PD-ABT-658

FINAL EVALUATION

PROJECT

MICROENTERPRISE 2000
SUPPLEMENTAL GRANT

FINANCED BY
USAID
CRS

San Salvador, January, 2001

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BUSINESS PLAN (PHASE II)

In this phase, the elements to implement the project were incorporated; which include: the organizational implementation, information systems, training of personnel, promotion of the entity among potential donors or sponsors, the design of the training program, evaluation of the skills needed to manage the operation, management of the operations, monitoring of operations, and the design of operative loan procedures.

In the executive part, where the advances are less notable, we can sense a delay in the decision taking actions and formalizing of the working systems; nevertheless, these operative definitions also must be based on the theoretical design of the first part, for which the weaknesses of Phase I have influenced in the execution of these actions.

From our revision we can conclude that the project has been successful in establishing almost all the organizational aspects, systems and procedures planned; however, it is evident that there was a lack of fondness, depuration and improvement in the operative procedures in relation to the stage the project was in and as a base to consolidate its growth.

In our detailed report we formulate observations for each area and our pertinent recommendations.

GENERAL CONCLUSIONS

1) *The manner in which the operations have been implemented contain a considerable element of associated activity that is hard to achieve due to the idiosyncrasy of the Salvadoran people and therefore, it requires a great deal of promotion and vigilance. The entity already had negative experiences in this area and has been forced to improve certain procedures. The project requires the implementation of certain values that stimulate the committed participation of the promoters and the rest of the operative personnel and reinforcement of the vigilance of the process, since the trust placed on the entity must become a priority to guarantee its growth. Although there are no real estimates of the potential market for the activities managed, the vision could be extended to increase the number of potential users and make the operations more profitable, since at the present level, the total expenses of the operation are not being covered.*
2) *In order for the institution to be authenticated, the activities of the project could be transferred to a "new" corporation, constituted under the Law of Non-banking Financial Intermediaries, since there is no way of constituting the corporation already operating. Nevertheless, it is possible to transfer the current operations to the new corporation once it is legally formed and has obtained authorization to operate. (Note that two authorizations are required and not until the second one is obtained will the current portfolios be transferred).*

3) *During the life of the project, improvisation has taken place in integrating the key elements: Training, Organization, Financial Projections and Objectives, and Systems Implementation; however, the project has already capitalized its key elements and needs only to consolidate the efficient control of its main operation: the loan, a fundamental aspect for the future operative feasibility.*

4) *The financial projections and goals have been established in a limited way to the minimum acceptable by USAID; however, because this project is entirely financial, quantitatively sustained business plans should have been required in a yearly basis and grouped by trimesters at least for the next two or three years. The annual goals should not have been reduced below the equilibrium level, but business plans should have been developed with sufficient strategies to achieve the minimum of security in a given period. As part of this plan, the minimum capital necessary for investment should be established (loans or patrimony) and the amount should be the goal of the capitalization plan.*

5) *In many cases, the work of the advisors and consultants was not gathered in an integrated form which would have made more efficient the process of implementation of activities and this would have prevented some delayed or erratic decisions. In the minutes from the Board of Director's meetings, there is no mention of any knowledge of reports from the advisors. All the projects' consultations should be sufficiently*

discussed at the Directors level and written action plans should be elaborated with assigned responsibilities to improve the level of organization and execution of operations.

6) *As of the date this report was prepared, the Law of Monetary Integration had been approved effective January 2001, designed by the Executive Branch, which establishes the conversion of US$ to a fixed rate of ¢8.75, which means using US$ (Dollars) as the actual currency in all bank transactions, as well as exchanging the colones received. This law as it reads, will promote the total dollarization of the economy. For the project, this could increase the possibilities of obtaining an external credit in a short-term; but at the same time, could generate pressure in the current interest rate (70% annually). Considering the macroeconomic effect of this law, immediate steps should be taken to review the target market, the vision, and a feasibility update should be considered.*

LESSONS LEARNED

1°) *The loans to community banks are made possible by great personalized efforts and transparent management, even at high interest rates; however, the fundamental values of the banking system: trust and credibility must be given top priority.*

2º) *The creation of a project must be implemented following a well-defined market and concept. The implementation must begin after organization and functions are defined to ensure an adequate level of understanding and awareness by its personnel. The plan that was designed, contained the necessary elements; however, its implementation did not take place in the formal way, which requires updating the dimension of the market and periodic revision of the implementation process.*

3º) *A financial project, such as this one, requires a complete and consistent financial plan. The requirements for financial information must be defined in a more complete way and an internal follow-up plan for achievements should be defined indicating levels of responsibility, frequency and ways of reporting.*

4º) *The budgeting control must be carried out since the beginning and its financial viability should be revised at least once a year at the start and again when the economic parameters change. However, the projection must clearly identify the moment and volume of equilibrium, which must constitute the general goal from the beginning.*

5º) *A participative and flexible administration would generate more cohesion and improve the working mechanisms used by the critical team, (promoters, supervisors and Managers). Advanced managerial concepts, such as the elaboration of values and leadership, are necessary mechanisms for the coordinated functioning of the organization. The managerial team must be more approachable with the operative personnel to get to know and listen to their needs for support.*

6º) *In any kind of work, when there is money involved, all the functions are at risk of bad management, a reason why strict ethical policies for the personnel must be defined, as well as strict policies for internal control. In the promotion manual, the responsibilities of verification and vigilance of the supervisors, the Business Manager and the internal auditor should be incorporated, as well as specific rules of behavior required for the promotion personnel.*

AREAS OF FUTURE SUPPORT NEEDED

Throughout the revision, we have described the areas that present operative weaknesses in which we can identify the following elements that could be reinforced:

a) *The recruitment process should be strengthened by a well-defined mechanism in which external support could be incorporated or some form of outsourcing to improve quality control and to avoid diverting resources towards this activity.*

b) *The Auditing Department should receive support for the control follow-up. The design of the Handbook of Loan Audits should be initiated based on the experience gained by the current auditor. As a support system, the Managers should be required to provide written explanations of the observations and establish compromises to overcome the weaknesses reported.*

c) *A study of the operation's efficiency is necessary which should include revisions of the current business parameters, the methodology, the procedures and security, as well as the plan to enhance the capacity of the promoters to enable them to manage more portfolios.*

d) *A well directed marketing plan should be implemented to increase the operations.*

e) *Working capital: The operations in their current modality and volume have a low return rate. This situation forces the entity to elevate its levels of operation, for this purpose a greater working capital is needed in order to avoid losses. The capitalization plan is a priority at least up to the level of equilibrium.*

SUGGESTIONS FOR FUTURE PROJECTS

This is an innovative project in its organization modality of loan users, and the interest of legalizing the operation was conceived together with its initial formulation. However, these two phases could not have been managed simultaneously. The legalization of the operation should have taken place once the necessary elements were in place: A clear vision of the project and the required capital.

This project also has considerable pretension for which the operative management should have been established as top priority after the organizational conformation. At the present time, the procedures are well defined; therefore, we can assure its fulfillment through a strong induction plan and strict vigilance procedures.

The operative revision was done at a late date, leaving the current administration without an orientation guide. This type of supervision should be required and mandatory by the sponsors of the project to ensure the proper investment of the funds provided.

USAID, as the sponsor of the project, should require a yearly or by semester certification from the external auditor, on the use of the funds provided and the destination of the investment, even when the director of the project provides periodic reports, for which precise instructions should be formulated on the scope of the revision and the data to be reported. The handling of the information to be verified should be done directly by USAID in order to guarantee its integrity.

BACKGROUND

The Microenterprise 2000 Program was a project presented by Catholic Relief Services-USCC to USAID/El Salvador in June 1996 with a view to create a model for a sustainable financial institution capable of managing resources, capital, and coordinating financial activities for microenterprises of subsistence in the year 2000.

USAID required that CRS with the participating counterparts undertake a planning exercise in coordination with Small Enterprise Development Technical Unit (SEDTU) to develop the necessary components to design a complete business plan for the institution, which would be submitted to USAID for approval.

PHASE I

The PLANIFICATION PHASE (Phase I) would be carried out in a period of nine months, from October 1, 1996 until June 30, 1997.

The activities for this phase would be the following:

1 *Conduct a Vision Exercise between CRS and the participating institutions.*

2 *Conduct a study of the target beneficiaries: Identify the actors and the beneficiaries of the financial institution.*

3 *Define the organizational structure of the institution.*

4 *Research on the legal requirements to set up the institution*

5 *Development of the financial analysis and training plan for the institution.*

6 *Incorporating these components into the Business Plan.*

PHASE II

During Phase I, CRS and its counterparts would carry out training and workshops to develop a general business plan for the institution (Phase II) based on the conclusions obtained from Phase I. Upon approval of the business plan by USAID, the execution of Phase II would begin on July 1997 through September 2000. The objectives and the expected final product would be the following:

Objective 1:Organizational and administrative conduction of operations of the financial institution.

Objective 2: Carry out training activities for the institution's personnel as well as the Board of Directors.

Objective 3: Conduct external activities to increase awareness of the operations and vision of the institution and the informal sector of El Salvador.

Objective 4: Develop a managerial information system capable of carrying out the accounting operations, credit management and impact monitoring.

Objective 5: Implement Financial Operations

Objective 6: Evaluate and monitor the operations of the institution.

WORK SCOPE OF THE REVISION

The revision took place after examining the documentation given to us, corresponding to the development of the process established in the basic project documents, mentioned at the beginning. It also included interviews with key personnel in the organization, in relation to their responsibilities in the areas under revision.

The results of this revision and details of the requirements for all the activities of Phase I and for all the objectives of Phase II are as follows:

The results of the revision have been organized for each area under five components as follows:

REQUIREMENTS: Describe the details contained in the working documents mentioned, which constitute the basis of the present revision.

DESCRIPTION: Consists of a narration of the activities carried out and documents produced.

CONCLUSIONS: Describes the conclusions reached by our team responsible for each area evaluated.

OBSERVATIONS: Presents comments on the activities and documents developed during the examination of the process.

RECOMMENDATIONS: Consist of suggestions from our professional team, to improve the processes that were examined.

After discussing this document with the project's Executive Director, some explanations and/or justifications were obtained which have been included following our conclusions.

RESULTS OF THE REVISION
ACTION PLAN PHASE I

1 CONDUCT A VISON EXERCISE BETWEEN CRS AND THE PARTICIPATING INSTITUTIONS

REQUIREMENTS:
1ª) Develop a statement which outlines the key policies for the institution in addition to the internal ones from CRS. Some include the target population (economic and geographic), the ideal model for the institution (wholesale or retail), property (counterpart from shareholders or clients), services to be offered and establishment of the advisory committee. CRS would elaborate these documents and send them to CRS/SEDTU for comments.
2ª)Conduct an internal workshop to assist in designing the vision statement for the institution. The personnel of CRS/El Salvador would prepare and participate in this workshop. CRS/ES would share this vision with the counterpart and non-counterpart institutions interested in participating in the institution for future development of its vision.
3ª) Elaborate the vision statement of the institution. The personnel from CRS/ES would prepare this document. This document is essential to assist CRS in completing the future activities in the planning phase.

DESCRIPTION.
PHASE I: DECLARATION OF THE VISION AND ESTABLISHING THE ADVISORY COMMITTEE: For this phase, CRS designed a timeline of activities defining the month of October 1996 for development of activity number one, which consisted in developing a statement of key policies.
There is evidence of correspondence dated October 1996, in which CRS personnel worked on the definition of the Vision, target market and other policies, which were sent to personnel from SEDTU who provided feedback on this document through comments of acceptance to the document sent by CRS.
The definition of the Vision that was accepted is the following: To create an institution with the objective of assuring the sustainability of financial services to the poor sector."
Furthermore, objectives were established among which was to create a source of permanent capital which service would be focused preferably on microentrepreneurs of subsistence and simple accumulation; establish a system for savings and provide loans to 66,000 microentrepreneurs in the next five years.
The principles were defined as: priority to the poor people, preferably women, sustainability of the services, institutional subsidiary and group methodology.
In regards to the Advisory Committee, CRS proposed in its planning workshop of November 1996, the conformation of a Consulting Council thus defining the functional and normative framework of the Council, role of the council, functions, norms and regulations and agreements; however, there is no evidence of this council being conformed or its operation.
But there is documentation on the conformation of a Temporary Board of Directors, although the requirement expressed the conformation of an Advisory Committee.

