MATCHING GRANT
ENTERPRISE FOR HEALTH
FINAL EVALUATION

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ACRONYMS

ADP	Area Development Program
ASODECO	Asociacion para el Desarrollo Economico del Peru
BDS	Business Development Services
CIDA	Canadian International Development Agency
CO	Credit Officer
DAP	Development Activity Proposal
DFID	Department for International Development
DIP	Detailed Implementation Plan
EA	East Africa
EDPYME	Entidad de Desarrollo de la Pequena y Micro Empresa
FAIDA	Finance and Advice in Development Assistance
FFH	Freedom from Hunger
FFP	Food for Peace
FY	Fiscal Year
GWU	George Washington University
HIV/AIDS	Acquired Immune Deficiency Syndrome
HR	Human Resources
INAFI	International Network of Alternative Financial Institutions
LACRO	Latin America and Caribbean Region
MBB	Microbanking Bulletin
MED	Microenterprise Development
MED-Net	Microenterprise Development Network
MFI	Microfinance Institution
MDG	Microenterprise Development Group
MG	Matching Grant
NGO	Non-governmental Organization
NOVIB	Netherlands Organization for International Co-operation
MIS	Management Information System
PAR	Portfolio at risk
PRESTO	Private Enterprise Support, Training and Org. Dev. Project
SBS	Superintendent of Banks
SEDA	Small Enterprise Development Agency
SEEP	Small Enterprise Education and Promotion Network
SG	Solidarity Group
TAMI	Tanzania Association of Microfinance Institutions
USAID	United States Agency for International Development
VB	Village Bank
WV	World Vision
WVI	World Vision International
WVP	World Vision Peru
WVRD	World Vision Relief and Development
WVT	World Vision Tanzania
WVU	World Vision Uganda
WVUS	World Vision United States

TABLE OF CONTENTS

EXECUTIVE SUMMARY

A. INTRODUCTION

In September 1996, World Vision US was awarded a Matching Grant known as Enterprise for Health. The goal of the 6.5 million program, equally funded through USAID and match, was to improve the socio-economic and health status in poor communities. The grant is scheduled for completion in September 2001. Funds were granted to microfinance institutions in Peru, Tanzania and Uganda as well as to the WVUS headquarters for use in all regions where WV is at work. Originally, the grant focused on a strategy which directly integrated basic community health services with MED by targeting volunteer health workers clients and working with communities to pay for health services. Interest grew in developing sustainable micro-finance institutions with replicable methodologies, leading to the replacement of a direct health focus with a strategy focused on credit.

The goals and purposes of the grant are:

1. To capitalize and strengthen newly created and developing microenterprise financial and non-financial service institutions in Peru, Tanzania and Uganda;
2. To assist in the development of new and existing micro-enterprises; and
3. To provide models for the World Vision Partnership of effective micro-enterprise development activities and their integration into existing programs.

Partners in the implementation of this grant include ASODECO/CREDIVISION in Peru, established in 1994; Small Enterprise Development Agency (SEDA) in Tanzania, established in 1996; and Micro-Enterprise Development Network (MED-Net) in Uganda, established through the Matching Grant in 1996. All three MFIs have achieved greater outreach than originally anticipated in the Detailed Implementation Plan (DIP). Both the original target areas and the broader institutions are examined in the evaluation.

Over the five-year period, an impact evaluation was conducted by George Washington University. The results of the study are summarized in Section IV.

B. PURPOSE OF THE EVALUATION

A final evaluation of the MG was conducted in April and May 2001. The evaluators were tasked with providing information on the following:

1. Accomplishments against targets established in the DIP;
2. Effectiveness and impact of the program design and implementation;
3. Impact of the strategic partnerships between the MFIs and technical resources in the MED-Network; and
4. Change in WV's organizational management and institutional capacity in MED as a result of the grant.

