood to a member of the Board of Directors or an Executive of CAM, or be an employee of CAM. The statutes establish a multiple-step process for becoming an active associate, including visits to a training seminar and village bank, and completion of a six-month assignments related to CAM's programs.

[51] Hatch, John K., Estatutos de la Asociación Centro de Apoyo a la Microempresa "CAM," El Salvador, April 27, 1997.

The imposition of such a demanding and time-consuming set of requirements may reflect dissatisfaction with the contributions made by previous members of the General Assembly and of the Board of Directors.

The selection process appears to be “top-down” in that individuals presently at the top have more than six months to train, test, and approve candidates that meet their standards. The existing structure of the General Assembly and Board of Directors is much less participant-determined than that anticipated in the original design of the project. There is the danger than CAM would become a closed club with little infusion of new blood, which could make CAM unwilling or unable to respond flexibly in respond to changing external conditions or to CAM's own internal weaknesses. Thus CAM's General Assembly and Board of Directors are far from being client controlled and the current processes for selection of active members puts much authority in the hands of current Board members, giving current clients as a group little leverage.

b. Administration

As the project ended in August 1997, many of the administrative weaknesses cited in the Mid-term Evaluation and other reports had been addressed. Compared to mid-1994, CAM's administration was better overall though further improvements are needed, especially to complete and to integrate the computerization of operations and accounting.

Personnel matters are directed by an Administrative Manager, who began in February 1995 during Phase 2. Some administrative manuals have been updated by memos and revised manuals are to be prepared in 1998.

The number of employees has been cut from 210 to 126 at the end of November 1997--a reduction of 40%. Reductions were made in the field and in the central office, keeping the proportion the same: 72% of the employees work in the field. Examples of the areas of employee cutback include the messenger, drivers, trainers, and accounting assistants. Staff was reduced primarily to decrease payroll costs in order to reduce the operating deficit.

In general the central office staff is better educated now than it was in the early 1990's. Many management positions are occupied by college graduates or by those who have finished their course work, many of whom are working on their theses. Other staff members are high school graduates or have technical diplomas in areas such as accounting or social work. Many of the promoters studied social work.

Using written job descriptions prepared in 1996, CAM advertises central office vacancies; field vacancies are recruited through word of mouth and contacts in the regions. For field positions the Regional Director and staff select three finalists and forward their resumes and supporting documents to the administrative department in the central office. Depending on the position, a test may be administered to the finalists. In consultation with appropriate staff, the Administrative Manager makes the final choice. In general CAM follows a policy of promotion from within whenever possible.

Salary levels of CAM field staff are low; the entry level salary of promoters is barely above the minimum wage. Some of CAM's promoters have been hired away by other microenterprise programs or they have left for better paying but unrelated employment. Incentive pay has long been recommended for field staff and CAM intends to institute such as system wherein compensation is based on growth of the loan portfolio and other criteria. The Hub office has offered technical assistance to CAM in the design of the incentive system.

One prudent reaction to the discovery of fraud was to centralize financial administration enabling central office personnel to provide more oversight. Regional and central office CAM staff are involved in every step of the credit process, culminating in final approval by a central credit committee. The finance office issues the check and gives it to the Program Manager, who has it delivered to the appropriate promoter in the field. The client receives and cashes the check, which is later reconciled and monitored by the accounting department. As discussed below, the internal audit unit separately makes surprise spot checks on loan transactions. Thus the loan administration is much more controlled than it was prior to mid-1994.

At present CAM does not have an integrated management information system. Some functions of CAM are computerized (accounting) and some are not (check-writing). The loan portfolio balances, which are computered generated, are reconciled every month manually with the values from the computerized accounting system. Discrepancies are investigated and eliminated so that the asset value of loans on the balance sheet is consistent, unlike earlier years, with the total from the loan system. The accounting software permits comparisons of historical income and expenses with the current actual period. But the budget is generated on different software, resulting in the necessity to enter the actual data in order to generate the budget variances.

The development of such a computerized information system in past years has been delayed by changes in software offered by FINCA itself in earlier years (taking advantage of FINCA's advances in other countries) and by a tragic airplane crash in August 1995 in which key FINCA consultants lost their lives. More recently, CAM's Information Unit, whose current head was promoted internally into the position in May 1995, has taken initiative in the conceptual design of its own system. As shown by the schematic (Exhibit 3), CAM would integrate accounting and loan portfolio modules in an overall system with other modules, including the budgetary module.

At present it is not known whether CAM will develop this system itself or make use of the system currently being developed by the Hub. FINCA has a subcontract with the Soft Corporation, which is currently developing integrated software, called SIEM 100, for organizations (such as CAM) in various countries. The Hub office is designing a system that includes (integrated) modules for strategic planning, for an annual operating plan, and for monitoring CAM’s technical staff is cooperating with Hub in order to adapt Hub’s system to CAM’s needs. The Hub’s system is being modified to include savings of CAM borrowers; flexibility to calculate interest in different ways; and CAM's chart of accounts. CAM expects to make a decision in early 1998 whether to use the (adapted) Hub system or to continue to develop its own system. Or CAM could upgrade its accounting software (general ledger and fixed assets, for example) and interface it with the Hub’s strategic planning and other non-accounting modules.

It is a sign of CAM's strength that its technical staff is able to cooperate effectively with Hub's technical consultants and evaluate options to achieve an integrated information system. In any event, it is expected that by late 1998 CAM will have a much better information system in operation.

c. Internal Control and External Auditing

Following the discovery of the fraud, the internal control function within CAM was reorganized, professional staff hired, and an effective system implemented. In the early years of CAM so-called internal auditors worked under the direct supervision of the regional managers with little oversight from CAM's central office and no direct and independent line of reporting to either CAM's Executive Director or its Board of Directors. In practice the internal auditors performed a variety of staff functions but did not carry out a systematic program of independent audits.

Beginning in early 1995 the internal control unit was reorganized under its own manager (jefe de control interno), who reports directly to the Board Directors and who keeps the Executive Director informed of the unit's activities. The Board of Directors established an oversight committee, whose current members are the President, Vice President, and Legal Representative; a FINCA advisor of Hub serves as an observer on the committee. The Board committee reviews and approves the annual internal audit plans and provides periodic oversight to the unit's activities, including implementation of the current audit plan. Recommendations arising from the internal audits are brought to the attention of the Executive Director and other managers for appropriate action. Thus CAM has largely complied with the Chemonics' recommendations concerning internal audits.[52]

A key element in the financial administration in general and internal control in particular is the separation of functions. The process of loan approval and disbursement described above indicated that many different CAM offices are involved. The internal control unit dedicates 70% of its time to verifying the status and transactions of individuals who are members of village banks, members of Microenterprise solidarity groups, or individual Microenterprise borrowers. The unit makes surprise visits, which include checking identity cards of clients. In the first 11 months of 1997 the unit visited 561 or 88% of the 635 village banks. The unit also makes sure that CAM personnel in the field do not handle cash, an earlier practice that contributed to the fraud in San Miguel. Every month the unit reviews the endorsements on every check issued to a borrower.

As recommended, CAM no longer uses Andersen as its external auditor, using currently the services of the Salvadoran firm Moran Mendez. The firm makes quarterly reviews of financial transactions, including visits to the field.

The current internal and external auditing activities should prevent a recurrence of any fraud on such a large and prolonged basis as was the case in the San Miguel regional office. The internal controls in particular are well established and accepted within CAM to the point that they are a part of CAM's corporate culture.

[52] Ibid., p. 22.