PHASE II: INTERNAL WORKSHOP: In the first few days of November 1996, a letter was drafted inviting the representatives of the NGOs to a "Workshop for Vision of a financial institution that offers services to poor microentrepreneurs". This workshop was to take place on November 13 & 14, 1996 and the agenda to discuss was the following: background and objective of the workshop, presentation of a proposal for a financial institution, questions and answers, group work and plenary. The main objective during this workshop was to determine the feasibility of a financial institution, which offers services to microentrepreneurs and set the basis for the creation of a business plan.
However, documentation relating to this workshop was not found in regard to the minutes, attendance list, or other information which would demonstrate the results of this workshop; Nevertheless, we did find correspondence which was sent to the participating institutions including the minutes prepared.

We also find that another workshop took place on November 29, 1996 with the following agenda: presentation of the Vision, orientation towards loans, non-financial services and consulting council.

PHASE III: DESIGN OF THE VISION: On December 5, 1996 a document was designed which was titled: "State of the Vision" in which the vision was defined, as well as the target market, objectives and principles of ENLACE, which includes the general guidelines of the program. This Mission and Vision were redefined in the year 2000, verifying the material that the Acropolis Association used to develop this workshop in which the mission, vision and principles were redefined. This statement is the one currently being utilized in each one of the agencies.

CONCLUSION:
Completed. The final document for the design of the vision was created, and there is evidence that it was sent to all the NGOs through correspondence prepared as a result of the workshops that took place to design the Vision.

OBSERVATIONS:
All the activities defined in this phase are considered to be correctly outlined since this was the beginning of an entire process of creating the project ENLACE. The development of the institution's policies, defining the target population, the shareholders, services to be offered, etc., are essential elements for the initiation of any project.
Likewise, the dynamic for this phase, in which internal workshops coordinated by CRS would be undertaken with the participation of the counterparts, is an appropriate methodology to define an adequate document and generate cohesion among the sponsoring group. The initial mission, has been improved in the update that took place in 2000.
RECOMMENDATIONS:
We consider it necessary to review the vision frequently, when changes occur in the environment of the institution, in the economic environment or in the target market.

2 CONDUCT A STUDY OF BENEFICIARIES: IDENTIFY WHO WILL BE THE ACTORS AND BENEFICIARIES OF THE FINANCIAL INSTITUTION.

REQUIREMENTS:
The purpose of the study was to identify who will be the clients of the institution and the possibility of extending its activities.
The study had two parts:
1ª) A thorough evaluation of the strengths of the participating NGOs to determine their capability to increase the number of clients and the financial and programmatic risk involved in its loan operations to the poor people. The NGOs to be evaluated will include the counterpart institutions supported by CRS as well as others that show interest in participating in the financial institution. All the NGOs must submit themselves to an evaluation to be able to participate in the financial institution. CRS/ES will hire consultants to evaluate the counterparts, determining a financial baseline within an evaluation framework designed jointly by CRS/ES and SEDTU. After the evaluation, the consultant will provide or arrange personalized technical assistance and training of the counterpart organizations to strengthen their efficiency and the level of operations and will provide follow-up of the implementation of recommendations of the technical assistance with the counterparts.

The previous phase is necessary so that the consultant can prepare a market analysis report to determine the market and the potential growth of the institution. The market analysis report will define the size of the market that would qualify for loans at the beginning, its growth using conservative, possible and optimistic scenarios, and how would the services be designed in order to serve the clients of the institution. The preparation of the market analysis or the number of beneficiaries to be served is a key factor to define the Aggressive Objective *required by USAID's Global Bureau. This market analysis report will also define the number of clients to be served in the urban as well as rural areas. A useful tool for this report is the study of loan demand, which would be contracted during the Project of Microenterprise Innovation (940-0406), also administered by CRS.*

DESCRIPTION:

From the beginning, (January 1997) contacts were made with consulting firms for the feasibility study of the entire project, placing emphasis on identifying the target market, services to be offered, taking advantage of the opportunities of the market, required in the agreement's terms, the definition of financial and administrative policies, including operative aspects which require a high level of detail. Nevertheless, the requirement to incorporate at a later date, the arrangement to provide personalized technical assistance and training was not incorporated in the terms of the agreement.

The consultants hired were the Department of Business Administration from the Central American University Jose Simeon Cañas (known as UCA).

The above-mentioned consultants performed visits to the populations which were serviced by some of the interested NGOs and as part of the marketing investigation that prompted the feasibility study, they carried out surveys at the national level to learn about the financing levels, the terms and interest rates used, and the use of informal loans given by natural persons, reaching a national loan average by this sector.

We did not find any evaluation of the NGOs ability to increase their number of clients, the financial and programmatic risk, previous to June 1997, analyzing only the factors related to portfolios and their legal capability to constitute the main company of the financial institution.

Even when the NGOs signed an agreement by which they agreed to support the project, we did not find any information regarding the organization, methods, financial situation, which would be mentioned by the consultants in their documents, nor was their financial situation considered in terms of profitability or feasibility commented on the reports, only aspects related to their presence in the market, aspects that were measured as part of the initial market study.

As a result of the omission of the NGOs evaluation, the consultants did not design a plan for personalized technical assistance or training for the counterpart institutions; however, in June 1999 another consultant was hired (Armando Muriel), with experience in operative implementation, to accompany during 6 months the implementation process of the financial institution. During these 6 months, Mr. Muriel carried out analysis of alternatives which were submitted, and accompanied the Board of Directors in the deliberations of the project, without providing any written document with his conclusions or recommendations.

CONCLUSIONS:

Partially completed. We did not find evaluations of the NGOs' abilities to increase their number of clients, and the financial and programmatic risk, previous to June 1997. Furthermore, the requirement to incorporate, at a later date, arrangements to provide personalized technical assistance and training to the responsible team was not outlined in the job description of the hired consultancy.

This would not be a decisive factor in the future management of the financial institution, however, the NGOs first-hand experience would have been useful to better conceptualize the market and its ways of operating.

Due to the absence of a technology analysis used by the competition and the apparent lack of project definition, an in-depth investigation was not made of the market and the economic-financial feasibility study, as well as aspects of group loans, which is the closest modality to the community banks that the project exploits, losing therefore, an adequate dimension of its possible market.

OBSERVATIONS:

1. *Even though the operational factors of the NGOs could have helped in identifying important operative problems, such as recuperating difficult payments, the difficulty in controlling, in a credible manner, the individual balances on the debtor's part, the difficulty of defining security and other barriers common to this type of users. It should also be noted that some difficulties which could have been identified would*

originate from administrative deficiencies that could be prevented in the present project. Therefore, even when these requirements were not thoroughly completed, in our judgment, this omission has not affected the real feasibility of the project since it will not necessarily have to use a similar methodology to the previously used by the NGOs.

2. *The market study was mainly oriented towards loans to the microenterprise of subsistence and simple accumulation sector; however, it does very little analysis in regard to group credit currently effective in the market before the operation of the institution. We consider that due to this fault, the dimensions in the feasibility and market study remain obsolete and are evidently too optimistic for the operation in the way it is managed at the present time.*

RECOMMENDATION:
The need to re-adjust the market in terms of the way loans are granted is part of the sensibilization and redefinition of current feasibility. In this respect, bids have been obtained for a new feasibility market study which will be submitted to the Superintendence of the Financial System as part of the process of legalizing operations.

3 DEFINE THE ORGANIZATIONAL STRUCTURE OF THE INSTITUTION
REQUIREMENTS
This activity consists of developing a plan for a proposed organizational structure for the institution. Documents such as the organization of the Board of Directors, the personnel organizational chart, requirements for the personnel as well as rules and regulations of operations, should be defined in this plan. CRS/ES together with SEDTU will contract consultants experienced in the development of financial institutions for the design of the organizational structure.

DESCRIPTION
Based on the timeline, this activity was programmed to be carried out in February 1999.
The Vision report presented by CRS in December 1996 included the job positions proposed for the institution, as well as other regulations such as that emphasis be placed on women, the market to be served, the size of the market and the work burden that each advisor should have.
The Central American University (UCA) was contracted in 1997 to design the feasibility study of a financial institution, in which an organizational structure model was defined similar to the current one. The size of the main office was defined by the number of positions and the in-time development growth as well as the number of positions required by each agency in order to achieve the objectives set forth in the Vision. The requirements for personnel and the rules for operation were not defined during this phase. The UCA, in its study, limited themselves to defining a proposal for organizational structure.
A handbook of positions exists in which the profiles are defined as well as the activities that each employee in the agency should carry out. The operation rules for the main activities can also be found in this handbook. The document also contains organizational charts for the agencies as well as the hierarchy structure of the central office of ENLACE and its organizational relationship to the agencies. However, this manual does not have the name of the author or date it was prepared, therefore there is no registry data of when it was put into effect.
Since august 1999, Armando Muriel, who has expertise in the design of microloans institutions, was contracted. This consultant worked from August 1999 to February 2000 as advisor to the project; however, even though the working agendas were defined, these do not contain aspects related to the development of the organization and there is no evidence of any report prepared by him nor minutes from these agendas.

Even though there is an internal regulation for the Temporary Board of Directors, there is no evidence that all the regulations or the requirements of conformation were developed during this Phase I of the project.

CONCLUSION.

Completed. The organizational structure of ENLACE was initially designed in 1997, the rest of the elements of the organization such as personnel profiles, rules of operation and functions, are defined in a document that is not dated; however, according to the Operations Manager it was designed at the beginning of the operations and during this phase of the project.

For the initial operations of the agencies, which date back to the end of 1997, there were already handbooks on procedures and positions as well as the organizational chart.

The UCA consultancy designed the initial organizational plan in a limited form as was explained before. The operation of loans began with a Loan Regulation Manual, which was designed, according to the Business Manager, prior to the beginning of activities; however, this handbook does not contain a date nor the author, ignoring the date of its initial use.

OBSERVATIONS.

This third phase of the project was well focused since the mission, vision, market, shareholders, etc., already existed, thus, an organizational structure would be defined, as well as policies, functions, etc., which would comply in developing these areas.

Likewise, upon defining personnel requirements and the operation rules, the formation of a structure adequate to the institution's necessities and objectives, was being guaranteed.

RECOMMENDATIONS.

In its current status, where handbooks for functions already exist, and that were designed during year 2000, it will be convenient to consolidate the organization with its respective handbooks for positions and profiles once they are finished.

4. INVESTIGATION OF THE LEGAL REQUIREMENTS TO CONSTITUTE THE INSTITUTION

REQUIREMENTS:

The creation of a new financial entity must comply with certain legal and financial requirements under the Salvadoran law. CRS/ES together with SEDTU, will hire an experienced lawyer to carry out the necessary steps to ensure that the institution complies with the legal requirements. The experience that CRS has in establishing financial institutions in other parts of the world has shown that hiring a highly experienced lawyer is crucial to adequately complete this activity.

DESCRIPTION:

As part of the advisory process in the legal aspect, oriented towards the analysis of the legal requirements to constitute the institution, advice was obtained through consultations with the following entities:

- *KPMG, A financial and administrative consulting Company. This firm emitted in April 7, 1997 a report with comments on aspects relating to CRS advocacy policy and regarding the institution, in case of its constitution. In conclusion, due to the restrictions at that time for CRS to invest more than 25% of the financial institution's capital and due to the lack of legal status of some of the participating NGOs, they proposed the creation of an entity in which CRS and the NGOs would be the shareholders and this new entity could invest in the financial institution.*
- *Despacho Flores Sol y Cía.: This lawyer firm was hired on September 5, 1997 (outside the given time-frame convened initially) and the legal possibility of constituting the institution was discussed as well as observations of other inquiries of financial-legal type. In a report dated May 28, 1997 it refers to legal requirements of a commercial corporation (the possibility suggested by KPMG, of constituting a corporation different than CRS, where both CRS and the interested NGOs would participate, had been taken into consideration). This report does not contain conclusions or recommendations.*
- *The Business Administration Department of UCA, through the representative in charge of the feasibility study, provided support by consultations to technical personnel of the Superintendence of the Financial*

System. In its report dated April 16, 1997, he proposes alternatives to the creation of the institution following the model of Calpiá, in which other international financial institutions have been incorporated.

As a result of these consultancies, we concluded that CRS could not be a shareholder for more than 25% of the legalized financial institution deciding to constitute an anonymous corporation in which CRS would invest as well as the other participating NGOs, a corporation which in turn would invest in the institution.