C. SUMMARY OF FINDINGS

1. CREDIVISION - Peru

ASODECO, the Association for Economic Development of Peru, was established in 1994 as a non-profit organization. In April 1998, a law was passed in Peru creating a new organizational structure, the EDPYME, a for-profit banking institution controlled by the Superintendent of Banks. After lengthy deliberation, it was decided that ASODECO would become an EDPYME. Therefore, the second year emphasis of the MG was on the creation of EDPYME CREDIVISION, capacity building and significant growth in outreach. The focus of the third and fourth year was primarily on the creation of CREDIVISION, which was officially established in June 2000. The fifth and final year of the grant has permitted CREDIVISION to gradually increase outreach and sustainability while strengthening institutional capacity.

The final evaluation, which took place in May 2001, showed that financial sustainability was 92.4% in the Cusco branch; the DIP target was 100%. For CREDIVISION as a whole, financial sustainability was 75.3%. Financial sustainability has taken longer to achieve due to start up costs associated with a new institution, decreased lending during the start up period, and generally slow growth. CREDIVISION staff is focused on the goal of financial sustainability, and expect to reach 100% early in FY02 by increasing portfolio per credit officer and continuing to minimize expenses.

The value of the revolving loan fund, targeted at \$565,000, is more than \$1.2 million. Loans outstanding totaled \$571,168, \$377,750 in Cusco and \$193,418 in Lima. The MG provided a total of \$565,000 in loan funds, \$335,000 from USAID and \$230,000 from the match. Other measures of the effectiveness and sustainability of the institution include institutional registration, effective systems and policies, and an active and knowledgeable board.

The current value of the loan portfolio per credit officer is \$75,550 in the Cusco branch, slightly exceeding the target of \$75,000. For CREDIVISION as a whole, loan portfolio per credit officer is \$63,463. In Cusco, credit officers manage 214 clients, compared to the DIP target of 193. CREDIVISION's current goal is 240 clients and an \$80,000 loan portfolio per credit officer by the end of the FY.

In the area of assisting in the establishment and development of new and existing micro-enterprises, since October 1996, ASODECO/CREDIVISION assisted 4,843 clients (4314 in Cusco) with 13,786 loans (13,257 in Cusco), well over the goal of 1978 successful micro-enterprises and 6530 loans disbursed.

The effectiveness of program design was assessed by examining the credit portfolio. CREDIVISION offers individual and solidarity group loans, and intends to implement a community banking product in FY02. Sixty-nine percent of CREDIVISION's loans are to individuals, and 31% are solidarity group loans. Although loan sizes and required guarantees differ, CREDIVISION uses basically the same approach for both individual and solidarity group clients in terms of loan processing, loan analysis, and CO-client relationship.

CREDIVISION staff is challenged by the tension between mission and financial sustainability. The emphasis of their vision is on increasing impact in the lives of the very poor, and their long-term goals regarding the mix of products reflect their mission and the need for diversification to achieve sustainability and scale. However, the transformation to a regulated financial institution has also made sustainability more difficult by driving up costs. CREDIVISION's response has been to focus more heavily on larger loans to individuals rather than smaller loans to groups, indicating also that overall clients are becoming less poor. While some clients are moving into individual lending as their businesses grow, many are new clients with larger businesses.

Regarding outreach and efficiency, the organization surpassed the target of 1349; they are currently working with 1499 clients. However, the organization faces several challenges to increasing operating efficiency, which declined dramatically when CREDIVISION was created due to the high cost of establishing and maintaining a formal financial institution. The operating cost ratio at 113% is still extremely high, surpassing the DIP target as well as CREDIVISION's own target. Cusco's operating cost ratio is slightly better at 90.6. One major contributing factor to low operating efficiency is the low CO to client ratio.

CREDIVISION's high portfolio quality figures reflect the rigor demanded by the SBS for EDPYMEs, and the effects of the transition from ASODECO, since CREDIVISION accepted only the best of ASODECO's clients. The portfolio at risk of 1.65% puts CREDIVISION among the best microfinance institutions.

CREDIVISION is primarily funded at present through the MG, and is steadily increasing its reliance on earned income. By the end of the FY, CREDIVISION will need additional loan funds, and managers plan to access $500,000 for the next FY. Once the institution generates a profit it will be in a better position to diversify its funding sources.