3. Management and Administrative Strategies Planned for the Future

The following are CAM management and administrative strategies planned or under consideration that intend to strengthen CAM as an organization:

Conduct an active campaign to recruit and train candidates for membership in the General Assembly and for potential election to the Board of Directors. Identify candidates among CAM borrowers and Salvadorans with experience with PVOs and the private sector.

Reduce the number and influence of FINCA representatives on the Board of Directors as more committed and capable Salvadorans are found to replace them. In the long-run maintain the benefits of affiliation with FINCA International while transforming CAM into a beneficiary controlled institution.

Continue efforts to improve the management and administration of CAM in a variety of ways such as staff training, the computerization and integration of the management information system, updating and implementation of manuals, and recruitment of staff with appropriate education.

Establish a system of incentive pay for promoters that both rewards efforts to increase the total loan portfolio and to achieve a balance in the porfolio between urban and rural borrowers, while maintaining portfolio quality.

Decentralize some decision-making to the regional level while retaining centralized oversight over approvals for disbursements and internal auditing. Maintain the separation of functions in the flow of money to limit opportunities for fraud.

Continue to take advantage of FINCA's technical assistance provided through the Hub carefully and evaluate the appropriateness of the assistance to CAM before implementation.

Control operating costs so that an effective CAM administration can contribute to the growth of the loan portfolio and the achievement of financial sustainability

In short, while maintaining its commitment to the social purpose of uplifting the poor, especially poor women, CAM wants in the long-run to be a self-sufficient financial institution controlled by Salvadorans, mostly borrowers, which learns from the microenterprise experiences in other countries through its affiliation with FINCA International.

4. Conclusion

After assessing current management and administrative performance, the conclusion is that in late 1997, having withstood the blows of the fraud (Phase 2) and having reoriented its program and organization (Phase 3), CAM is a leaner and more capable organization.

A key challenge for the current drive toward sustainability (Phase 4) is controlling administrative costs while engendering sound growth of the loan portfolio and strengthening CAM as an organization.

5. Lessons Learned and Recommendations

Lessons Learned:

1. From the outset of implementation, it is important to balance growth of a quality loan portfolio with institution strengthening. Indeed the pace of desirable growth depends on institutional factors such as efficiency, its governance, and its "...ability to maintain firm control over a decentralized, growing network of branch offices..."[53]

Recommendations:

1. When developing village banking and other microenterprise lending programs, start early to provide opportunities and training for Salvadoran capacity-building and leadership, both borrowers and staff.

2. Now that village banking and other microenterprise lending programs have been undertaken in many countries, lessons learned should be shared. FINCA's affiliate status for CAM is one way of achieving that.

3. It may be possible to reduce the conflict between bottoms-up development of organization like CAM and the need for control from the Board of Directors and financing agencies. Now that more is known about what works and what doesn't in microfinace, it may be possible for other projects to turn over more policy and administrative control sooner to beneficiaries and other citizens of the country who are committed to the purposes of microenterprise development.

C. THE ROLE OF FINCA INTERNATIONAL IN CAM

1. The Issue

One of the most controversial topics in regard to the microenterprise development project under consideration here is the role of FINCA International. Although most observes agree that FINCA International introduced a valuable concept which has allowed an effective outreach to the poor in El Salvador, FINCA's performance has been repeatedly critical regaining four major themes.

[53] U.S. Agency for International Development, [draft] Microenterprise Development [Policy Paper], op.cit., p. 30

1. Inadequate development of the program model leading to costly mistakes
2. Long distance management without proper supervision of the newly growing institution (CAM) and inadequate management/ institutional development techniques
3. Micro management which did not allow CAM to develop and take responsibility which was symbolized by the fact that three members of the CAM Board of Directors are FINCA personnel and North American (two of whom hold the highest offices as president and treasurer)
4. Over spending on American and other expatriate costs rather than devoting funds to the specific needs of CAM and its borrowers.

2. The Structure of FINCA's relations to CAM

FINCA's relationship to CAM has been governed by three basic documents. The first is the Cooperative Agreement[54] signed by USAID/El Salvador and FINCA. This Agreement authorized FINCA to develop a Salvadorean institution to provide loans to the poorest segment of society, based on a US$10 million grant from USAID. A Project Support Office (PSO), headed by John Hatch (the FINCA president) together with an administrative assistant, provided the base to which were added American and other expatriate technical assistants, and other consultants who worked for various periods of time with Salvadorean consultants and direct-hire employees to establish the project.

The second document was the *Convenio*, signed March 26, 1992, indicating the establishment of a Salvadorean enterprise, when the CAM[55] was set up as a separate institution entering into agreements for funding/approval from FINCA (which received external funding as part of the aforementioned grant from USAID/El Salvador). In this period, two sources of authority existed: the PSO and the Director of CAM. Merging the two was the Board of Directors presided over by John Hatch in his two roles as head of FINCA and resident advisor to CAM. In this period, the Board met monthly and frequently participated in actual administrative and financial decision making.

In early 1994, under pressure from USAID to allow CAM to begin to take charge of its own development, the then resident advisor, Andy Krefft, left El Salvador and the PSO was closed. His departure, however, was shortly followed by the discovery of a major fraud in San Miguel. During the period after the fraud, FINCA sent numerous observers and evaluators to assess the situation for

[54] U.S. Agency for International Development, Microenterprise Development Project [Paper], El Salvador, August 1990

[55] In the Cooperative Agreement the Salvadorean institution is referred to as the Microenterprise Support Center or MSC but the Spanish title given is the one cited in the text here and its abbreviation is the one used in this discussion.

CAM. Later a financial advisor from FINCA, Lic. Hilda Menjivar, resided in El Salvador and worked in the CAM office to help get the financial situation under control. She remained until May 1997.

The third document governing FINCA's relationship to CAM was the *Convenio de Afiliacion* of March 9, 1996. The *Convenio* was a document signed between FINCA and CAM. (USAID was not a signatory on the *Convenio*.) CAM became a FINCA affiliate. The latter relationship was voted on by the General Assembly of village bank members whereby CAM, as an affiliate, agreed to pay 1% of all money loaned annually as a fee to receive technical services and support from FINCA International through its regional office in Guatemala. The latter had recently been funded by USAID/Washington to provide technical support to FINCA affiliates in the Central and South American area.

In December 1997, the Board of Directors continued to have three North American Board members from FINCA International (board members are chosen by the General Assembly). The chair and treasurer's positions continued to be occupied by two of the latter three. The Board, however, met only tri-monthly. Day-to-day decisions were now completely left to the Salvadorean administration of CAM and its Executive Director, Lic. Ingrid de Segovia. FINCA International, through its Guatemala office, provided important technical assistance including an institutional and financial evaluation of CAM in July 1996, which led to the new strategic plan now in draft. This new plan sets forth the new directions in both financial management and administration which CAM proposes to pursue in the next few years. FINCA technical advisors are also introducing a new MIS and are said to visit CAM at least one week out of every month.