On February 12, 1998, the basic terms for a Participation Contract were sent to the Law Office Flores Sol in which CRS and ASALDI, CREFAC, ASEI Y PROCOMES would constitute a Board of Directors for the anonymous corporation with the respective representatives for future constitution of the corporation which would invest in the financial institution, a project that was discarded upon modification of the legal environment.

In June 1998 a report was obtained from the consultant Josayne Bouchier Tretiack on methodologies, that outlined the steps to follow and some legal considerations in order to constitute the institution.

As a result of the approval of the Banking Law by the Legislative Assembly in September 1999, by which the possibility of creating a financial institution disappears, the project suffered some changes in its conceptualization that were considered in the consultancies carried out by the law offices of Flores Sol, who was named advisor to accompany the initial project.

Further on, with the arrival in November 1999 of a project that approved the Law of Financial Non-banking Intermediaries, which was approved in February 2000 and will be effective as of January 2001, there is a possibility of legalizing a savings and loans corporation. Under this context, in November 2000 the law office of Flores Sol responded to questions of general character about anonymous corporations and its shareholders. This law office also sent a social agreement project of an anonimous corporation dedicated to loans and deposits.

CONCLUSIONS:
The compromise of searching for legal advice on the procedures to legalize the project has been completed and documents have been received on the possibilities of legalizing the operation.

OBSERVATIONS:
1. *The current project of the financial institution ENLACE could have been legalized as a private corporation or as an NGO, without calling itself a financial institution nor a bank, since these names are restricted to those who are authorized to capture funds from the public. The supervision and authorization by the Superintendence of the Financial System, on the other hand, is a requirement for those entities that acquire funds from the public, yet not for those that lend their own funds.*
2. *The supervision requirement is indispensable for credibility and trust of its members and creditors, and we understand this is a requirement that has never been discarded, however, the previous legalization of the institution, presented the possibility of promoting it as a private loans institution with its own legal status and with a certain degree of autonomy in its administration.*
3. *Due to the fact that the Law of Financial Non-Banking Intermediaries will not be in effect until January 2001, the Superintendence has not yet emitted rules on the authorization for savings and loans corporations. However, there is a possibility that they will keep the model that has been designed for the banking system, since it is considered a patrimony and with the possibility of acquiring funds from the public. However, since the current law does not provide with an alternative to legalizing an already existing operation that could be incorporated as a savings and loans corporation, the alternative will be to create a new corporation, which would require a cash donation of at least ¢10 million colones.*

RECOMMENDATIONS:

1. *If the Superintendence of the Financial System insists on supervising, a situation that is desirable, legal consultancies must be maintained for the institution, since with the creation of the Law of Non-Lucrative Institutions and the Law of Financial Non-Banking Intermediaries, there is an opportunity to legalize the operations of the financial institution through the creation of a new corporation.*
2. *It should be kept in mind that the studies to be presented to the Superintendence of the Financial System for the creation of the corporation, must show the necessary profitability and solvency at a level acceptable to them.*

5. DEVELOPMENT OF THE FINANCIAL ANALYSIS AND CAPITALIZATION PLAN FOR THE INSTITUTION.

REQUIREMENTS:

Of all the activities under the planning phase for the Project Microenterprise 2000, the most technical is the development of a financial analysis for the projected institution. The prior activities are necessary since they provide the parameters to develop this analysis. The financial analysis is a key document for the business plan and will determine if the financial institution would be capable of covering their expenses of administering services to the target population. CRS/ES, together with SEDTU will hire a consultant highly experienced for this analysis.

To complete this activity, CRS/ES together with SEDTU will develop and implement a capitalization plan to transfer the capital needed to create the financial institution. CRS/ES jointly with SEDTU will try to mobilize resources from private sources to create the institution, such as the Calvert Fund for Social Investment, the Interamerican Devlopment Bank, formal local and international banks, the European Union and international organizations.

DESCRIPTION OF THE FINANCIAL ANALYSIS:

The feasibility study conducted by the UCA in January 1997, considered the contribution of ¢25 million, the minimum social capital amount needed to create a financial institution under the legal regulations in force, besides an additional ¢2 million later on, making a total of ¢27 million.

Under this alternative, the Business Plan of 1998, would work with an estimated capital of ¢2.8 Million, and its portfolio would rapidly grow in the following years, which after comparing with the real numbers, has been surpassed in a shorter period of time.

The projections for 1998 estimated that the project would be profitable starting with a net portfolio of ¢6.4 million, which would be achieved in the 4th year of the project, a portfolio that was surpassed in the present year; however, the project continues to reflect negative results, impairing the estimates from 1997 and 1998.

Notwithstanding the funds achieved, the project has been unable to show profits, finding accumulated negative results as of September 2000, (audited as of December 1998 and 1999) of ¢811 thousand.

A correlative comparison of the portfolio and the results projected for the 1998 business plan, shows the relevant dispersion of tendencies:

	Thousands of Colones	
	As Planned	*Actual Results*
Portfolio 1998	*¢1,821*	*3,160*
Portfolio 1999	*3,173*	*9,044*
Portfolio 2000	*4,806*	*7,700 (*)*
Results for exercise 1998	*(147)*	*(179)*
Results for exercise 1999	*(39)*	*(893)*
Results for exercise 2000	*(112)*	*(811) (*)*

(*) Quantities as of September 30, 2000, date during which there were approximately ¢3 million not posted. The explanation for this was that the funds were not allocated due to the fact that they were in the process of improving the procedures and management of the portfolio.

The projections for the year 2000 have been updated, however, according to their estimates for earnings only an 80% has been achieved, while the expenses have all been incurred.

CONCLUSIONS:

1) *The financial projection and financial analysis has been rendered meaningless in relation to the estimates made in 1997 and 1998; however, estimates for the year 2000 are more realistic at the current level of operation. The principle financial variables that have not been fulfilled, in relation to the estimates of 1998 are compared in the following table:*

Concepts	***Thousands of Colones***	
	Projected	*Real*
a) Invested Capital (1)		
1998	*2,938*	*2,763*
1999	*3,528*	*7,193*
2000	*5,130*	*9,178*
b) Gross earnings (product vrs financial cost)		
1998	*815*	*855*
1999	*1,555*	*2,987*
2000	*2,266*	*4,150*
c) Operational costs (fixed and variable, excluding reserve and penalties)		
1998	*983*	*951*
1999	*1,498*	*3,941*
2000(2)	*2,232*	*4,026*

(1) Patrimony net deficit + intermediary liabilities.

(2) The updated budget (expenses only) at the beginning of 2000 have been estimated at ¢4,374 thousand.

2) *There is not a comparative monthly follow-up of the budgeted parameters in a consistent and integral way for the financial variables, leaving out some important ones, such as, profitability, margin of contribution, margin of solvency and point of equilibrium.*
3) *The operational cost has increased above the projected levels in prior years, requiring a greater volume of earnings, however, the greater part of the expenses are incurred on human resources who manage the portfolio, a resource that is imperative for the operations.*
4) *The financial and operational parameters which have been set as goals, have not been structured based on a model that sets expenses or margins by area or working unit and they should set net goal results for the agencies to ensure that they assume a compromise of total earnings by agency and by responsible unit.*
5) *The legal alternative of creating a "new" corporation would require the contribution of a cash capital of ¢10 million at the beginning, and would later acquire the operation that is currently managed by the institution.*

OBSERVATIONS:

1) *The budgets designed after the original ones of 1997 and 1998, lack some information necessary for follow-up such as cash flow, and solvency statements.*
2) *The projections for the year 2000 have set the portfolio equilibrium at ¢12.6 million, which differs substantially from the one achieved in September (¢7.7 million).*
3) *The current Managers for the agencies did not participate in setting up the goals; however, we found documentation that shows that they did in previous times. The current goals were established by the Business Manager, missing the opportunity of questioning all the barriers for a realistic setting up of goals and to develop formal growth strategies.*

RECOMMENDATIONS:

1) *The project must be redesigned integrally, and establish a budget integrated to utilities, expenses and solvency on a self-sustain level.*
2) *The budgeting of results should be written by each agency with participation of the Managers, assigning operative expenses, financial expenses, and others generated starting from the service provided by the central office, to establish realistic results and challenges by agency.*
3) *A methodology to calculate the achievement of goals should be formulated to train Managers, under the guidance of the Business Manager, and should be shared with the Managers of the different agencies and establish a compromise with the established goals.*

DESCRIPTION OF THE CAPITALIZATION PLAN:

As of October and November 1996, training sessions began on the vision, orientation, and organization of the financial institution with the purpose of creating interest among the NGOs.

In December 1996, CRS and the following NGOs: ALFALIT, ASALDI, ASEI, CREFAC, FUNDEMUN, PROCOMES y PRODECOSAL signed a letter of Agreement to create a financial institution under the supervision of the Superintendence of the Financial System, agreeing to; Look after the conservation of the mission and vision of the project, facilitate the information and cooperate with the consultants and work together in the project. At that time, the minimum social capital for a financial institution according to the law was ¢25 million.

During the year 1998 a proposal from ADEL Morazan is submitted and analyzed to merge with the operations of the institution's project, a situation in which Mr. Muriel, the project's consultant, participated and evaluated; however, the Board of Directors from ADEL decided not to continue with the project, considering that ENLACE had advanced well in its development. A written report of the conclusions of Mr. Muriel cannot be found.

Feb 12/98: The basic terms for a Participation Agreement were sent to Dr. Flores, by which CRS y ASALDI, CREFAC, ASEI Y PROCOMES would create a Board of Directors for an anonymous corporation, with its respective representatives, who in turn would invest in the financial institution.

The working capital was estimated at ¢5,078,000 and the participating institutions agreed to cover this amount by contributions or from other financial sources.

At the time the 1998 Business Plan was created, CRS mentioned to have received offers of contributions for investment from the following institutions:

(Thousands - Colones -)

INSTITUTION	*PRELIMINARY AMOUNT*	*PERCENTAGE*
CRS	*¢2,610*	*9.7%*
ASALDI	*2,430*	*9.1%*
ASEI	*199*	*0.7%*
PROCOMES	*418*	*1,6%*
CREFAC	*433*	*1.6%*
PODECOSAL	*199*	*0.7%*
Other donors	*20,558*	*76.6%*
TOTAL	*¢26,847*	*100.0%*

In November 1998, the Law of Banks and Financial Institutions was modified by the Law of Banks, by which the creation of a financial institution would not be possible, forcing a revision of the capital of the project, since the amount established by the law would be ¢100 million.

In February 2000, the Law for Financial Non-banking Intermediaries was established presenting the possibility to transfer funds under the modality of cooperatives and of savings and loans corporations. As a result, the project is then oriented towards a savings and loans corporation that could be supervised by the Superintendence of the Financial System and which minimum social capital could be ¢10 million for a close fundraising project and ¢25 millions for an open fundraising one.

As of September 30, 2000, CRS' contributions, consisting in great part of the liquidation of advances for operation, have been registered in the following amounts and dates:

	Salvadoran Colones
November 1997	*¢204,300*
December 1997	*317,287*
April 1998	*514,082*
September 1998	*557,800*
December 1998	*1,348,657*
April 1999	*987,131*
September 1999	*2,107,500*
December 1999	*164,217*
February 2000	*122,130*
March 2000	*34,534*
May 2000	*40,372*
June 2000	*2,249,341*
Total	*¢8,847,351*

At the same time, the program of financial compromise between CRS and the NGOs was completed through the signing of agreements for contributions in the form of loans to be paid in cash through the provision of shares from the financial institution as follows:

		Colones
Feb 98	ASEI	350,000
Mar, Apr & Jul 98	PROCOMES	200,000
Jul 99	IGLESIA EPISCOPAL	200,000
Jul 99	ASOC. EL BALSAMO	200,000
Jul 99	ASALDI	564,448
Jun 99	ASDI	200,000
Jan 2000	CREFACT	350,000
Jul 2000	FUNDALPRODESE	350,000
	Total received	¢2,414,448
Minus return of ASDI, in October		(195,000)
	Net Loans as of October	¢2,219,448

In September 1999, the Board of Directors established as a minimum amount for new investors the sum of ¢350,000, accepting initially ¢200,000 and the rest within the following 3 months. The period granted for this action was until march 1st, 2000 and it was agreed to recognize an interest rate as follows: For ¢200,000-349,999, 5%; for ¢350,000-499,999, 6%; for ¢500,000 and above, 7%. As can be observed, the agreement was not fulfilled by the NGOs.