Program monitoring and evaluation systems permit the regular review of program quality and impact by branch. Lending activity and portfolio quality is tracked through an integrated system called CAUTIVO. Although information is fairly reliable, it contains a number of errors and requires a substantial and regular time investment on the part of the General Manager. The reports prepared through CAUTIVO and on EXCEL spreadsheets are prepared to meet the needs of various users. Since various stakeholders (SBS, MED-Network, USAID) require different information and types of reports, the process of preparing reports is time consuming.

Key Recommendations:

1. **CREDIVISION must seriously and creatively consider their mission as well as the potential market to determine what strategy might offer the best hope for long-term success.** A vision for outreach (many very poor clients) may spur the institution to greater levels of innovation and efficiency while targeting a lower market than other EDPYMEs. At the same time, staff must think strategically about balancing the conflicting needs presented by high costs, poor clients, a highly regulated environment, and a new organization.
2. **The current products and methodology should be assessed in order to determine how to improve them to better meet client needs.**

3. **The lending process can be made more efficient, especially in the case of SG loans.** Such an assessment should also help to better meet client needs, as noted in the recommendation above.
4. **Until the institution is more efficient and sustainable, both current branches are profitable, and current loan products are made more responsive and efficient, it would be best to postpone CREDIVISION's entry into community banking.** Entry into this market now is likely to stretch institutional capacity too much at an already difficult time.
5. **In order to move steadily toward achieving its vision and mission (described below), CREDIVISION may want to consider alternatives to increasing financial sustainability and operating efficiency.**
6. **In expanding, and creating a structure to support expansion, CREDIVISION should move ahead very carefully given the expense, competition and economic environment.**
7. **Consider designing regular Board training/retreats** in order to further build the board's understanding and capacity, to inform members more fully, and to increase members' ability to work together.
8. **CREDIVISION should consider designing and implementing more formal training sessions for new credit officers in order to complement the existing system.**
9. **Organizational review and analysis, including a review of vision and mission, is a very important process that can normally be implemented during the business planning process.**
10. **Simplify monitoring if possible, incorporating all necessary activities into CAUTIVO rather than operating multiple systems.**
11. **Determine the importance of impact evaluation to the institution, balancing need with costs, and identifying processes for carrying it out.**

- **Cultivate linkages as an investment in institutional capacity.**

2. SEDA - Tanzania

Since its establishment in the district of Arusha in 1996, SEDA has opened three branch offices and serves a client base of slightly over 10,000. It is the largest of the three funded MFIs and owes much of its success to its executive leadership and committed staff. Unanticipated growth in new areas has affected financial sustainability, with the overall institution at 75% and Arusha (the originally targeted area) at 104%. The target for this year is 87% for the overall institution, which may be reached given the trends for the year. The average loan balance outstanding is at $1,332,000, 16% above the DIP target. Average loan size of $183 is considerably smaller than the original DIP and business plan projections of $322, primarily due to the influx of new clients bringing down average loan size.

Operating efficiency in SEDA overall reflects a positive trend, with operating cost ratio reaching the target of less than 55%, cost per loan decreasing from $56 in 1998 to $47 in 2001 and client to CO ratio increasing from 292 to 384. The Arusha branch shows a higher CO to client ratio of 426 and a higher portfolio per credit officer of over $63,000 compared to SEDA overall at $49,000. The original DIP target is $65,000, which reflects the higher projected average loan size.

Portfolio quality is impressive with a PAR of 7.7% for the entire institution, and 3% for Arusha compared to the DIP target of 6%. This is a major improvement from a high of 16% PAR in 1998. Interviews with staff note that several steps were taken to address delinquency. Some of the more significant ones include standardized credit officer (CO) training, having CO present during payment meetings, improved MIS and feedback to individual COs, weeding out the risky groups and individuals.