Table 1
De Facto Changes in Project Design Made During Implementation
Microenterprise Development Project of El Salvador

FEATURE	ORIGINAL DESIGN	REVISED DESIGN	COMMENT
1. FINCA role in CAM at end of Cooperative Agreement	As of August 31, 1997, FINCA role in CAM minimal	As of August 31, 1997: FINCA represented on CAM Board of Directors; the President of CAM is from FINCA; CAM continues to be an affiliate of FINCA; CAM will continue to receive technical assistance from FINCA through the Hub office; and CAM may one day qualify for FINCA’s village bank loan guarantee program.	The revision changes the nature CAM as an organization.
2. Growing participation of borrowers in CAM's governance	According to the Cooperative Agreement, by the end of project, borrowers were to dominate General Assembly and Board of Directors	FINCA retained much control after fraud was discovered in July 1994 and continues to have three seats, including Presidency, on Board of Directors. Borrower participation delayed by procedural requirements.	CAM is governed mostly in a top-down fashion with FINCA continuing to have a major say-so.
3. FINCA's contribution of counterpart funds to the project	According to the Cooperative Agreement, over the life of the project USAID was to contribute $10 million and counterpart funds of $4.9 million were expected.	During implementation USAID provided its $10 million; FINCA counted CAM’s earnings as counterpart funds; the Mission authorized a change in the expected counterpart funding of FINCA from $ 4.9 million (non-AID) to $1.5 million because of the decision to close the project in August 1994, instead of August 1997, (prior to the discovery of the fraud).	With an additional $ 4.9 million CAM would be much stronger.
4. “Graduation”	Village Bank members would progress in cycles to larger loans and increase their incomes and savings. They would graduate after 9 cycles or approximately 3 years.	Village Bank Program modified to allow the many members who wanted to remain members to do so.	The consequences of this design change have not been fully explored.
5. Village Banking methodology	No mention in design of Microenterprise Lending Program.	Early in implementation a Microenterprise Lending Program was added with loan amounts which were larger than those of the Village Banking Program.	Lackluster results in Microenterprise Lending Program, in spite various modifications. Program elimination merits

			serious consideration.

3. Past Findings on Contributions of FINCA to CAM

The Midterm Evaluation identified two major departures from the original design of the project and enumerated areas for improvement in the FINCA-CAM operation. The first of the departures concerned progression to graduation of the village banks (see Table 1). Project documents, according to the Midterm Report, were confusing - in one place proposing that village banks would close after the 9th cycle and in another that banks would never close (at least not in any particular cycle or stage). The second major departure from the original design was the addition of a new Microenterprise Program with higher lending limits. This program was not described in the Cooperative Agreement nor was there a strategy for developing it, which meant that project organizers were forced to develop a strategy as the project went along.[56]

Project financial management also came under criticism in the Midterm Report. It was noted that FINCA's total expenditures over the first three years were $6.8 million which was five times greater than what the Project Document projected. This money was consistent with the rapid expansion of the village bank program. It was not, however, accompanied by an equally fast development of "a viable, sustainable, self-sufficient and strong financial institution to provide microentrepreneurs with increased access to financial and non-financial services."[57] The Midterm Report also did not find that interest rate levels covered inflation, administrative costs of credit delivery and recuperation, capital costs, and reserves for non-performing loans. FINCA was also criticized for inadequate technical assistance. The report stated, "The project still needs technical assistance to complete the village banking model, to strengthen the microenterprise division programmatically and operationally, and to strengthen the central office institutionally and managerially."[55]

The Midterm Report also endorsed an earlier report by the Carana Corporation from 1992 which had stated that although there was little question that the FINCA project had had a programmatic success, there "is an urgent need, to help the MSC develop institutionally and managerially."[56] It called on the PSO to withdraw from program administration and for the PSO office to be phased out so that costs could be reduced and CAM could consolidate and develop its own management.

[53]Ibid., p. III-59

[54]Ibid, pp. III-60-61

In addition, the Midterm Report supported the critique made by the Interdisciplinary Project Consult which had used rigid financial methodology to analyse the Salvadorean Microenterprise Support Center and another FINCA project, the Honduran International Foundation for Community Assistance. This report suggested that satisfaction of social goals, such as spreading further the number of village banks to growing numbers of members, needed to be put on hold until economic and financial goals have been achieved, in other words, until CAM became a viable and sustainable financial organization.[57]

The criticisms and recommendations in the Midterm and earlier reports had stimulated a response by FINCA International including the closure of the PSO in 1994 and an effort to improve the managerial capacity of CAM by a variety of techniques including the use of qualified technical advisors such as Arelis Gomez (see her report cited in the Midterm Evaluation, III-62). Other critiques, such as one in the Midterm Report, had suggested that USAID/ El Salvador was not closely monitoring the recommended changes in "administration, finance, and institutional strengthening of the MSC."[58] This led to additional efforts by USAID/El Salvador to get FINCA International to follow through on its reporting and implementation promises. According to USAID, the PSO was "never meant to be in the CAM until the PACD." The entire progression of changes, however, were brought to a halt by the discovery of the fraud in San Miguel.

During 1994, FINCA International sent teams in to review the situation and provide technical assistance to CAM as it tried to re-group following the severe financial loss and blow to its reputation and integrity. USAID also engaged the firm of Price Waterhouse to evaluate CAM's "Internal control structure, financial capacity, and administrative capacity to successfully implement the village banking and microenterprise lending project in El Salvador..."[59] The Price Waterhouse report included many findings which were critical of FINCA/CAM. In their comments, incorporated in the same report, FINCA/CAM accepted the validity of some of the criticisms and pointed out the corrective steps that were underway or planned. As concluded in Chapter III, CAM was much stronger financially and organizationally when the project ended in August 1997 than it was in 1993 and 1994.

4. Assessment of FINCA International from the Perspective of 1997

By the end of 1994 when the Price Waterhouse report was written, FINCA had not yet been able to make the reforms necessary to satisfy the criticisms and suggestions made in the earlier reports. Indeed, Price Waterhouse found many of the same problems earlier identified and was far less optimistic than the authors of the Midterm Evaluation in its prognosis for the future of CAM.

[57]Ibid., pp. III-63-64. See "Foundation for International Community Assistance and the Microenterprise Support Center. "Third Year Action Plan." (Sept 1992-Aug 1993). San Salvador.

[59]Price Waterhouse, Evaluation of the Center for Microenterprise Support (CAM), Washington DC (November 23, 1994). (USAID El Salvador document)

Nonetheless, over the next three years to the ending of the project on August 31, 1997, FINCA International continued its efforts to help CAM introduce proper management techniques, adequate financial procedures and safeguards in its central and regional administration, and to place both the village banking and microenterprise lending schemes on a better and more financially sustainable footing.

Alternatively, however, a different interpretation of compliance is possible and would lead to a radically different and a more positive conclusion is reached concerning FINCA International's satisfaction of the terms of the Cooperative Agreement. This may be more clearly seen by taking the four points of criticism raised above and examining each in light of the project history. This first criticism held that the project had not been adequately developed resulting in costly mistakes. The Midterm Report refers to this especially with reference to lack of resolution of the issue of "graduation" by the village banks and the lack of any clear planning for the microenterprise lending program. Both of these matters were undeveloped in the original plan and, as a result, conflict in policies and procedures did emerge and did lead to revisions in policies. Thus banks are no longer expected to graduate and may exist permanently because, in fact, their membership does not remain constant and women at earlier cycles of borrowing need the village bank institution. Procedures for microenterprise loans have only recently been completely overhauled reducing the numbers of clients, eliminating solidarity groups and requiring more stringent guarantees and compliance with loan repayment schedules.

But FINCA International in 1990 was introducing something new. Village bank type schemes had existed elsewhere but not in El Salvador. El Salvador was, moreover, struggling back on its feet following its own civil war. The emphasis in USAID at the time as to reach as many of the poor as possible to draw them into a peaceful income generating as quickly as possible. The fact that this was not a perfect scheme with all details accounted for seemed less important than in succeeding years FINCA-International was also a small and informal organization at the time, dedicated to bringing financial solutions to needy people and working, as their project progressed, on getting the bundle of components right for the country. Moreover, the country had its own challenges for this kind of project, not the least of which is that in the post war era many programs opened up offering credit with no requirement of payback at all. In this climate, establishing village bank and microenterprise schemes on a financially sound footing was bound to be extremely difficult and required a trial and error methodology, at least in the beginning.