The records found are dated from May 1998, through October 1999, and we find comments regarding follow-up activities for the capitalization of the project and negotiation of contributions, and contacts made with potential participants; IDB mentioned that they could not provide assistance until they are regulated.
In march 1999, $250,000 were obtained from the CALVERT Foundation at 4% for 5 years, which was given to CRS as contribution to the project.

In May 1999, a business profile with projected financial information was sent to the organization Our Father's Table.

During the last months of 1999, through the agent Howard Brady, "Global Partnership" was contacted who demonstrated interest in participating as sponsors of the project.

In March 2000, a business profile was presented to OIKO Credit; Ecumenical Development Cooperative Society, who expressed interest in participating and their request for information is still being attended.

In March 2000, a collaboration project was designed with Cáritas-CRS in the form of a foundation which would invest 2,635,000 colones in ENLACE. This organization would have a representative in ENLACE. The project statutes for the organization were sent to Cáritas in Sonsonate which offered to collaborate with promotion.

In June 2000, $200,000 was obtained from Fundación Familiar de Florida which was channeled and registered as a contribution from CRS.

During the last few months of 2000, conversations took place with Father Loring and he has expressed that he has been approved the amount of $200,000 as a contribution from UNICAJA of Spain and has obtained a loan for $400,000 with the Ibero Americana Foundation. He has requested more information.

In august 1998, lobbying in reference to the Law of Financial Non-banking Institutions is reported, which gives the option of creating a savings and loans corporation, an alternative that was adopted and is working at the present.

Under this new legal environment, the minimum required by law is ¢10 million, provided that funds are not obtained from the public or be only from loan users, and ¢25 million if funds will be raised from public non-user funds.
The capital obtained as of September 30, 2000 is the following:

a) Patrimony of ENLACE from contributions by CRS	*¢6,765 miles*
b) Exchangeable Loans of the NGOs	*¢2,414 miles*

CONCLUSIONS:
1) *The projected capitalization plans have not been achieved entirely.*
2) *The conversations with contributors continue with some positive results.*
3) *The current level of capitalization is close to the legal minimum for a corporation of savings and loans. This level presents a great risk of deterioration of future operations if it does not become profitable.*

OBSERVATIONS:
1) *The current agency Managers do not participate in the setting-up of goals, which are established by the Business Manager, missing the opportunity of questioning all the barriers for a realistic setting-up of goals and to develop formal growth strategies.*

RECOMMENDATIONS:
a) *The creation of a new corporation should be explored under the legal parameters in effect, by which an initial contribution of ¢10 million must be obtained and when the approval is received and the infrastructure of the current project is acquired, eventually (upon authorization to operate) the portfolio of the current project will be achieved.*
b) *Negotiations with the current and potential contributors must be accelerated, and continuous information on the project results should be prepared in a periodic form, as means to achieve or increase their participation.*

6. DEVELOPMENT OF THE BUSINESS PLAN
REQUIREMENTS:
The business plan will be developed by CRS/ES and will incorporate the results of the previous activities into a consolidated plan, which will serve as model for the revised proposal of Microenterprise 2000 to be presented to USAID. As mentioned before, financing for the second phase of the project Microenterprise 2000 is contingent upon approval of the business plan from CRS, SEDTU and USAID. CRS/ES will submit the business plan to USAID a month from July 31, 1996, based on the conclusions of the planning phase of this project.

DESCRIPTION:
In June 1997, the proposal for Phase II of the project was sent to USAID, with an annex of investment for one additional year (1998), omitting the 3-year investment plan, required in the previous terms.
The business plan was designed based on a model of a central agency that takes care of loans of certain NGOs. In this plan, a relation is made of historic events of the project's origin and the projections from the feasibility study done by the UCA are incorporated inheriting their omissions and adopting their very optimistic projections. In the aforementioned plan, the strategies of operation are mentioned without any explanation or detail: a) establish an office that provides financial services to a critical mass of clients which generates enough earnings to cover the operating expenses, b) validate and refine the application of the methodology of community banks, c) formulate the criteria for personnel job descriptions, d) train the personnel of the institution, e) make operative the process and system to provide credit to a great majority of clients, f) determine the real cost for operation of agencies, g) establish the sustainability of the agency, h) facilitate the design, testing and implementation of the managerial information system of the institution. In this plan some

administrative commitments are included to achieve the success of the project, establishing as well, the compromise of CRS to provide a monthly follow-up to ensure the higher rates of operational efficiency possible:

- *Each promoter of the financial institutions would handle up to 400 clients.*
- *Each bank would have a minimum of 20 initial members but the average should be 25 (which would give us 16 banks per promoter).*
- *Each promoter would try to achieve a portfolio with a 98% rate of return, and maintain the parameter of 0-60 days, 2%.*
- *The institution would maintain a return cycle of 98%.*
- *Each agency would provide savings and loans services to at least 3,000 clients.*

The previous parameters are the only quantifiable objectives or goals contained in the plan. The plan does not gather important elements for the development of operations in an environment of incipient operations:

a) *Omits the inclusion of strategies for maturity of the project and its consequent growth, thus restricting the quantification of goals with limited parameters, like the ones mentioned before. In this document, aspects such as promotion policies, the necessary organization, personnel policies, etc., were not considered.*
b) *The goals' growth was not established by trimester or monthly, taking the estimates at the end of each year from the initial feasibility study.*
c) *The way in which the service is conceived and managed, requires a considerable amount of personalized attention, making the number of promoters and supervisors a critical resource and which has not been budgeted as a mean to reach the quantitative goals.*

Starting from 1998 to date, annual business plans are still being prepared, on which we have the following comments:

a) ***Plan for 1998**: Established the global goals and the objectives to reach them; for each objective it establishes the activities to be carried out and the indicators. It describes in detail the monthly growth of portfolio by each agency, establishes the parameters and relations to be used in monitoring the operations, the number of clients, and balance, and defines a training plan for the people in charge of the project, recipients, areas and schedule. It gives an estimation by trimester of some of the follow-up parameters. This is the plan that we find to be the most complete.*
b) ***Plan for 1999**: Has a summary of the project's background, sets-up 5 objectives for the exercise among which, two are oriented towards formalizing control procedures to comply with the dispositions of the Superintendence of the Financial System and prepare the request for authorization. For each objective it defines activities and incorporates the plan for opening of the agencies, quantifies loan objectives by gender, and fixes goal levels of operational and financial sustainability for the agencies and the institution; however, it does not define the way in which this parameters would be calculated. Establishes a capitalization budget with a total goal of $2,900,000, where CRS will contribute 25% ($725,000), the NGOs 25% ($725,000), the foundation 25% ($764,000) and others 24% ($696,000).*
c) ***Plan for January - September 2000**: Includes a summary of the project's background, sets-up only 3 objectives for the exercise, one of which is to prepare the formal request for authorization from the Superintendence of the Financial System. For each objective it enunciates vague activities and sets-up terms for evaluation, describes, by trimester, the plan to open de agencies, the goals by gender for loans, and the levels of operational and financial sustainability for the institution. The financial estimates are in a separate folder and are not annexed to the plan. It mentions that the project will be evaluated by the MAGI team in relation to the highest goals of the program. Two years of audited financial statements, more than 3,000 clients, strategic and operational plan, an active government body, a personnel handbook, computerized accounting system, portfolio administration systems, and legalized operation in the country.*

In addition to the above plans, which are sent as a minimum requirement to USAID, portfolio projections are also prepared with estimates of earnings by interest and projections of total expenses, which are not

integrated into a results statement nor globally nor by agency, lacking therefore the results' estimation for each and the time-frame to reach sustainability.
The financial follow-up is done starting from various monthly financial relations, which are not compared with the goals set-up for the exercise, therefore failing to establish the level of success.

CONCLUSIONS:

1) The agreement to design a working plan was reasonably completed even though the financial tables that were used as base to set-up the goals were not attached.
2) The strategy to achieve the planned goals is not explained.
3) The requirement of previous authorization of the Business Plan by USAID was complied with.

OBSERVATIONS:

1.) The working plan was and is an important tool to establish an understanding of the operations as well as to clearly establish the quantitative goals that are required.

2.) In the initial development phase, as was the case before, the plan should have considered shorter periods, such as trimesters, it should have described the way in which necessary resources are assigned for each strategy, it should have outlined at least the policies that were to be used for promotion of loans and the policies to be used for the ideal personnel of the institution.

3.) The projections for the institution need to be refined since it is a financial entity. Important financial aspects have been omitted from the planning, such as Solvency Handling Estimation, determination of mismatch on the currency exchange and others, which will be critical aspects to be managed once the institution is regulated to avoid being sanctioned or fined, as well as to have more control in the financial and legal aspects of the entity.

4.) The budget outline is not well defined.
   a) The portfolio objectives for the year 2000 were modified and re-adequated; however, the goals need to be anchored in the minimum level of sustainability that should be set-up annually and maintain them, making it an obligation to create strategies and means of achieving them.
   b) The total financial results are not integrated, budgeting separately expenses and portfolios.
   c) There are not complete estimates of results by agency.
   d) The comparative tables of follow-up expense budgets do not have any comments; however, they show important variations in certain items.
   e) The budget follow-up has not been done in a periodic or consistent manner.
   f) The resulting real financial indicators are not presented as a comparison to the planned ones, and there are not estimates for intermediary periods which allow for comparison but only for the end of the exercise, which are established as goals.
   g) The indicators for the portfolio are reported in the same manner.

RECOMMENDATIONS:

1º) Establish a Business Plan model that includes as annexes, sufficient detailed description of goals-projections in a quantitative form but in a simplified way, preventing the compromise of difficult quantities to be determined and managed.

2º) Integrate the budgets as annexes of the Working Plan, in which the objectives are established, goals are revised, strategies described, personnel responsible, and the terms of measurement are pointed out, as it was outlined in the plan for 1998.

3º) Redefine, complete and formalize the budget outline for portfolio and totals incorporating the different agencies, the integration of total financial results, the portfolio indicators, banks, promoters, agencies, etc.

4º) Improve and formalize the budget follow-up procedures, the formats to present the goals-success in the form of percentages to better visualize the achievements, define the formats, and the period in which they will be reported and commented with the Board of Directors and reported to CRS, etc.

5º) Complete the budget tables with the solvency projections.

BUSINESS PLAN (PHASE II)

OBJECTIVE I:
ORGANIZATIONAL AND ADMINISTRATIVE CONDUCTION OF THE FINANCIAL INSTITUTION OPERATIONS

REQUIREMENTS:
Space, equipment, recruitment of personnel and of the Board of Directors; development and implementation of an efficient and effective organizational system, identification and development of the Advisory Committee for the NGOs, coordination of the committee meetings, Development of the Progress reports.

Space and Equipment
DESCRIPTION
The installations currently being occupied by the central office and each agency of ENLACE, are being leased. All of them have a conference room to carry out work meetings with the promoters and with the different community banks. The physical space is adequate for attention to clients and there is enough space for the information equipment. The installations have a pleasant environment, with good presentation, clean, with security, notwithstanding the fact that there is no alarm system linked to the National Civilian Police or any other security agency.

In the agencies, the position of Portfolio Administrator, the person in charge of the cashier and the secretary, all have computer equipment for the discharge of their activities. The equipment and software is adequate for the development and mechanization of the information. All the personnel whose position is related to the loan portfolio are knowledgeable on the new COBIS system, which is used for the control of the portfolio.

The agencies are equipped with material, office equipment, desks, file cabinets, equipment for the consultants and sufficient office supplies which permits them to carry out the activities assigned to their position and offer an adequate service to the clients.

In general terms, the equipment is appropriate and their control is established and managed through the central office which provides the supplies to each agency.

The promoters and supervisors do not have transportation, a situation that hinders their job, especially since we are talking about women and the majority of the areas where the different banks are located are of difficult access.

CONCLUSION
COMPLETED. Both the agencies as well as the main office have adequate space to carry out the activities required by ENLACE. All the agencies are located in accessible areas for the clients and have acceptable furniture and equipment for attention to clients and the proper development of their activities.

The current computer system (COBIS) is adequate for the control of the loan portfolio, even though there have been reports of the system being down at times.

OBSERVATIONS
The agencies are adequately furnished and they work with computer equipment that allows the information to be mechanized. Currently, there is a limitation that since this system works in a linear basis, it frequently generates problems due to the system is often down and the information is not available which slows down the activities, especially those of the advisors and supervisors, who must give loan agreements or account statements on a daily basis.