SEDA's main loan product, a combination of community banking and solidarity group lending, would benefit from additional refinement. Currently, many of the efficiencies of community banking are lost due to the business analysis requirements that are more akin to those required for solidarity group lending. At the same time, the solidarity groups are burdened with some of the self-management issues more appropriate for CBs. SEDA may want to consider working towards a more conventional SG loan approach, although a community bank approach would be more appropriate for the ADPs. WVT may be willing to take on this challenge and be the learning laboratory for SEDA to develop a rural credit product. SEDA may want to consider grafting onto an existing infrastructure to deeply penetrate hard to reach areas.

SEDA's vision of transformation into a regulated body appears to be the driving factor in its organizational development. While such a vision helps steer an emerging MFI towards greater levels of professionalism, it does not necessarily drive an institution towards the greatest possible outreach in terms of breadth or depth. Indeed, trying to serve the needs of a regulated institution could be at odds with the requirements for serving larger number of very poor people.

A staff of 56 runs SEDA, of which 27 are credit officers. Additional credit officers can be hired without additional costs in support and management staff. SEDA feels this structure was necessary to build the client base up from 2,046 in 1998 to over 10,000 in 2001. The organization is very flat, allowing for quick decisions at the branch level in matters regarding portfolio quality or accounting issues. A branch blueprint plan is now under development that will allow for faster expansion and permit the branch to more quickly attain sustainability.

The board, made up of seven individuals of which three are independent from WVT, views itself as an independent body and has been well trained in the technical aspects needed to govern and craft relevant policy. SEDA faces a major organizational challenge over the next few months; the executive director is leaving and will take on the regional technical advisor role full-time for the World Vision partnership in October 2001. The operations manager has been named interim director.

Other departments within SEDA are well developed. The human resource department has a human resource and training manual. The CO incentive system is effective in keeping top producers in the field, but shows some inequities. The internal audit department has recently developed audit procedures and policies, which may benefit from an additional review from the WV technical team. Internal audits are regularly scheduled although it has been recommended that spot audits start at the branch level.

Financial management is sound overall. A financial manual was completed in June 2000, documenting all accounting, administrative policies, financial and statistical reporting, budgeting process, cash management, forecasting, and external audits. The main challenge is liquidity management between the various branches. Additional training in this area is needed by the finance director and operations manager.

The board has made the strategic decision this year that no more grants will be accepted by SEDA. Operating expenses will now be met through generated financial income. Once transformation has taken place, SEDA will secure future loan funds through the use of member savings and equity investments. They expect transformation to occur within the next three years. Use of member savings for loan funds is a major step for an MFI and should be approached with great caution.

SEDA uses three systems in managing financial information: TMS, SUN and the in-house EXCEL spreadsheets. This overlap increases confidence that no information is missing or inaccurate, and the latter systems tend to create more user-friendly reports. Maintaining three systems will soon prove too costly and time consuming for SEDA. An in-depth paper audit of the loan delivery, collection and tracking system is recommended to reveal bottlenecks and redundancies in the current system.

Key Recommendations:

1. **Refine methodology.** Due to the urban and peri-urban nature of SEDA's operations, and client characteristics, a SG loan product is well suited for its clientele.
2. **Monitor costs and benefits of groups self record keeping.** SEDA should monitor this additional layer of control carefully for costs to the client and to the CO in terms of time spent in training and meetings
3. **Explore a classic village bank model for ADPs.** If SEDA is intent on working in the ADPs, they may want to explore a more classic village bank model which works with larger groups (20 or more), where members are responsible for all screening of other members and their businesses.
4. **Use World Vision as learning laboratory for the community banking product in order to protect SEDA while the client base is built and the product and systems developed.**
5. **In conjunction with the idea above, explore grafting onto existing infrastructure in rural regions.** SEDA may want to consider using other infrastructure that can handle cash disbursement and collections (e.g. postal banks, lottery outlets, credit unions).
6. **Promotion of the internal account depends on the organization's vision for the group.** If they see the group as slowly gathering its own asset base that will supplant some demand for services from the MFI, then the internal account is an appropriate product to promote. However, if the MFI wishes to have the group more dependent on the institution for lending services, then the internal account is counter productive.
7. **SEDA should be cautious when considering entering into health insurance**. SEDA appears to taking the right course in considering a partner-agent model, which would limit their role to linking clients with insurance companies.
8. **Consider loan-life coverage product**. As the insurance industry develops, SEDA may want to consider contacting insurance providers to enter into loan-life coverage.