The second set of criticisms cites the flaws of long-distance management leading to improper or inadequate supervision of the newly-growing institution (CAM) and the introduction of inadequate management/ institutional development techniques. Certainly there were some grounds for this criticism as repeated outside reports highlighted management inadequacies and faulty financial procedures even up to the present. Nonetheless, this is a peculiar criticism. FINCA International was based in Washington when the project started and never intended to change that base, probably because it could reach more countries with its projects to offer financial assistance to the very poor. FINCA International could work with donors to support such efforts from a Washington, DC base more easily than if it were located outside the USA. The original project was accepted knowing that FINCA would remain in Washington and that there would be a project office (the PSO) run by

FINCA people in El Salvador, as indeed there was until 1994. One result of this was poor communication between FINCA headquarters, the PSO, USAID and CAM, at times with one group not seeming to know what the other was doing. Thus, CAM did not always know what FINCA had agreed to change, or even what was in the Cooperative Agreement. USAID did not follow up adequately to make sure changes were implemented. And FINCA did not seem to know that CAM was not implementing a revision in policy agreed upon to USAID. However, the very nature of the project established with ultimate oversight basically from Washington, made it highly likely that some kinds of misunderstandings and miscommunications would occur, since the decision-makers were in different locations. This design feature was accepted in 1990 both by USAID and FINCA because of the overriding good perceived from introducing this kind of program, based on the experience of FINCA International in Washington, to El Salvador. FINCA did in fact introduce a far-reaching scheme for providing access to credit to the very poor and especially to poor women, who had not been reached before—by its own account, it succeeded in reaching 38,500 clients over the life of the project. Had there been only one project team in El Salvador without the international experience or connections which FINCA provided, it is not clear that the same wide-reaching effects would have been achieved. Some—even considerable—inefficiencies resulted from having the home office for the project in Washington. However, USAID had meant FINCA to "phase-out" of the PSO over the life of the project; the PSO was not meant to be in CAM until the Project Activity Completion Date (PACD), according to USAID/El Salvador.

Some USAID staff in El Salvador, frustrated by the inadequate contacts and information their long distance relation with the project management team provided them, feel that FINCA did whatever it wanted and justified it later. But all this has to be weighed against the value which the experience and contacts of FINCA international staff provided to the El Salvador project. The organization of CAM management and the financial techniques introduced certainly were not without serious faults and FINCA International is certainly responsible to some degree for this matter, but here again the trial and error approach to developing CAM and the village bank and microenterprise lending programs has much to do with the continuing management and financial problems. In its own (draft) final report, FINCA International justifies its record firmly on the basis of what was learned. It directly contends that the learning experience which this project provided was extremely important for projects of this kind world-wide as well as for USAID and FINCA and that the lessons learned were in the areas of Credit Methodology, Financial Management, Administrative System, Governance System, Training, Technical Assistance among others. This Evaluation Team agrees although it also notes the considerable costs involved for CAM and USAID/El Salvador from this being an experimental project. Were FINCA International to open a village bank program for the first time in El Salvador today, many, if not most, of the faults in administration and management would not occur because of what has been learned through the project since 1990. CAM suffered because it was part of a learning experience both for USAID and for FINCA.

The associated complaint, that FINCA micro-managed CAM and prevented it from taking on responsibility for itself (and so developing better management and financial practices) seems much less valid and also contradicts the prior point. In fact, under pressure from USAID and outside evaluations, the PSO was closed in 1994 and CAM was asked to take on more complete responsibility for itself. This, given hindsight provided by the fraud in San Miguel, was a mistake.

Management principles and financial procedures had not been worked out to the degree where close outside oversight was not necessary. CAM management was not ready to take charge. Even in 1997, CAM is relying quite heavily on the experience and technical assistance provided by FINCA through the affiliation arrangement. Since 1994, when the fraud was discovered, there has been a heavy turnover among CAM staff. Discouraged and lacking confidence, earlier managers who had never been implicated in the fraud, nonetheless looked for other jobs. Field staff such as promoters were also discouraged and many left, although in many cases the actual reason was not the fraud but because the base salaries were so low that the promoters could not afford to stay with the program. CAM is still working on creating an effective management team capable of implementing efficient and sustainable financial policies. Under the dynamic and committed leadership of Lic. Ingrid de Segovia the future prospects for CAM's viability look better than in the period prior to her taking office.

Would this improvement have come about more quickly if FINCA International had completely left management to CAM? The answer is quite probably no. Creating a new organization and giving it the experience to handle the conflicting pressures of El Salvador can not be done over night. The seven years of FINCA involvement were probably not too long. Indeed, there is a real question if CAM, in the absence of the considerable technical assistance currently received from FINCA through the affiliation mechanism, would be able to survive and develop even now. The FINCA (draft) final report firmly supports this position pointing out the on-going difficulties of this kind of project and stating that, since FINCA had the responsibility for managing the large donation involved, it had to have "an adequate presence at the governance level (the board of directors)..." This evaluation team cautiously agrees with the FINCA position given the structure of the project from the outset.

The final major theme of criticism of FINCA International, which has emerged repeatedly in earlier reports, is that far too much money has been spent on American and other expatriate costs rather than devoting funds to the specific needs of CAM and its borrowers. The best illustration of the case in point comes from the two-part Table below illustrating the use of project funds over the life of the project. These tables need to be used with caution because of differences in how items were coded and/or included in the reports. Over the life of the project there were 12 amendments which permitted FINCA to make various changes in how project monies were spent and recorded. Thus earlier reports may not have exactly the same definitions of project categories. Others, where for example a negative figure appears, may be misleading in that the shifting of expenses to another category leaves that category artificially high or low. On the other hand, these tables show some clear evidence of overall project expenditures throughout the life of the project. In regard to the issue raised here, moreover, out of approximately $10,000,000 expended, slightly more than a million went to the FINCA Washington Expense (Category I: A. US). Another almost three million was spent on Category IV (Administrative Services) which was the PSO and other in-country expenses for FINCA personnel and other FINCA administrative costs. This makes a total of more than $4,000,000 or about 40% of the total project funds expended on FINCA personnel or other costs.