RECOMMENDATION:
The implementation of computer information systems in the agencies must be finalized and the connection improved.

Recruitment of Personnel
DESCRIPTION:
At the present time, the job profiles for each position for the recruitment of personnel are kept in the main office. The selection and recruitment process takes place initially in each of the agencies. In the case of the loan promoters, it is the Manager of the Agency who determines the need for personnel, supported by the supervisors for selection of the best candidates. The majority of the resumes come from the community banks or through personal recommendations. The candidates are selected and those that the Manager considers meet the established requirements are interviewed by the Manager. This candidate then goes through the central office for approval and afterwards is incorporated into the job.
To date, the majority of the supervisors of the agencies have not been hired externally but have been selected from the pool of loan promoters who demonstrate to be more capable in their work.

The administrative personnel is hired at the central office, which has a data bank for different administrative positions. When any of the agencies need administration personnel, they request the central office to do it.
The recruitment of the Manager's position for the agencies is done through the central office. There does not exist a recruitment hăndbook and for this reason the recruitment process has differed among the three Managers. The Manager of Soyapango sent his resume not knowing about the ad in the newspaper, while the other two Managers of the other agencies, learned about the position from the newspaper.
The selection of the Managers was done by the General Manager, Administrative and Business Manager from the central office.
The recruitment of directors for the Board of Directors did not take place, for this reason there is no procedure in this area. There is evidence of the conformation of the Provisional Board of Directors.
The personnel of the central office of ENLACE were hired through CRS. There is no evidence of this recruitment process.
The current Managers of the central office of ENLACE, are persons who were previously employed by CRS. The Administration Manager used to be the internal auditor and later was promoted to the position of Manager in ENLACE. The Business Manager had been working for CRS for a number of years.
The files for each person hired for the agencies are located in the central office.
Currently, it has complied with the objective of hiring mostly female personnel as 80% of the personnel are women. In respect to the personnel's academic level, the promoters and supervisors have a minimum level of high school and the Managers have a college degree, while most of the administrative personnel are in their second year of college, levels that are considered adequate for their job description. The rotation level is low, according to what was expressed by the Managers of the agencies due also to the recent initiation of the project.

The positions that are the most difficult to fill, as was expressed by the Managers of each agency, are the ones of Advisors and Supervisors, due to the geographic areas assigned to them which are difficult to access, the risk involved and the characteristics of the population.

The Manager, supervisors and promoters are evaluated through the achievement of goals in economic terms, established by the Credit Regulations. Currently the 100% of the goals has not been achieved, and the Managers express that the goals are set-up too high, making such incentives unattainable.

CONCLUSION
Partially completed. ENLACE has all the necessary field and office personnel for the development of activities for which it was created; however, the establishment of the Board of Directors did not take place.

EXPLANATION FROM THE BOARD OF DIRECTORS
The recruitment has not taken place since the project does not have the legal status yet.

OBSERVATIONS
1) *A recruitment process has not been defined. Not having a defined selection process for recruitment of personnel, can lead to the hiring of employees that do not meet the established requirements which in turn leads to loss of efficiency in the achievement of the proposed goals and objectives.*
2) *Even though the Central office does have a copy of the internal working rules and regulations, the agencies do not. The agencies should have a copy since the document contains the obligations, responsibilities and rights of ENLACE and its employees. However, even if they do not posses this document, the dispositions of it are complied with.*
3) *Recently a Handbook on Administrative Procedures and Systems and a Handbook of Job Positions have been created, but to date, they are still being revised. These handbooks will replace the current ones and although there are procedures for the different activities and job descriptions, and in spite of the fact that some positions such as the Systems Administrator, the Systems Operator and the Administration Coordinator for the agencies do have job descriptions, the rest of the positions do not have them.*

Recruitment of Directors for the Board of Directors
DESCRIPTION
There is no document that demonstrates the recruitment process followed to establish the current Temporary Board of Directors. CRS should have defined a team of directors which were not hired as such. What they did create was a temporary Board conformed by the participating NGOs and personnel from CRS. This temporary Board was delegated certain authority such as levels of decision in strategic areas, budgets, recruitment of personnel and operational decisions.
The temporary Board of Directors was defined initially in the following manner: a maximum of 10 people: four from the counterpart institutions, two from CRS, two from the international institutions, one from the shareholders clients, and one from among the employees who had purchased shares.
Currently the Board is comprised of the following: a President, a Vice President, a Secretary and up to 6 directors and 9 substitute directors.
CRS has two positions in the Board: the Presidency and a Director.
Even though the positions and responsibilities for members of the Board of Directors are defined in the internal regulations documents the names of the people who occupy these positions are not mentioned nor the institutions they represent.
The Assembly meetings are carried out monthly, following the process defined that the invitations are sent through the President of the Board.
The minutes recorded from the meetings, demonstrate that important decisions are being taken during these meetings. For example, the decision to establish an agreement with NCR for the use of COBIS, recruitment of personnel, analysis of the financial situation, reports of actions undertaken to increase the capital, etc.
The defined structure for the central office for ENLACE should be headed by a director team which was not formed, for this reason it is the Executive Director who directs the activities of the institutions in collaboration with the Business Manager and the Administrative-Financial Coordinator.
There is a handbook indicating the roles and responsibilities of the members of the Temporary Board of Directors selected, but it is missing a date and the name of the author. Upon analyzing the monthly

meetings of the Board, we can prove that it performs the functions that have been assigned, in general, it provides observations to the operational results, requests financial information and makes decisions on recruitment of personnel.

Since a Directors' Committee does not exist, criteria for this committee have not been created. On November 29, 2000, this committee has been formalized as a Board of Directors, being conformed by three members of the NGOs, and FISA representatives, one member from Global Partnerships, one member from CRS and one from Loring Foundation.

The General Manager will be the one responsible of informing the Board of Directors about the organization. This position is in the process of recruitment, and under his responsibilities we find: assume strategic leadership, collaborate in the effective planning, provide the management with expertise, among others.

CONCLUSIONS.

COMPLETED. The process of constituting the Temporary Board has been carried out, defining the rules for the formation of this Board of Directors. Meetings are held monthly during which different situations are presented for decision taking, approval of requirements, personnel requests, etc., and there exists evidence of the members' participation.

OBSERVATIONS.

1) *There is evidence of the invitation process to the assembly meetings and the minutes derived from those meetings; therefore the working process of this Temporary Board of Directors is being complied with; however, through the minutes of the Temporary Board of Directors meetings, we could not determine the weight of each member in the decision process due to the documents being too concise.*
2) *There is no evidence of the conformation of positions in the Temporary Board of Directors, except that the President of the Board represents CRS. For the remaining positions such as secretary, vice-president, we could not find a list of names or the institution they represent.*

OBJECTIVE II:

COMPLETE THE INTENSIVE TRAINING ACTIVITIES FOR THE PERSONNEL OF THE INSTITUTION AND THE BOARD OF DIRECTORS.

Products for Objective II:

- *Identify Training: Training plans, implemented to ensure efficiency in the operations and quality of services rendered to all clients.*
- *Directors' Committee trained on the norms, regulations and administration of financial institutions.*
- *Institution personnel intensively trained in aspects related to effective time management, loan analysis, foundation of loans, revision and monitoring of loans, and loans operations and systems.*

DESCRIPTION:

Identify Training.

There is no evidence of any document that contains the identified requirements or the process to be followed for each one of the positions. To this date, this situation remains the same, in spite of the fact that in July 2000 a training department was created and ENLACE formulated the following objective: "Guarantee that the organization counts with personnel that posses the appropriate attributes, achieved through the provision of learning opportunities and through motivation, in order to be better prepared to provide the highest level of quality and service to the client".

However, since this unit started operating, the Managers of the agencies have requested training reinforcement in specific areas, mainly those where the advisors or supervisors are failing, as means to correct these deficiencies through training.

Plans.

At the end of July 2000, ENLACE created a technology and training unit formed by two persons: the Technology and Training Coordinator and the Assistant for Technology and Training. This unit is supervised by the Business Manager. The people that work in this unit have been working an average of 3 years in different positions in the ENLACE organization.

At the present time, this unit is providing training only to field personnel (advisors and loan supervisors) whether they are new or old employees, but there is a training plan for the rest of the year 2000 and the objectives are based on training new and old advisors as well as supervisors. It is also expected that bibliographic material will be compiled in the technological field as support for the advisors and supervisors.

There is no evidence of training sessions carried out; however the agencies' advisors and supervisors mention that there is in fact a feedback process between themselves and the training unit.

To date, there isn't a working plan for the year 2001 or thereafter. From the beginning of operations up to the creation of the training unit, the personnel was trained by another staff member who had more experience in the position or by the Manager of the agency.

Implementation.

A training process does exist; however, as of July 2000 it was not systematized. We did not find training programs for the different positions of the institution. Nevertheless, there is a training process that is being developed in the agencies based mainly on the loan advisor's manual. This manual became effective in the year 2000. Prior to this date, another manual was used which included policies, profiles, activities to be carried out, however the loans handbook is much more complete and easier to comprehend. There also exists a process of theoretic induction which lasts one week and it's the trial period given to a person to define it they accept the position or not.

As a second step, we were informed that the new employees were assigned a portfolio of clients during their one-month trial period, with the support of a promoter or supervisor who accompanies him/her in the visits to the different clients of their own portfolio and from the promoters', so that he/she get to know in the practice, how they manage the clients and follow-up of the banks.

Upon concluding the trail period, the Manager, through the supervisor, evaluates the performance. Even if this process is not written in any of the handbooks, it is used in all the agencies of the institution.

Furthermore, a training plan for supervisors does not exist. It is the Manager of the agency who outlines the steps that should be followed to comply with the responsibilities of the position.

Neither is there a training plan for administrative personnel. Until June 2000 the positions that deal directly with loan portfolio, cashier, secretary, portfolio administrator and the Manager of each agency have been trained with the new COBIS system. The training sessions were carried out during a 3-month period in the central office of ENLACE. We did not find any written evidence of the development of this training. The person who provided the training was the one in charge of the information system of the central office of ENLACE.

The agency Managers have received training and are knowledgeable of their area of work since they have worked in similar institutions and because of their academic level, as well as from reading the handbooks used in the institution.

At the present time, the Manager of the agency in Apopa mentioned that he had recently attended a training session in Guatemala and FUSAL, related to the banking area and the COBIS system.

The personnel from the central office have participated in training events in ASOB, FEPADE, FUNDAMICRO and in countries such as Ecuador and Perú.

CONCLUSION

Partially completed. Even though the new personnel of the agencies was trained to carry out the activities for the position they were hired, the methodology used to train subordinate members depends on each agency Manager and even though they all use the same methodology, this process is not systematized. Furthermore, there is no evidence of any identification process of neither training needs nor plans to carry out the training programs in the different areas. On the other hand, the majority of the personnel, have not received training on other areas which would contribute to strengthening their capabilities, which was one of the objectives of this phase, since it was intended that the personnel be knowledgeable on themes related to effective time management, loans analysis, loan foundations, revision and monitoring of loans and operations and loans systems. However, the personnel appear to be knowledgeable about their duties.

There are no documents that describe the Training Plan to be carried out to ensure the efficiency of the operations and the quality of services rendered to clients.

At the present time, there is a training unit; however, it is initiating its activity when it should have been done prior to the development of activities of ENLACE.

OBSERVATIONS

1) The objective formulated for this phase has been properly planned. It is extremely important to carry out training programs within the institution so that each person knows the objective, process and results of their job description. Training allows activities to be developed in an efficient and effective way, generating more knowledge and ability to execute the different activities within their position.

2) The agency Managers mentioned that they had received training, but there is no evidence to determine what type of training was received.

RECOMMENDATIONS

We recommend that the Training Unit, recently created, develop work plans that describe training schedules, methods to detect training needs, evaluation forms, and ways of measuring the performance with the purpose of knowing the capacity of the personnel in each position and the limitations they may have for the efficient and effective development of their activities.

OBJECTIVE III:
CARRY OUT EXTERNAL ACTIVITIES TO INCREASE AWARENESS ON THE OPERATIONS AND THE VISION OF THE INSTITUTION AND THE INFORMAL SECTOR OF EL SALVADOR.