9. **SEDA's clients, primarily microentrepreneurs with full-time businesses, would benefit from BDS linkages**. Assuming client demand exists, SEDA may want to encourage local BDS centers to provide training more suited for their clients; SEDA could act as the agent.
10. A *Credit with Education* approach such as that promoted by FFH has proven both cost effective and high impact in terms of improved health and nutrition status among clients. **SEDA may want to further investigate this *Credit with Education* approach.**
11. The time COs spend in business assessment of assets, income and cash flow has questionable value when determining credit-worthiness of the clients, except for the case of larger loans (e.g. over $500). **SEDA may wish to make its loan assessment application more streamlined.**
12. **If SEDA wishes to attain serious scale using the community bank approach, each group should have more members,** especially in rural areas where travel time between groups becomes significant. Larger membership has been shown to work in several African environments, as long as loan processing is streamlined and the peer guarantee mechanism is in place.
13. **Reconsider the repayment schedule for select areas.**
14. **Additional support in financial management may be needed during the transition to a new executive director**. The WVT director of finance serves on the SEDA board and may be in a position to extend additional support in the area of financial management.
15. **SEDA may want to expand the number of variables that dictate the incentive scheme[CWW1].**
16. **SEDA management needs further training in liquidity management**
17. **Use of member savings for loan funds is a major step for an MFI and should be approached with great caution**.
18. While this approach appears to work well for the present, **SEDA must consider the costs of operating essentially three systems if significant scale up occurs** (e.g., 50,000 to 100,000 clients).
19. A new MIS, Emerge, is slated for introduction to MED programs. **WV should carefully consider the expedience of this change,** as SEDA has already invested considerable time adapting the current TMS system and has reached a high level of confidence in its results.
20. **An in-depth paper audit of the loan delivery, collection and tracking system is recommended to reveal bottlenecks and redundancies in the current system.**
21. **Spot audits at the branch level should be instituted over the next year, as SEDA is poised to grow considerably**.
22. **Reduce the internal auditor's role in business/loan analysis.**
23. **Provide technical review of internal audit procedures/policies.** The internal auditor expressed interest in receiving technical assistance in review and implementation of the internal audit policies and procedures.

3. MED-NET - Uganda

MED-Net (Micro-Enterprise Development Network) was founded in 1998 as a limited company by guarantee, registered under Ugandan NGO laws. Currently MED-Net serves 6700 clients in the districts of Kampala, Mpigi, Mukono, Masaka and Rakai, expanding far beyond the original districts of Masaka/ Mukono. The loan fund as of the evaluation was $595,065, which is below the DIP targets of 665,000 mainly due to the much lower than anticipated community bank loan size ($164 versus the DIP projection of $322). Lower loan growth and higher outreach contributed to a much lower than expected financial sustainability rate of 50%, compared to 103% in the DIP. To address sustainability needs, MED-Net has introduced higher end loan products, with three types of SG loans and individual loans. This will open a new market for the institution but may steer it away from its original mission to serve the very poor.

Operating cost efficiency is a major challenge for MED-Net, with the current operating cost ratio at 75%. This is line with the business plan target of 70%, which is more realistic than the original DIP target of 35%; however, this ratio must still be lowered significantly to move sustainability forward. One area of improvement may be increasing CO to client ratio, which is now only 290. This low ratio is largely attributable to the costly processing time for all loans, even community bank loans which due to their small size should have minimal analysis. This type of analysis was introduced in an effort to reduce the high PAR of 18% that existed in year three of the grant. Current PAR is very good at 7%, although this is mainly attributed to introducing staggered loans, reducing the client and portfolio ratio for each CO, increased skill level of CO in terms of follow up, timely and accurate information given to CO and branch managers, branch managers relieved of CO duties, and using local leaders to give character references for all clients.