FINCA REPORTED EXPENDITURES 1990-1993

Components	90/91	91/92	92/93	**TOTALS**
1. Institutional Development A.U.S. B. MSC Sub-totals	 $162,036 $ 84,339 -------------- **$246,375**	 $200,264 $865,519 ------------------ **$1,065,783**	 $523,612 $804,284 ---------------- **$1,327,896**	 **$ 885,912** **$1,754,142** **-----------------** **$2,640,054**
2.Financial Services 3.Non-Financial Services 4. Administrative Expenses A. US FINCA B. PSO Finca Total	$99,859 $ 413 $277,943 ------- ------------------- **$624,590**	$895,833 $21,572 $559,940 ------ -------------------- -- **$2,543,128**	$1,839,936 $93,452 $407,540 ------ ------------------ **$3,668,824**	**$2,835,628** **$115,437** **$1,245,423** **-----** **-----------------** **$6,836,542**
5. USAID Project Management 6. Evaluation and Audit	$ 25,136	$57,469 $30,000	$ 46,876 $ 51,581	$129,481 $81,581
PROJECT TOTAL	**$649,726**	**$2,630,597**	**$3,767,281**	**$7,047,604**

FINCA REPORTED EXPENDITURES 1994-1997[60]

Components	11/30/93- 11/30/94	11/30/94 - 11/30/95	11/30/95- 11/30/96	11/30/96 - 7/30/97	TOTALS Expended in Project (July 30,1997)
1. Institutional Development A.U.S. B. MSC/CAM Sub-totals (including overheads)	$87,303.37 $91,353.68 ----------------	$15,062.88 $83,079.65 ----------------	$13,725 $33,394.08 ---------------		(1,002,003.35) (1,956,501.59) **$2,958,504.84**
2.Financial Services	$657,908.94	$ 29,409.93	$182,058.88	-$329,418.50	**$3,482,002.12**
3.Non-Financial Services	$10,131.28	-$10,199.26	0	$9,442.54	**$99,731.98**
4. Administrative Expenses	$345,644.19	$16,151.04	$67,077.86	1,803,588.74	**$2,708,285.73**
5. USAID Project Management	$ 0	$ 0	0	0	**$512,000**
6. Evaluation and Audit	$111,030	$ 830	$4,000	$33,870	**$236,700**
PROJECT TOTAL	$1,455,476.07	$40,058.76	$309,679.64		**$9,996,098.22**

When is a project expense too much and when is it justified? The large sums spent on FINCA International costs raise this question rather sharply. Critics of FINCA International contend that had more of this money gone into CAM management, and the financial and non financial services offered, the project would today be much more likely to be self sustaining However, despite the

[60] The figures cited here are drawn from FINCA International Financial reports submitted to USAID El Salvador for 8/97,12/96,12/95,12/94,12/93. The figures are based on reports in which FINCA had not yet allowed for disallowed sums (where USAID would not pay particular expenses). Compared to the totals, however, these disallowances are very small. The figures in partentheses are created by adding expenditures in the earlier table with those cited in this table because the final report does not include these totals. They are therefore approximates only.

evidently high costs of FINCA project management, this evaluation team finds this perspective somewhat skewed. Projects which successfully reach the very poor and introduce new types of financing and savings schemes, AND offer some level of training and follow up, have often been very expensive to start and maintain. Moreover similar projects in other countries with larger sums available - which have been considered successful by most observers - have certainly spent forty to sixty percent on initial administrative costs including those for expatriate expenses. What may be more important is not the initial expense - or the expatriate proportion thereof - but the long term impacts which the project generates. These impacts may take several forms - growing and expanding sustainable financial institution (s) serving the poor, increasing amounts of funds available for lending to the poor, a new pattern of credit management and increased habits of savings among an increasing and substantial group of poor, a new level of self confidence and business acumen among the same, improved incomes and better living conditions etc. Imitations of the project, including those instituted or subsidized by the government,which produce the same effects need to be counted in the assessment of impact as well.

This report can not undertake a full study of impacts (although some trends are noted above) and it can not project the value of these positive impacts versus the costs which went into FINCA International management. It can, however, suggest that compliance should perhaps be better measured in the spirit rather than the letter of an agreement. FINCA International did not meet the specific terms of the Cooperative Agreement in regard to establishing an institution which was self sustaining by the end of 1997 and it did make a lot of mistakes in terms of management and financial schemes which, under its oversight, the MSC (later CAM), adopted. These mistakes were costly and hindered the progress to sustainability of the new credit institution. But, starting with the handicap of working from outside the country, and meeting each challenge as it arose (including the devastating results of the major fraud in 1994), FINCA International sought to use each event and each criticism as a base for learning. FINCA itself changed over the seven years just as its relationship with CAM evolved. In the end, CAM and its programs have been judged here to have good prospects of becoming self-sustaining in the next few years.

Numerous changes in financial and management practices are still suggested but the current structure of affiliation to FINCA International and the technical assistance which the latter provides seems to be an excellent framework for sustainability to be achieved. If compliance is not satisfying the specific terms and dates of the agreement, but, in fact, successfully setting forth a new approach to providing access to credit to the poor in El Salvador which has been widely adopted within that country and may have touched the lives of as many as a million people (through all CAM and other imititators' programs), then FINCA International may have been said to have made a very positive contribution fully in line with the original intent of the project.

5. Lessons Learned and Recommendations

Lessons Learned:

1. FINCA International may be judged as having failed to comply with the Cooperative Agreement because it is not self-sustaining, and oher arrangements were also not met.

2. Considering the intent of the Cooperative Agreement, FINCA may be judged as having met the major point of that agreement by successfully introducing to El Salvador a new approach to providing access to credit and savings schemes and training to the poor, and particularly to poor women. Financial sustainability, while not attained by the end of the project, may well be achieved in the next few years.

3. Expatriate control of a project from a base outside the project country may lead to poor communications and misunderstandings between local and expatriate project partners.

4. Reliance on an expatriate (American) project team raises project costs and increases the proportion of project costs used for management and administration.

5. Reliance on and/or affiliation with an international organization connected with numerous similar credit and/or savings projects, improves the quality and amount of technical assistance available to a local credit/savings institution.

Recommendations:

Although progress has been made since the criticisms of reports in 1993 and 1994, CAM still needs to improve its management techniques and financial procedures. Many of these inadequacies may be resolved if the current draft strategic plan is adopted.

V. CONCLUSIONS AND RECOMMENDATIONS

A. VILLAGE BANK PROGRAM

Overview

The principal objectives of village banking are increased benefits of economic growth for the poor, especially women, by means of increased income and microenterprise productive opportunities. The Village Banking approach was designed to break the vicious circle of low income (bajos ingresos), low savings (bajos ahorros), low investment (baja inversión), low productivity (baja productividad), and, closing the circle, low income (*bajos ingresos*). In a communal bank, love and solidarity would be combined with good administration and planning to realize human potential, resulting in attainment of a broad range of economic and social benefits, such as better housing, education, and nutrition. Beneficiaries become empowered as they administer their Village Banks as well as manage their own improving finances. Village Bank members start with small loans and pass through a number of cycles of borrowing and repaying increasing loan amounts. At the same time they increase their savings.

Lessons Learned

1. The village bank portfolio has shrunk considerably since the level of outstandings at the time of the Midterm Evaluation. The average size of loans has been decreasing since 1994, perhaps indicating that the progression through the cycles to larger loans is not occurring as it should be. Whatever the reason, the trend negatively impacts the efficiency of the operations.

2. Comparing the performance of the last couple of years to projections, the village bank program has grown more slowly than planned. Certainly the fraud, followed by stringent internal controls, harm to CAM's image in the market, and increased competition have contributed to the slow growth. A draft of the latest five year strategic plan, discussed in more detail in Section IV. A. 3, shows the portfolio for village banks growing an average of 33% per year, and the number of village banks increasing by 200 over each of the next two years, with members increasing relative to the growth in banks. This seems very optimistic given the slow growth in the past year, no significant new strategies or policies, and increased competition from other microfinance institutions.

3. The good news is that since 1996, policies are in place and reports are being generated to categorize the aging of the portfolio correctly, to reserve for loan loss in an acceptable amount relative to delinquency, and to write off loans that are past due more than 180 days. It was not possible to reconcile the write-offs with the contingent balance. Another issue

which merits close follow-up is the extent to which collection efforts are standardized and documented, ensuring due diligence and aggressive delinquency management. An aging report of the village bank portfolio since the Midterm Evaluation shows that loans past due more than 180 days are indeed being written-off, and the quality of the portfolio is improving.