Under this objective we find activities that refer to marketing, funds and establishing the contacts to achieve awareness about the operations of the institution. The personnel must make it a priority to involve themselves in developing proposals to acquire the necessary initial capital required by the Superintendence of the Financial System. The personnel of the institution will develop and maintain close contact with the representatives of USAID, GOES, interested banks, business groups, NGOs and groups of potential clients.

Products for Objective III:

a) Formal discussions with representatives from USAID, GOES, SSF, banks, NGOs, and groups of clients.
b) Formal letters of interest signed with banks and other parties, related to future deals.
c) Creation of a data bank of loan clients with good references, and development of a list of potential clients.
d) Progressive discussion with interested parties.
e) Define role of advisory committee of NGOs and meetings held.

f) Approved legal status for the institution

DESCRIPTION.
Awareness Activities.
Since 1997, correspondence has been sent to different institutions such as NGOs and churches, informing them of the project that CRS is developing through ENLACE and which has as priority option to provide services to the poor people explaining that we are trying to create awareness for the development of this project.

This disclosure of the importance of this sector is communicated in all the contacts with potential investors or sponsors through a brochure known as Business Profile, in which a description of activities is presented to the potential partners, as well as the socio-economic situation of the microentrepreneurs of subsistence and the projections of ENLACE.

There is also information on institutions abroad and families in the United States that are interested in investing in the project, as well as interest by members of the NGOs of ENLACE in searching for potential partners for the institution.

In relation to the products a), b), d) and f), the descriptions have already been made in the areas related to legal studies and training plans; therefore we only commented here on products c) and e).

Marketing Activities
DESCRIPTION
At the present time, a marketing plan has not been defined, however the promotion activities carried out by the agencies, allow for disclosure of the vision of the institution, through direct visits, being this methodology effective in terms of the marketing goal that is tried to reach, since the loan advisors visit areas that comply with the requirements of microenterprise of subsistence which places emphasis on women.
ENLACE has a newsletter where information such as the mission, objectives and sponsors of the project are disclosed. The Manager in Soyapango, has designed a brochure that contains a description of the activities carried out by ENLACE, and is distributed to the inhabitants of the areas visited by the advisors.
CRS on the other hand has a web site, magazines and brochures that they distribute which have information on the Microenterprise 2000 Project, but unfortunately the users don't have access to these sources.

CONCLUSION.
Partially completed. The marketing activities that are carried out at the present time are done through direct promotion by the supervisors and advisors in the different areas where community banks can be created, activities that have allowed a multiplier effect among the population; however there are no marketing plans defined. On the other hand, CRS has a web site, magazines and information bulletins that can be considered as means to certain marketing activities. Nevertheless, even though it is a good activity to disclose the project to possible partners and collaborators, this strategy does not reach the clients of ENLACE.

OBSERVATIONS
Activities related to marketing and establishing contacts to create awareness on the operations of the institution, have taken place. The marketing activities are important for the organization as they allow for promotion of services to the target markets in a more systematized way, measure the quality of services offered and also help to learn more about the behavior of the closest competitors.

ENLACE carries out an important marketing activity through its methodology of direct visits to potential clients and follow-up to those clients who are already part of the portfolio.

The fact of becoming real advisors of the creation of community banks and providers of the monetary resources, generates a dependency of the clients towards the institution, for this reason, even though it operates in areas where there is a lot of influence from banks, financial institutions and other NGOs, many of the inhabitants of the areas visited, create their banks.

There is no evidence of plans describing the marketing activities to disclose the current operations and future projections nor any assigned responsibility in this area in any of the positions of the organization.

RECOMMENDATION

Design a plan that defines the marketing mechanisms to achieve the promotion of services and awareness of the operations of the ENLACE institution to its target market, which are the microentrepreneurs of subsistence. These tools should include schedule of promotional and advertising activities, media to be used and the cost to carry out these type of activities, as well as the means used to learn about the characteristics of the target population, measure the quality of services rendered and characteristics and actions of the competitors.

Creation of a Data Bank.

Since the beginning of operations, ENLACE has had a database of clients through the control that the counterpart NGOs had.

This database was also created for potential clients, using the LOTUS system, which Enlace has currently replaced with the COBIS system. This system generates diverse reports that serve, among others, to carry out a control and follow-up of the operations of each one of the agencies.

ENLACE also keeps a control of clients with good references, which allows them to have security in terms of the clients' record.

At the present time, a purging of information is taking place from the previous LOTUS system, to concentrate all the data into the new COBIS system.

CONCLUSIONS

Completed. Since the beginning of operations ENLACE has maintained a database which has allowed them to identify and provide follow-up to its clients.

OBSERVATIONS

The previous information system, LOTUS, still contains certain client information, but each agency is purging this information to ensure that all clients are concentrated on the new COBIS system.

The system contains the operations carried out by the cashier, the secretary and the portfolio administrator in each agency.

Maintenance OF the system in the agencies is done by the information systems personnel of the central office of ENLACE. According to the comments of the agencies' personnel, the system is sometimes down since it works in a linear form, which generates a backup in operations for the people that work directly with the system, and until the person in charge of the information system from the central office arrives, this problem cannot be solved.

RECOMMENDATION

Experienced technical persons should evaluate the reasons why the system goes down, in order to fix these problems and avoid more delicate situations in the future.

OBJECTIVE IV: DEVELOPMENT OF THE MANAGERIAL INFORMATION SYSTEM

REQUIREMENTS:

Development of a Managerial information system (SIG - Spanish initials) capable of managing accounting operations, portfolio management and impact monitoring.

The personnel of the institution and USAID should coordinate an initial phase to identify needs for Managerial information. Once these needs have been determined, the institution must hire a short-term consultancy team to develop and implement this system. The system must be working 100% before initiating formal loan operations.

Products of Objective IV:

Needs of SIG evaluated
Recommendations regarding SIG
Hiring of the consultants to develop and implement SIG.
Efficiency revised for financial operations
Monthly reports for SSF developed and presented timely every month

DESCRIPTION:

The investigation of alternatives was initiated by contacts made to system providers for financial institutions, which were working in similar entities. In this manner, the providers were located and proposals were received from the following:

a) *Quintero, Quintana y Asociados, Panamá. Installation of modules and training. February 98*
b) *Grupo INPET, Peru, April 98,*
c) *NCR, application COBIS, with the following modules: clients, savings, accounting, portfolio, and loans. Agency server: COBIS Branch+ Planning and control system: accounts payable, fixed assets, inventories, purchases, payroll, December 1998.*
d) *ENLACE Informático, Ecuador, SIBANCA system, training and manuals, January 1999*
e) *CONSISA: software license and technical services, Sept. 10/99*

These providers offer systems that are already working in other financial institutions and quotations were received.

Comments were obtained from the group CAYLX, in Miami, on the comparison of the systems offered. A visit to Ecuador was made to observe the functioning of the system offered by INPET and in March 98 the Business Manager carried out a comparative analysis of the systems offered by QQA and INPET, recommending the one from INPET; a company with which consultancies were exchanged regarding the operation of the system.

The entire process of invitations for bids, evaluation of the offers and comparison of the products was done by the Business Manager supported at times by external consultants, but without the participation of the specialized advisor who should have been hired by that time.

In April 1998, contacts were made with NCR, who offered consultancy on the recruitment of personnel and organization, submitting a model for the profile of the Information Unit Manager and proposed the assignment of a Project Manager.

In October 98, the design of the Data Base for ENLACE's financial control is carried out under the responsibility of the Engineers Jorge Alberto Fernández y Julio Cesar Deras, who provided a document which content is limited to the detail of the bases, data dictionary, nomenclature, longitude of variables, labeling the programs, nomenclature for file names, directory organization, screen appearances, reports, and process flows. The *document also has recommendations on central equipment and periphery, and server software. This document was limited to technical aspects of the databases, but did not define the information needs of the project.*

In June 99, the consultant-advisor with the title of ***Systems Coordinator*** *is hired for 90 renewable days, with the responsibility of providing advise and supervision on the products supplied by NCR to comply with the requirements of ENLACE, establishing the agreement to prepare a final report and a calendar of activities to be carried out, as well as the obligation to inform on the completion of the plan.*

The document specifies that the objectives and scope of work are included in annex 1, in which the following are set, among others: ***Scope of services:*** *a) Provide advise in the negotiations with the providers, b) Evaluate offers and agreements, c) Determine current requirements and at medium term, d) Provide advise in designing the terms of reference for the hardware bid, communication equipment and other services, e) Determine the evaluations of the bids, f) Evaluate the different phases and activities of the project presenting a report at the end of each activity and letter certifying its acceptance according to the criteria established in the agreement and annexes, and g) Provide advise in the design of contingency plans, backup systems and security formats, supervising their implementation.* ***Activities to carry out:*** *a) Analyze the offers and proforma contracts from the providers and present observations, b)Analyze the current systems and prepare the necessary documentation, c) Revise the modules contracted compared to the requirements for approval, d) Periodically review the work plans against what has been done and inform the higher administration, e) Revise the proper functioning of the programs and systems in an individual and integral way, f) Provide support on systems information aspects required by the higher administration. The contract proposes that the* ***Methodology*** *will be the creation of a Project Committee, no larger than 5 people, which is constituted in the form of an executive committee with the participation of the Executive Director, the Business Manager and the Financial-Administrative Coordinator.*

In September 1999, a description of loans processing and formats required, is sent to NCR prepared by the hired advisor. In November 1999, the requirements for the accounting and Investment modules are also sent.

In May 2000, NCR sends the final requirement document to be annexed to the agreement.

Due to the late hiring of the advisor, the basis for quotations and the evaluation of the offers was managed initially by the Business Manager.

To the date of this revision and during the implementation process we observed that a number of reports have been requested, containing a great deal of data that is not being utilized by anyone in the respective areas.

Agreement with NCR:
In September 99, NCR was contracted for "Professional services for the implementation of the COBIS system", which makes reference to the Data Model document previously prepared "Design of the Data Base" defines the training for users to review training for trainers to later transfer this knowledge to the rest of the users.

The agreement includes the acquisition of professional services for the implementation of the COBIS system, which corresponds to the modules Kernel, Loans, Portfolio, Accounting, MIS (clients data base), Administration and Control, Deposits, and Branch, as well as the services to put into production the standard version and the training for operators and trainers. It also includes modifications to the modules in order to manage the information from the community banks in compliance with the requirements of Annex II (details required), without any expense. It also includes the implementation, defined as the activities required to put into use the modules in their standard Salvadoran version, the installation, parametrization, tests and application, the training for trainers once in the operation processes, the adaptation to management of joint groups and the *migration of accountable data. This stipulates that the clients and the portfolio will not migrate since the assigned loans will continue to be reported by LOTUS, incorporating to COBIS only the renovations of cycles.*

The agreement also establishes the compromise of the project to provide the following human resources: Leader user for the applications, who must be knowledgeable of the financial system more than technical, two operators, responsible for maintaining the operation of the system and administration of the database. The Delivery Product includes the program files, sources as well as executable, and the files for parameters and the rest of the components, a final document of components installed, the training of operators so that they learn about the conceptualization of the system and be able to utilize it in an adequate way, including users manuals, or material that the specialist for the module deems convenient to reproduce. The project will be in charge of the Document for parametrization and its certification, as well as the testing and the certification of the modules received.

In May 2000, NCR prepared an annex that is proposed as information necessary for the project; proposal that is approved by the Systems Coordinator hired for advice and implementation.

Later, the Business Manager's office, with the help from the Systems Coordinator worked on the definition of the information of the community banks and delivered to NCR the necessary information to adapt the portfolio module that was acquired from them.

Status:
To the date of our revision the implementation process of the modules acquired is in the following phase:

- *a) Kernel, module management, 100% installed and operating*
- *b) Portfolio, 100% installed and operating since Sept 2000*
- *c) Accounting, 100% installed and operating since January 2000*
- *d) Branch, 100% installed and operating model in implementation*
- *e) MIS (Clients Data Base), 100% installed and operating*
- *f) Savings, 100% installed in standard form without implementation or current use.*
- *g) Deposits, 100% installed in standard form, without implementation or current use.*

Following the recommendations of NCR, the portfolio information has been incorporated only for the banks of cycle renovated as of august 28, the information on previous loans is filed on spread sheets in the LOTUS system.