MED-Net is currently working in several ADPs and plans to take over all MED-related activities in the area from WVU. In order to position itself for a more rural clientele, MED-Net is negotiating with the postal bank system to broaden the delivery system. This should prove to be significant in allowing MED-Net to capture this rural market.

The organization, while relatively young, has created a sound infrastructure and staff. This is largely due to the efforts of the director, assistance from the RTA, and technical assistance from the MED Partnership. MED-Net employs a staff of 56, of which 28 are credit officers. While this is relatively high given a clientele of 6700[*2], they are well positioned to grow. An incentive system and formal training program for COs is in place. Documented procedures for human resources and a training program for each loan program exists; COs are now hired for specific types of loan products. Unlike SEDA, MED-Net is still highly centralized in most functions, although plans to decentralize the portfolio planning and accounting systems more to the branch offices over the next year.

MED-Net's current funding base is comprised of commitments from the MG, PRESTO and private sponsorship from WVUS and other support offices. Current total assets equal $1,179,451. MED-Net expects to use retained earnings, intermediate savings and attract private investments as a way to increase the loan fund. Savings intermediation is not advisable until the operating cost ratio is decreased to at least 30% and PAR lowered to at least 5%, and they have successfully used commercial loans. Financial management and audit systems are in place, although additional training in liquidity management and a review of the audit policies is advisable.

The computerized portfolio tracking system TMS is now being installed at MED-Net. An Excel system is still used to produce weekly and monthly portfolio reports by branch and by CO. Once the TMS has been fully adjusted to MED-Net's needs, the two systems will run together for three months to verify accuracy and increase confidence in the new system. MED-Net may want to consider a paper audit to review the consolidated system for bottlenecks or redundancies. Several key performance indicators such as portfolio yield and client dropout are now captured only at the CO level, and should be incorporated in organizational statistics.

Key Recommendations:

1. **MED-Net must be vigilant against moving away from serving the productive poor in favor of serving higher end customers in their quest for sustainability.**
2. **MED-Net should move quickly to a relationship with postal banks.** Such an arrangement could open up rural markets with hard to reach populations and allow MED-Net to capture this market.
3. **MED-Net should begin to set up separate costing and performance tracking for each product over the next year.**
4. **Consolidate loan appraisals**: community bank loan analysis and business verification should be left to the group. The individual and solidarity group credit interview should be shortened considerably.
5. Clients should receive some return on all voluntary savings to lower effective interest rates and provide an additional service to clients.
6. **Hiring of additional staff should be halted until operating cost ratio declines.** Increase client to credit officer ratio to DIP targets.
7. Additional time spent in collecting impact baseline data and analyzing individual community bank loans contributes additional cost and lowers client ratio rate. **MED-Net should review the need for and value added of this facet of operations.**
8. **Reserve ratio can be reduced, as loan loss is much lower than anticipated.**
9. **Portfolio quality indicators should be broken down by product to assess individual product performance.**
10. **A branch replication strategy should be developed and implemented.**
11. **Decentralization of the branch strategy is also required for significant growth and should be implemented over the next year.**
12. **Technical assistance in crafting forms and procedures for internal audit department is one area where the MDG could be of great assistance.**
13. **A complete paper audit of the loan disbursement, collection, and monitoring process is warranted to see where bottlenecks and redundancies exist.**
14. **Savings intermediation is a serious step which should be considered only after MED-Net has proven itself capable of handling commercial loans.**
15. **At this point commercial loans are not recommended until MED-Net reaches financial self sufficiency and increases its overall efficiency as is reflected in a lower operating cost ratio of 25-30%.**

4. Impact Evaluation

A survey to assess the impact of microenterprise and health was developed and applied at three points in time: between October 1996 and January, 1997, when a baseline of the population was taken; a midterm assessment conducted between November 1998 and January 1999; and a final evaluation in January 2001. Random samples of the population were used at each point in time.