4. **Limited training received:** Training is first introduced to village banks in formation. With the dedicated trainers gone, only some 21% of those planned to be trained actually received training. But perhaps more disconcerting, data from 1995, 1996, and through November 1997 indicate that only 14,160, 18,183, and 20,537 village bank members and leaders participated in training, respectively, i.e. each member had just over one formal session per year, and only about ½ session in 1995. This is a large shortfall from the intended one training session per month. Although the style is very participatory, no handouts or workbooks are available, so participants cannot refer back to what they have learned. Nor is the learning reinforced as much as it could be with collateral materials.

5. Despite the limited nature of the 1997 survey, it profited greatly from the existence of the questionnaire and survey results used in the Midterm Evaluation. By using the same survey instrument with a few additional questions, it became possible to contrast overall the general participant reactions and perceived individual and family impacts midway and at the end of the project.

6. **No lasting impact from the fraud:** One of the primary questions motivating this survey was whether or not the fraud which occurred in the Eastern Region (San Miguel) in 1994 had a lasting negative impact on the Village Bank Program. In exploring these data, there seems to be no evidence that the Eastern Region is significantly different than the other three regions in most matters.

7. **Different reactions of participants in 1997 vs. 1993 survey**: The respondents to the 1997 survey estimate lower income increases resulting from bank membership and, overall, less savings. Most feel they have improved their businesses productivity and their own economic situation significantly.

8. **Success in helping women**:The program was designed to attract poor women particularly and, in fact, succeeded in helping primarily women thus satisfying one of its initial objectives. Well more than 75% of the beneficiaries of the village banks were and are women. Ninety percent of the women responded that their lives had not changed <u>much</u> over the last few years. However, in many ways they had experienced positive results. Eighty percent said they felt more confident now and were more easily able to interact with people. Virtually everyone said she understood family needs better now and was more able to help provide them and that she now had a larger decision making role in the family. In sum, the

village bank program left its members feeling that they were empowered in terms of their ability and knowledge, their self confidence and their resources.

B. MICROENTERPRISE LENDING PROGRAM

The initial Microenterprise Program offered loans to individuals for working capital from $ 500 to $ 3,000 with solidarity groups used as a guarantee mechanism. External evaluations as well as internal annual action plans have been stating since at least 1995 that high delinquencies are a serious concern and that new loans in this program should be stopped until collection efforts prove successful. Solidarity group loans were stopped in June 1996 in an attempt to improve the performance of this program. The reduction in loan balances has been very substantial, both because of the freeze and because of write-offs. Exhibiting a similar trend as the loans to village bankers, the average size of microenterprise loans was only c 3,630, low in the range of loans permitted, and low compared to the projected average of c 4,464 in 1998.

In strong contrast to the respondents to the village bank survey, more than half of the microenterprise borrowers had late or missing payments to their last loans and two-thirds said that it was difficult or, indeed, very difficult to pay the required amount on time.

Lessons Learned:

- Despite their late or missing payments, most of the recipients of the microenterprise loans had registered improvements in their weekly incomes derived from their enterprises.

- The greatest difference between the microenterprise and village bank surveys, however, is registered in the perception of the clients of both programs of the impacts on their lives of participating. Overall the village bank members were very positive about their experience with the program and reported improvements in the economic situation of their families because of the banks even though they were not quite as positive as respondents in 1993.

- The Microenterprise loan recipients showed a completely different perspective. In 1993 they had reported positive changes in their lives although these changes were not perceived as strongly as village bank members. In 1997, the microenterprise loan recipients were far more likely to say things had remained the same or, even, were better before.

- The negative perception of the loan recipients is clearly colored by the fact that so many of them can not pay their interest plus principal payments on time, or indeed at all. A significant difference in attitude between village bank and microenterprise members can be noted here. Again, actual incomes from enterprise net profits appear to have risen. But, the participants are nonetheless not attributing all of this to the microenterprise program as their compatriots in the village banking scheme seem to be doing. Difficulties and uncertainties in the microenterprise program and the lack of group business training and follow up may contribute to this result.

- The program was designed to attract poor women particularly and, in fact, succeeded in helping primarily women thus satisfying one of its initial objectives. Almost three-quarters of the beneficiaries of the microenterprise credit program are women.

Recommendations:

- If the loan approval process is to be decentralized in 1998, extreme caution must be taken to ensure delinquency problems do not reappear. Despite write-offs and the shrinkage of the microenterprise portfolio, the aging of the microenterprise portfolio as a whole has deteriorated, with loans past due more than 30 days equaling 67.7% of the portfolio at 8/31/97. However, CAM reports that the individual loans disbursed since June 1, 1996, only have 31% past due more than 30 days. This is still considerably higher than the performance of the village bank portfolio.

C. Financial Sustainability of CAM

Results:

- CAM was criticized in the past for having inadequate financial management mechanisms and inaccurate financial information but the quality of information has vastly improved.

- The CAMcredit system can now be reconciled with the accounting system, and the planning process is quite advanced, with valuable technical assistance provided by FINCA. All information requested was readily available, with supporting information provided to explain specific situations. The reserve policy was changed.

- Many of the recommendations made by FINCA regarding financial and credit management have been implemented, or are in the process of being implemented, some with the assistance of FINCA.

Lessons Learned:

- ♦ Due to the fraud and other delinquent loans, the balance sheet has shrunk 33% since its all time high on 12/31/93. Until profits begin to increase retained earnings, the eroding net worth will have to be supplemented if the portfolio is to grow.

- ♦ Productivity in the village bank program has deteriorated since 1995. Clients per promoter in the village bank program was 289 as of August 31, 1997. This represents a modest increase over the 250 per promoter at year-end 1996, but well below the high in 1995 of 380 per promoter.

- ♦ This trend reflects the fact that the average number of members per village bank is also low: 22 compared to a highs of 26 and 28 at year-ends 1995 and 1994, respectively.

- ♦ Personnel costs as a percentage of total administrative costs (not including financial costs or loan loss provisions) have been reducing steadily, proof that CAM is making strides in cutting costs and working more efficiently.

- ♦ Because the projections show the portfolio growing substantially, productivity of the assets is also projected to increase substantially. If the assumptions are realistic, this will greatly improve CAM's profitability, but to increase net portfolio to total assets from 52% to 90% is very ambitious.

Recommendations:

- ♦ **Increase the production of the credit officers:** Microenterprise clients per credit officer has been reduced dramatically since the solidarity groups are no longer being used. CAM needs to increase the productivity of its credit officers.

- ♦ **Analyze costs:** Since the loan volume has also been substantially reduced and the expenses relating to managing microenterprise delinquencies are high and often with low return, the efficiency ratios have greatly deteriorated in 1996 despite the reduction in personnel costs. CAM should carefully analyze the cost per colón lent in each program to justify its continued efforts in the microenterprise program, given its high delinquency rates.

- ♦ **Increase efficiency:** CAM has been running operating losses since 1993, which have seriously eroded its equity base (by an accumulated total of some c 11.5 million). Operating costs did not decrease even though financial income did. Interest rates have been 3% per month since the program began, but costs are rising. Nevertheless, increased competition mandates that interests rates cannot rise, so CAM is pressured to become more efficient, through reduction of expenses as well as economies of scale. Once CAM has to borrow funds in the marketplace, financial costs will increase substantially, causing a negative impact on operational sustainability.