CONCLUSIONS ON COMPLETED PRODUCTS:

Needs of SIG evaluated:
With the help of the hired advisor a definition of needs was prepared which served as a base for the agreement with NCR; however, the main operation for the community banks which was not in the standard models of NCR, was defined after the hiring took place. To date, the definition of information needs in terms of portfolio continues, noting the existence of doubtful use.

RECOMMENDATIONS formulated for SIG
No recommendations were obtained on behalf of any of the technicians hired during the period of quotations and negotiations; however, the advisor hired in June 1999 was able to participate in the definition of the process and information needs to be incorporated to the agreement with the provider.

Recruitment of consultants to develop and implement the SIG
Completed. In June 99 Ing. Tomás Recinos was hired for 90 renewable days, and the responsibilities for development and implementation of the systems were defined.

Revised efficiency of the financial operations
In process. The efficiency evaluation is still under design by the Systems Coordinator in an interactive form with the users; however, requirements for information are still being prepared, and there are an excessive number of reports required in relation to a reasonable level of needs, as well as reports with excessive information that could be consolidated to reduce the volume and make them more efficient.

Monthly reports for the SSF prepared and presented monthly and on time
In progress. The reports required by the SSF have been identified: Patrimony Fund, Mismatch on the Currency Exchange Rate and Legal Insertions (required by the BCR). They have been designed following the corresponding instructions but due to the lack of requirement, they have not been followed up or updated, which is understandable taking into consideration that these instructions could change when the financial institution is authorized for supervision by the SSF.

OBSERVATIONS:

1) *The methodology used to acquire the managerial information system was not well implemented from the chronological point of view due to the following situations:*
   a) *The consultant was hired after the quotations were evaluated and when the arrangements for the purchase were already made.*
   b) *The design of the necessary information was not established with clear criteria, perceiving certain improvisation and indefinition, which persists to date.*
   c) *An excessive number of reports is perceived and of little or no use, as well as reports with excessive information that could be consolidated with others to reduce the number and make them more efficient.*
   d) *The titles of the reports have not been defined, noticing that they are still named after the programs that generate them.*

RECOMMENDATIONS:
Even though the agency is not obligated to send the reports required by disposition of the SSF, the system must be completed in the following manner:

a) *Accelerate the transfer of data from the spreadsheets (LOTUS) to the COBIS system.*
b) *Define the reports to be used and require the users to utilize them in the administration of operations.*
c) *Improve its content and reduce the current amounts designed.*
d) *Create a logical index of titles for the reports and require that this nomenclature be implemented.*

OBJECTIVE V:
IMPLEMENTATION OF FINANCIAL OPERATIONS

REQUIREMENTS:

Implementation of Financial Operations
The activities under this objective include all the planning and implementation efforts related to the financial services offered.

Products of Objective V:
Necessary capital to create the financial institution.
Evaluation of professional capabilities of the personnel to carry out the financial operations.
Granting of loans to the initial clients.
Monitored portfolio growth based on projections in the Business Plan.

DESCRIPTION:
As of September 30, the total capital received as contributions from USAID, CRS and FFF, was ¢6.764 thousand and has been registered as capital contributed by CRS, since the transfers originate from there.
In addition, contributions have been obtained from exchangeable bonds for a total of ¢2,419 thousand, with which the capital for the Savings and Loans Corporation, fixed by the Law of Financial Non-banking Intermediaries at a minimum of ¢10 million, can be considered achieved.
Analyzing the current operations, we can appreciate that the capital obtained even if it exceeds the minimum requirement fixed by the law, it is at risk of being gradually reduced if the project continues to generate negative results. In this sense, it is imperative to establish the financial model with which the project is feasible and self sustainable.

It is to be noted that there are no separate accounts in the accounting of the project to identify the origin of the capital contributions, however, codes have been prepared in order to generate results by agency starting from the general accounting.
The administration of loans initiated starting from the opening of the agencies, whose dates of opening and volumes of operation are as follows:

Data as of September 30, 2000

	Apopa	Soyapango	Lourdes	Sonsonate	Total
Opened	March 98	Sept. 99	March 98	January 00	
Clients	2,557	2,037	3,108	886	8,588
Banks	126	94	150	41	411
Portfolio ¢000	¢2,465	¢2,288	¢2,823	¢861	¢8,437
Personnel	14	10	16	6	46
Ut.x Ag ¢000	¢185	¢150	¢303	¢49	¢687

In the present year, the opening of the agency in Sonsonate has initiated, and its portfolio is managed currently from the office in Lourdes.
The results by agency are net in regard to their respective expenses of cleaning loans and penalties; but do not include financial expenses of the capital utilized.
As of September 30, we can appreciate that the central office expenses exceed the utilities reported by the agencies by ¢811 thousand.
The monitoring of portfolio is understood as the responsibility of the agency Managers and the Business Manager, who use the reports of portfolio status, mainly the following:

a) Business Situation and Quality of Portfolio, a report that contains the delays by total balance owed, grouped by promoter, indicating the number of banks and clients for each promoter,
b) Portfolio Delinquency, delinquency reports with amounts (not balances), grouped by promoter, indicating the number of banks and clients for each promoter.
c) Portfolio Reserve, report of calculation of its reserve over delinquency of individual balances, applying the parameters determined in the loan policies.

The previous reports register the portfolio in the COBIS system and are kept fairly up to date, while the portfolio that is kept in the LOTUS spreadsheets, is generally up to 3-5 days late by the manual job that it requires.

As of September 30, 2000, the value of the accountable reserves did not reflect the adequate amount in relation to the provision policy established. A global calculation of the necessary reserves, according to the percentages of the project, reflects that the accounting had reserves underestimated by ¢311 thousand.

The monitoring carried out by the Business Manager on the operations of the agencies is done based on the goals set for the end of the year, which are compared to the achievements, emitting a letter of observation to each agency Manager. In August, adjustments were made to the initial annual goals orienting them toward goals that were more reachable with the current level of resources. The comparison of initial goals with the revised ones from October demonstrate the following:

Agency-Parameter	Goal according to the plan	Revised Goal	Yearly Adjustment
LOURDES:			
Banks	218	170	22%
Clients	4,993	3,527	29%
Balance ¢000	¢5,548	3,816	31%
APOPA:			
Banks	232	170	27%
Clients	5,411	3,444	36%
Balance ¢000	5,616	3,725	34%
SOYAPANGO:			
Banks	156	137	12%
Clients	3,758	2,911	23%
Balance ¢000	3,877	3,149	19%
SONSONATE:			
Banks	102	65	37%
Clients	2,351	1,318	42%
Balance ¢000	¢2,418	1,426	41%

As of September 30 it is evident that the project had not been able to obtain sufficient funds to reach the initial yearly goals for which we can conclude that the goals set were unrealistic; however, to that date, the availability was too high for the needs of the project (¢4.3 million), making it notable that the investments had not been achieved at the most desirable level. The explanation obtained to this respect was that the investments had been detained while the portfolio control procedures and the managerial information systems were improved.

Even when in the Annual Plan, goals were budgeted based on the number of advisors; this plan has not been incorporated to the follow-up, omitting a fundamental resource for the growth and achievement of the rest of the goals.

The project counts with Regulation of Loans, that contains the policies in use and the procedures with which the loans are promoted and managed, a regulation that was used since 1998 (does not have a date or name of the author), as they inform and was recently revised to make it more complete and specific, achieving a clear enough manual for use by the promoters and supervisors.

Even with this useful tool, the Internal Auditor has observed during his visits to the banks, a considerable number of weaknesses in the management of the process, among which are the little control of the members' savings accounts and omission of information in the control registers, as well as some unhealthy practices by some of the promoters. In the management of portfolio, this weakness constitutes the greatest risk as *experience has shown, the clients are very susceptible to the lack of transparency in the control of their loans and savings accounts. As perceived, the causes for the weakness in the control of the portfolio have been produced by the lack of training and above all by the deficiencies in the supervision.*

To improve supervision, a questionnaire has been designed to evaluate the management supervision of banks entitled "How is the Health of the Bank?" This questionnaire consists of a series of questions about the control of information and the activities related to the process of bank management, which is being used to evaluate the banks.

CONCLUSION ON FULLFILLMENT PRODUCTS:

Necessary capital to create the financial institution.
Completed at critical level. The minimum capital fixed by the law has almost been achieved; however, the margin of business intermediation does not cover all the expenses of the project, which seems to be insufficient for the operation to be profitable. The point of equilibrium for this investment has not been determined.

Evaluation of professional abilities of the personnel to carry out financial operations.
The financial execution has not been able to reach the projected goals, making it evident that the projections and goals have not been achieved forcing to accommodate the results. The justification for the reduction in investments during the year 2000 makes it notable that the internal control of the operation has not been the optimum one for the execution at the necessary level.

Granting of loans to the first clients
Completed during the period with relative abundance, achieving an important annual growth. The weakness in the process of savings and loans control places in danger the profitability and the future of the business, for which in relation to the management of operations, the control is still weak.

Portfolio growth monitored according to projections in the Business Plan.
Deficient. The monitoring of portfolio is done by the Business Manager, on the status of the agencies' portfolio; however as was demonstrated above, the goals of the Business Plan of 2000 were reduced as the projected exercise took place. The follow-up also omits the parameter of the promoters and supervisors, which constitutes the fundamental resource for the achievement of the goals.

Loan Regulations for the Community Banks:
Completed. The regulations have been completed, as was informed. Since 1998 and recently (October 2000) it was revised and updated. The regulations include the defined loan policies, as well as the sufficient elements for management of the operation (the technology), constituting a fundamental tool in the operation of the project.

OBSERVATIONS:

1) *The necessary level of capital to operate in a profitable way must be determined through a budget revision which rationalizes and normalizes the expenses of the project and which complementary estimates the margin of contribution of new clients and agencies. This aspect should have as its purpose to determine the minimum level of operations that would make the project profitable and the anchoring of these goals must be established as a strategy to move it forward.*
2) *The detection of weaknesses in the management of client information should be attended permanently in order to reduce or eliminate the deficiencies reported by Internal Auditor since these weaknesses constitute the greatest risk to the future of the operation. To improve these deficiencies, the work done by*

the supervisors should be strengthened and the promoters should be provided with intensive training as well as to support the auditors role in the follow-up. It should be considered that while an efficient control of the supervisors is achieved, the reinforcement of the internal auditing unit should be considered in terms of the growth of the operations in general.

3) *The questionnaire designed for the supervisors, to evaluate the banks, should also be used to evaluate the work done by the promoter. A space should be included in the format for the supervisors' recommendations and some type of numerical evaluation on the work of the promoter, for the subsequent implementation of solutions.*
4) *The monitoring of operations should be completed with the evaluation of the resources assigned to each agency. Due to the modality of the management, which requires a great deal of effort by the promoter, this resource should be revised constantly. In the opinion of the Managers, the goal of 18 banks per promoter seems very difficult to achieve due to the personal effort required in the current form of work. To this respect, the procedures should be revised to seek more efficiency and to incorporate more quantitative goals for the promoters to achieve a sustainable growth.*

OBJECTIVE VI: SHORT TEM EVALUATION

REQUIREMENTS:

Evaluation and Monitoring of the operations of the institution.

This objective includes activities related to the monitoring and evaluation aspects of the project. Short-term external technical assistance teams will be hired to evaluate and formulate recommendations in reference to the managerial information system, banking policies, investigation and marketing and product development. The contracting of technical assistance to resolve specific problems will also be included under this objective. In addition, annual evaluations of the operations of the institution will be conducted to measure the general achievement of goals against the objectives and goals set forth in the Business Plan. The institution will develop an internal vision to guide the operations. This vision will be reviewed by an external working group every year and on the third year of the life of the project to determine the property of future operations.

Products of Objective VI:

The short term technical assistance teams sent to evaluate the loans operations, the SIG operation and the operation policies.

Internal annual evaluations of the development and operations of the institution against what was planned.

Review of the vision of the institution.

DESCRIPTION:

The short term technical assistance teams sent to evaluate the loans operations, the SIG operation and the operation policies.

In June 2000, Microrate reviewed the financial operations, the model of loans, and the information systems and prepared an analysis report with financial conclusions, excelling the fact that the operations have not reached the point to make them self-sustainable. The report does not include conclusions nor faults or suggestions that help in searching for solutions to the evaluated aspects.