- **Write off delinquent loans:** Using the actual figures from August, 1997 and the projections from the draft strategic plan for the years 1997 to 2001, CAM and FINCA appear to be optimistic regarding balance sheet growth. This fast growth, if indeed it can be achieved, will have major implications for portfolio quality as well. Projections in the draft strategic plan indicate that loans over 30 days past due will represent only 6%, 4% and 3% of the total portfolio in 1998, 1999 and 2000, respectively. But since the level at 8/31/97 was 15.1%, this can be achieved only by writing off the loans past due more than 180 days, which represent 11% of the 15.1%, and then not allowing the remaining loans or new loans to ever reach that level of delinquency.

- **Keep administrative costs low:** As the portfolio grows, more field staff will be hired, but CAM will have to make a concerted effort not to increase the administrative staff above its desired ratio.

- **Growth without delinquency problems and with cost containment**: CAM is projected to be operationally sustainable, including loan loss provisions, in 1998; this seems attainable given the improvement from 1996 to 1997, of 82% to 94%. Inflation is again the "wild card" when analyzing financial sustainability. What we do know, however, is that CAM was unable to reach self-sustainability by the end of the project, no matter what definition or inflation rate is used. The near-term future, however, should provide realistic opportunities for CAM to reach the sustainability goal if the portfolio can grow without having delinquency problems, and if costs can be contained to allow for reasonable profitability.

- **Need to procure funds from external sources**: CAM has not procured funding from external sources other than USAID and FINCA. The only new source of funds that is mentioned in the draft strategic plan is accessing commercial loans beginning in 1999, using FINCA's guarantee program.

D. Management and Administration of CAM

Lessons Learned:

In Phase 1 of the Microenterprise Development Project, that is, before the mid-1994 discovery of massive fraud in CAM's regional office in San Miguel, weaknesses in CAM's management and administration had been flagged and recommendations made for FINCA's technical assistance to help CAM move toward institutional sustainability. The project design emphasized that a sustainable Salvadoran institution would be created through a bottom-up process that would eventually result in a client controlled entity.

Even when the village banking and microenterprise lending program appeared to be going well in Phase 1, FINCA retained much policy and operating control. Salvadoran representatives were elected to the Board of Directors in January 1995, including two women members of Village Banks. But FINCA continued to retain significant influence on the Board. FINCA argued that CAM's problems were so severe that FINCA's withdrawal from CAM's policy-making and management had to be deferred. FINCA assumed the responsibility of "stabilizing" CAM and was to have a "controlling interest" in the CAM Board of Directors.

As the project ended in August 1997, FINCA's role in CAM, contrary to the project design, continues to be major: FINCA provides leadership on the CAM Board of Directors and through the Hub office continues to be an important source of technical assistance to CAM as it embarks on its current drive (Phase 4) toward sustainability.

In Phase 2 and 3 increasing responsibility was delegated from the CAM Board of Directors (Junta Directiva) to the Executive Director. Although FINCA retained substantial control at the level of the Board of Directors, CAM is functioning well at the operational level under the direction of the Salvadoran Executive Director.

In Phases 2 and 3 an essentially "top-down" process operated, as FINCA and the CAM senior management and Board of Directors coped with the unsound grassroots village banks and microenterprise solidarity groups, the fraud and portfolio problems, and the weaknesses in CAM itself. The anticipated "bottom-up" process did not happen nor did the project end with a participant-dominated Board of Directors.

To make the General Assembly more effective and to prepare active associates for potential Board membership, the CAM statutes were amended in 1997. The statutes establish multiple steps for becoming an active associate. The processes will require a notable investment of CAM energies, both administratively and to create and then to evaluate the performance of the applicant assignments. An individual of good will who wishes to serve CAM may view the requirements as obstacles that must be overcome before he/she can even have a vote in the General Assembly; more than half a year is a long time for a volunteer to persist while others consider his/her worthiness. This is in contrast to other volunteer organizations that minimize barriers to participation.

As the project ended in August 1997, many of the administrative weaknesses cited in the Mid-term Evaluation and other reports had been addressed. Compared to mid-1994, CAM's administration was better overall though further improvements are needed, especially to complete and to integrate the computerization of operations and accounting.

The number of employees has been cut from 210 to 126 at the end of November 1997—a reduction of 40%. In general the central office staff is better educated now than it was in the early 1990s.

One prudent reaction to the discovery of fraud was to centralize financial administration enabling central office personnel are able to provide more oversight.

Recommendations:

1. The benefits to CAM from its affiliate status should be monitored periodically, in particular to assess the assistance that FINCA is providing as well as access to the Village Bank Capital Fund.

2. To the extent that the USAID Mission in El Salvador wishes to continue promoting microenterprise development in El Salvador in the late 1990s, it could endeavor to interact more with the Hub office and FINCA communication and decision-making that affect CAM.

3. The CAM Board of Directors should examine its affiliate status with FINCA.

4. Continue to assess CAM's requirements: The CAM requirements would provide the existing Board of Directors and General Assembly ample opportunities to deny active associate status to anyone they did not want on the Board for whatever reason. There is the danger than CAM would become a closed club with little infusion of new blood, which could make CAM unwilling or unable to respond flexibly in respond to changing external conditions or to CAM's own internal weaknesses. Thus CAM's General Assembly and Board of Directors are far from being client controlled and the current processes for selection of active members puts much authority in the hands of current Board members, giving current clients as a group little leverage.

5. Re-evaluate salary levels and incentive plans:Salary levels of CAM field staff are low; the entry level salary of promoters is barely above the minimum wage. Some of CAM's promoters have been hired away by other microenterprise programs or they have left for better paying but unrelated employment. Incentive pay has long been recommended for field

staff and CAM intends to institute such as system wherein compensation is based on growth of the loan portfolio and other criteria.

6. Recommend instituting an integrated management information system at CAM. Some functions of CAM are computerized (accounting) and some are not (check writing). The accounting software permits comparisons of historical income and expenses with the current actual period. But the budget is generated on different software, resulting in the necessity to enter the actual data to generate budget variances.

It is a sign of CAM's strength that its technical staff is able to cooperate effectively with Hub's technical consultants and evaluate options to achieve an integrated information system. In any event, it is expected that by late 1998, CAM will have a much better information system in operation. The current internal and external auditing activities should prevent a recurrence of any fraud on such a large and prolonged basis as was the case in the San Miguel regional office. The internal controls in particular are well established and accepted within CAM to the point that they are a part of CAM's corporate culture.

The following CAM management and administrative strategies are planned or under consideration and are intended to strengthen CAM as an organization:

1. Conduct an active campaign to recruit and train candidates for membership in the General Assembly and for potential election to the Board of Directors. Identify candidates among CAM borrowers and Salvadorans with experience with PVOs and the private sector.

2. Reduce the number and influence of FINCA representatives on the Board of Directors as more committed and capable Salvadorans are found to replace them. In the long-run maintain the benefits of affiliation with FINCA International while transforming CAM into a beneficiary controlled institution.

3. Continue efforts to improve the management and administration of CAM in a variety of ways such as staff training, the computerization and integration of the management information system, updating and implementation of manuals, and recruitment of staff with appropriate education.

4. Establish a system of incentive pay for promoters that both rewards efforts to increase the total loan portfolio and to achieve a balance in the portfolio between urban and rural borrowers, while maintaining portfolio quality.
5. Decentralize some decision-making to the regional level while retaining centralized oversight over approvals for disbursements and internal auditing. Maintain the separation of functions in the flow of money to limit opportunities for fraud.

6. Continue to take advantage of FINCA's technical assistance provided through the Hub office carefully and evaluate the appropriateness of the assistance to CAM before implementation.

7. Control operating costs so that an effective CAM administration can contribute to the growth of the loan portfolio and the achievement of financial sustainability

In short, while maintaining its commitment to the social purpose of uplifting the poor, especially poor women, CAM wants in the long-run to be a self-sufficient financial institution controlled by Salvadorans, mostly borrowers, which learns from the microenterprise experiences in other countries through its affiliation with FINCA International.

Results: After assessing current management and administrative performance is assessed, the conclusion is that in late 1997, having withstood the blows of the fraud (Phase 2) and having reoriented its program and organization (Phase 3), CAM is a leaner and more capable organization. There was an inherent conflict between the philosophy of building a bottoms-up organization in which borrowers would eventually dominate the Board of Directors and the chain of command in which the AID Mission held FINCA responsible for CAM's development. That conflict was *de facto* dealt with in different ways during the course of this project; in the last years of the project FINCA maintain much control in order to make the necessary controls.

E. ROLE OF FINCA IN CAM

The scope of work of this evaluation includes examination of the compliance of FINCA with the terms of its Cooperative Agreement and assessment of the quality of its technical assistance. Although recognizing that much had been achieved, the Mission is concerned that the project purpose —the sustainability of CAM—had not been attained upon the end of project funding on August 31, 1997. In attributing responsibility, it is important to distinguish between elements that were (or should have been) under FINCA's control and those that were not. It must also be borne in mind that during implementation, project designs are often changed.

In December 1997, the Board of Directors continued to have three North American Board members from FINCA International (board members are chosen by the General Assembly). The chair and treasurer's positions continued to be occupied by two of the latter three. The Board, however, met only tri-monthly. Day to day decisions were now completely left to the Salvadorean administration of CAM and its Executive Director, Lic. Ingrid de Segovia. FINCA International, through its Guatemala office, provided important technical assistance including an institutional and financial evaluation of CAM in July 1996 which led to the new strategic plan which, as of December 1997, was in draft. This new plan sets forth the new directions in both financial management and administration which CAM proposes to pursue in the next few years. FINCA technical advisors are also introducing a new MIS and are said to visit CAM at least one week out of every month.

Since FINCA has had and continues to have an exceptionally close relationship with CAM. Because of the unusually close relationship between FINCA and CAM, FINCA must take more credit or blame that a (typical USAID) contractor who exercises little control over the client institution and is limited its ability to alter policies, management, or administration.

That FINCA's relationship is so close up to and after the August 31, 1997, end of the Cooperative Agreement is a *de facto* change in the project design. FINCA's dominance also contributed to the top-down governance of CAM, another design change. When the project ended, CAM did not have a Board of Directors in which clients had a dominant voice. Taking the two design changes together, an institutional model exists which is different from that anticipated in the project design. According to the project design, at the end of the project CAM would be a Salvadoran organization which had achieved financial sustainability with a Board of Directors dominated by CAM clients.

The actual model is of a FINCA affiliate still struggling toward sustainability and still receiving much guidance and technical assistance from FINCA along the way. Whether the existing model is the appropriate one is depends upon a number of factors, including one's assessment of FINCA as an organization. Given the existing close structural relationship with FINCA, including technical assistance from FINCA through the Hub, it may be best to suspend judgment for the time being. This is an opportune moment to evaluate both CAM's success or failure to achieve sustainability as well as FINCA's contributions to that outcome. The achievement of CAM's sustainability has effectively been postponed, though still depending on USAID's assistance albeit now through a centrally funded project than through the Mission-sponsored Microenterprise Development Project.

The Midterm Evaluation of 1993 identified two major departures from the original design of the project and enumerated areas for improvement in the FINCA-CAM operation. The first of the departures concerned progression to graduation of the village banks. As concluded in the preceding chapter (III.A.6), these village bank program changes are major and deserve more investigation. It was reasonable for FINCA to have made these changes. This was a pioneering program and existing members liked their banks and wanted to continue. But it would have been useful for FINCA to have considered consequences and reexamined the design of the Village Banking Program. Usually those implementing a project are not expected to do step back and analyze basic issues but FINCA was and continues to be a major creative force behind Village Banking at the international level.

The second major departure from the original design was the addition of a new Microenterprise Program with higher lending limits. This program was not described in the Cooperative Agreement nor was there a strategy for developing it, which meant that project organizers were forced to develop a strategy as the project went along. As discussed in Chapter III.B, although the Program was modified from time to time, it continues to perform worse than the Village Banking Program. In retrospect perhaps FINCA could have acted sooner to correct (or eliminate) the Microenterprise Program.

The term "compliance" can carry a connotation of a contractual obligation. It should be noted that departures from the path originally anticipated in the Cooperative Agreement were documented and accepted by the Mission. The plethora of annual plans, quarterly reports, monthly vouchers, and correspondence makes it clear that FINCA communicated frequently with the Mission during the project, although sometimes the Mission took exception to FINCA's past activities or proposed actions. FINCA generally complied with its contractual obligations under the Cooperative Agreement.

In this report the term 'compliance' is used in the sense of compliance with the intent and expectations of the project. Using this concept of compliance, a more positive conclusion is reached concerning FINCA International's satisfaction of the terms of the Cooperative Agreement.

In its (draft) final report, FINCA International justifies its record firmly on the basis of what was learned, contending that the learning experience which this project provided was extremely important for projects of this kind world-wide as well as for USAID and FINCA and that the lessons learned were in the areas of Credit Methodology, Financial Management, Administrative System, Governance System, Training, Technical Assistance among others. This Evaluation Team agrees although it also notes the considerable costs involved for CAM and USAID/El Salvador from this being an experimental project. Were FINCA International to open a village bank program for the first time in El Salvador today, many, if not most, of the faults in administration and management would not occur because of what has been learned through the project since 1990. CAM suffered because it was part of a learning experience both for USAID and for FINCA.

Under the dynamic and committed leadership of Lic. Ingrid de Segovia, the future prospects for CAM's viability have improved. Would this improvement have come about more quickly if FINCA International had completely left management to CAM? The answer is quite probably no. Creating a new organization and giving it the experience to handle the conflicting pressures of El Salvador cannot be done quickly. The seven years of FINCA involvement were probably not too long. Indeed, there is a real question if CAM, in the absence of the considerable technical assistance currently received from FINCA through the affiliation mechanism, would be able to survive and develop even now.

When is a project expense too much and when is it justified? The large sums spent on FINCA International costs raise this question rather sharply. It is noteworthy that projects which successfully reach the very poor and introduce new types of financing and savings schemes, and offer some level of training and follow up, have often been very expensive to start and maintain. Moreover similar projects in other countries with larger sums available - which have been considered successful by most observers - have certainly spent forty to sixty percent on initial administrative costs including those for expatriate expenses. What may be more important is not the initial expense - or the expatriate proportion thereof - but the long term impacts which the project generates.

If compliance is not satisfying the specific original terms and dates of the agreement, but, in fact, successfully setting forth a new approach to providing access to credit to the poor in El Salvador which has been widely adopted within that country and may have touched the lives of as many as a million people (through all CAM and other imitators' programs), then FINCA International may have been said to have made a very positive contribution fully in line with the original intent of the project.

ANNEX 5

CAM FINANCIAL DATA

Using the “Format for Appraisal of Micro-Finance Institutions” published by the CGAP Secretariat on February 25, 1997, the following tables for CAM are presented below:

a. Balance Sheets

b. Income Statements

c. Portfolio-At-Risk Worksheet

Using an Excel spreadsheet format, an additional table follows:

d. Reconciliation of Loan Loss Reserves

ANNEX 6

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