In November 2000, the memorandum from the MAGI team was received, sent by CRS for an integral evaluation of the project. Among their recommendations they mention: Incorporate an External Director properly qualified, maintain specialized auditing, design a strategic plan, radical change to become a market business, implement a financial management, implement financial policies, feedback from the market, obtain information from the microfinancial market, increase volume of operations and reorder the assignments, implement a risk control system, train the systems information personnel on the COBIS system, implement the security back-up systems immediately, implement a system of Cost Centers, with external help, descentralize the responsibilities of the systems information advisor, include the agency Managers in the planning phase, *increase the role of the Managers in the control of their advisors, link training to an outline that measures the progress and results, incentives and sanctions, implement the operative audit, set guidelines for internal control in the procedure manuals especially accounting, human resources, administration and information systems, allow the management and the internal auditor access to the information system, train the auditor on banking auditing, and count on the support of a systems auditor, modify the vision to incorporate competition, effectiveness, settlements, profitability, hire support for the directive and current management for a plan that reconciles risk and institutional strengthening, implement strict follow-up to rules and procedures, constantly explain the rules, training to the administration committees pointing out information needs, regulate the management of the internal account, the internal auditor must have a program for community banks, develop an accounting manual with the policies for provisions and sanctions of the portfolio, adapt the methodology of provisions, determine the point of equilibrium of the operations, etc.*

In November 2000, our office was also hired for the present revision, and we agreed with many of the findings and recommendations from the MAGI team, with the following exceptions:

a) The systems audit which is also a requirement of the instructive of the Superintendence of the Financial System, should be maintained with the best degree of independence and economy, for which it should not be carried out by permanent resources but should be contracted externally every one or two years starting from when the systems were completely implemented.

b) An additional Financial Manager is not indispensable for the organization at its present level, but he should assume the functions of the current Administrative-Financial Coordinator and his title should be changed to Financial-Administrative Manager.

CONCLUSIONS

The short term technical assistance teams sent to evaluate the operations of loans, the operations of the SIG and operation of policies.

The contracting of evaluation has been extensive and complementary in its contents and we consider that the observations as well as the recommendations from the other evaluations, as well as from our team, have handled adequately the emphasis on the critical weaknesses of the project.

Internal annual evaluations of the operation of the institution and development against the planned.

The support evaluations have been done in the same period and relatively close to one another, and not in the annual follow-up form as it was foreseen in the Working Proposal, missing the opportunity to make opportune and timely observations through the Phase II period (July 97- September 2000). If the schedule would have been complied with, the evaluations should have also been carried out in the second semesters of 1998 and 1999.

Revised Vision of the Institution

To the date of our report, the vision of the project is the one that was revised in May 2000, which has been redesigned orienting it more towards the purpose of the project in relation to the initial vision defined in 1998.

RECOMMENDATIONS:

1) *An integral evaluation like the one performed by the MAGI team or by our team should be done on a yearly basis until it becomes profitable, and later could be done twice a year to help in its maturity and growth.*
2) *The vision of a business should be updated based on the results from the financial sustainability analysis and the assimilation on the part of the personnel should be promoted to improve the level of understanding of this objective, changing the term of sustainability to profitability. It should be understood that the vision must transmit the purpose of the project, which will have to be modified when the economic or legal environment demands it.*

SUPPLEMENTAL GRANT

In June 1999, USAID granted a donation to the program under the reference 519-0435-3-800048, in the amount of $190,328, to which CRS would add 66,000 as counterpart contribution.
The terms of the proposal presented in March 1999 include some commitments to be achieved at the end of 1999, in reference to capitalization, organizational implementation and investment, aspects that are commented subsequently:

Capitalization Plan:
The minimum capitalization required by the Law of Banks for a financial institution of ¢25 million equivalent to $2.9 million in the following form:

CONTRIBUTOR	GOAL	INVESTED	PILOT INVESTMENT	TOTAL INVESTMENT PROJECTED	PERCENTAGE
CRS	$725,000	227.312	392,500	619,812	85%
NGOs	725,000	113,845	72,700	186,545	26%
Foundation	754,000	92,000	-	92,000	12%
Others	698,000	-	-	-	0
USAID new				190,233	
CRS counterpart				66,000	
	$2,900,000	**433,157**	**465,200**	**1,154,590**	**40%**

Of the total programmed, the project had achieved the capitalization of CRS and the participating NGOs; however, the contribution for the information systems had to be concluded until the year 2000.

The contributions of capital as of September 30, 2000 were as follows:

Contributions CRS (included USAID and other donors)	*$1,011,126*
Contributions NGOs as exchangeable loans	*275,937*
Total capital contributions	*$1,287,063*

Plan for Operational Expansion:
The plan for operational expansion was defined in terms of the portfolio, as follows:

	PROJECTED		ACHIEVED		RELATION	
DATE	CLIENT	PORTFOLIO	CLIENT	PORTFOLIO	CLIENT	PORTFOLIO
MARCH 99	3852	$443,923	3812	439,833	99%	99%
JUNE 99	4661	566,687	4619	521,055	99%	92%
SEPTEMBER 99	6286	895,992	5470	639,009	87%	71%
DECEMBER 99	8233	1,111,455	7974	1,062,543	97%	96%
MARCH 00	9579	1,412,834	9471	1,130,020	99%	80%
JUNE 00	10972	1,567,251	9468	1,126,777	86%	72%
SEPTEMBER 00	13,266	$2,096,927	8588	964,216	65%	46%

The portfolio growth to the end of 1999 was almost achieved; however, as of the year 2000, the investments have been detained. Among the reasons mentioned by the direction, they argue the increase in debt, as a *result of a certain deceleration of the economy and the lack of implementation in the control of portfolio. To this respect, we could observe that although the information control was not complete, the weaknesses of the supervision have become sensitive.*

ORGANIZATION PLAN

POSITION	*At the end of the Project (September 2000)*		*To 5 years (June 2004)*
	Planned	*Carried out*	
General Manager	*1*	*In process*	*1*
Operations Manager	*1*	*0*	*1*
Financial Manager	*1*	*Adm Fin Mgr.*	*1*
Legal Advisor	*1*	*1*	*1*
Internal Auditor	*1*	*1*	*1*
Loans Department	*1*	*Bus Mgr.*	*1*
Savings Department	*1*	*N/A*	*1*
Professional Development	*2*	*2*	*2*
Information Systems	*2*	*2*	*3*
Treasury	*0*	*0*	*1*
Administrative Manager	*0*	*0*	*1*
Administrative Assistant	*3*	*3*	*3*
Accounting	*1*	*1*	*1*
	15	***14***	***19***

In the organization of the central office, the search has begun for candidates for the General Management, functions that are currently being carried out by the Executive Director.

The administrative, financial and accounting activities are carried out in general by the Financial-Administrative Coordinator.

Even though the personnel plan of the central office had envisioned more elements, the number of persons seems appropriate for the level of operations that are being presently managed.

ORGANIZATIONAL STRUCTURE OF THE AGENCIES

In the annex of the agreement, the organization for the agencies was estimated for September 2000 achieving its implementation as follows:

POSITIONS	AMOUNT	
	Planned	Carried out
Manager	1	1
Cashier	1	1
Secretary	1	1
Portfolio Administrator	1	1
Field Supervisor	Up to 2	Average 2
Advisors	Up to 18	Average 10

The low level of advisors by agency is understandable when learning that the investments have been detained in the year 2000; however, when these control problems that originated this stagnation are overcome, a greater amount of business should be set for all the agencies to achieve the profitability of the project.

GENERAL CONCLUSIONS

1) *The vision of the entity constitutes a support of important human value for the Salvadoran society; however, the way in which it has been implemented contains an element of considerable associated activity that is difficult, due to the idiosyncrasy of the Salvadorans and therefore, requires great effort for promotion and vigilance. The entity has already had negative experiences due to this factor, and has been forced to improve some procedures. The project requires the implementation of some values that stimulate the committed participation of the promoters and the rest of the operational personnel and reinforcement in the security of the process since the trust that has been placed on the entity must become a priority to assure its growth. Although there are no real estimates of the potential market for the activities managed, the vision could require a certain degree of expansion to increase the number of potential users and reinforcement of the capital needed to make the operations more profitable, since at the present level, the total operation expenses are not being covered.*

2) *For its legalization, the activities of the project could be transferred to a "new" corporation, that must be created under the Law of Financial Non-banking Intermediaries, since there is no other way to create the corporation already operating; however, it will be possible to transfer the current operations to the new one, once it is legally constituted and granted authorization to operate. (Note that two authorizations are required and until the second one is obtained will the transfer of portfolio be possible).*

3) *Throughout the life of the project, the integration of some key elements has been improvised: training, organization, projections, financial objectives and systems implementation; however, the project has already capitalized its key elements, remaining only to consolidate the efficient control of its main operation: the loans, fundamental aspect for feasible future operations.*

4) *The projections and financial goals have been presented in a limited form to the minimum required by USAID; however, being this an eminently financial project, well sustained quantitative business plans should have been required yearly or grouped by trimester at least for the next two or three years of the project. The annual goals should not have been reduced below the equilibrium level, but business plans should have been developed with sufficient strategies to achieve the minimum of security in a given period. As part of this plan, the minimum capital necessary for investment should be established (loans or patrimony) and the amount should be the goal of the capitalization plan.*

5) *In many cases, the work of the advisors and consultants was not gathered in an integrated way which would have made more efficient the process of implementation of activities which would have prevented some delayed or erratic decisions. In the minutes from the Board of Director's meetings there is no mention of any reports prepared by the advisors. All the projects' consultations should be sufficiently discussed at the Directors level and written action plans should be elaborated with assigned responsibilities to improve the level of organization and execution of operations.*

1) *As of the date this report was prepared, the law of Monetary Integration has been approved effective as of January 2001, designed by the Executive Branch, which establishes the conversion of US$ to a fixed rate of ¢8.75, making all the bank transactions in US$ currency and exchanging colones whenever they are presented at the banks. This law as it reads will promote the total dollarization of the economy. For the project this could mean being able to obtain an external credit on a short-term; but at the same time, could generate pressure in the current interest rate (70% annually). Considering the macroeconomic effect of this law, a revision of the target market, of the vision, and feasibility update should be considered and immediate steps would have to be taken.*

LESSONS LEARNED:

1°) The loans to community banks is possible by personalized efforts and transparent management, even when utilizing high interest rates; however, the fundamental values of the banking system: trust and credibility must be given top priority.

2°) The creation of a project must be implemented following a well-defined market and concept. The implementation must begin after organization and functions are defined to ensure an adequate level of understanding and conscientiousness by the personnel. The plan that was traced contained the necessary elements; however its implementation did not take place in the formal way, which requires an updating of the dimension of the market and revision of the implementation process in a periodic form.

3°) A financial project, such as this one, requires a complete and consistent financial plan. The requirements for financial information must be defined in a more complete way and an internal follow up plan for achievements should be defined indicating levels of responsibility, frequency and ways of reporting.

4°) The budgeting control must be implemented since the beginning and its financial viability should be revised at least once a year at the start and later when the economic parameters change. However, the projection must clearly identify the moment and volume of equilibrium that must constitute the general goal from the beginning.

5°) A participative and flexible administration would generate more cohesion and improve the working mechanisms used by the critical team, (the promoters, supervisors and Managers). Advanced managerial concepts such as the formation of values and the leadership creation are mechanisms that are necessary for the coordinated functioning of the organization. The managerial team must be more approachable with the operative personnel to get to know them and listen to their needs for support.

6º) When working with money, all the functions are at risk of bad management, a reason why strict ethical policies for the personnel must be defined, as well as strict policies for internal control. In the promotion manual, the responsibilities of verification and vigilance of the supervisors should be incorporated, the Business Manager and the internal auditor; as well as specific rules of behavior required for the promotion personnel.

AREAS OF FUTURE SUPPORT NEEDED

Throughout the revision, we have described the areas that present operative weaknesses In which we can identify the following elements that could be reinforced:

A) Working capital: The operations in their current modality and volume have a low rate of return. This situation forces the entity to elevate its levels of operation, for this purpose a greater working capital is needed to avoid losses. The capitalization plan is priority at least up to the level of equilibrium

B) The recruitment process should be strengthened by well defined mechanisms in which external support could be incorporated or some form of outsourcing to improve the quality control and to avoid deviating resources towards this activity.

C) The Auditing Department should be supported for the control follow-up. The design of the Manual of Loan Audits should initiate stemming from the experience gained by the current auditor. As a support system, the Managers should be required to provide written explanations of the observations and establish compromises to overcome the weaknesses reported.

D) A study of the efficiency of the operation is necessary which should include revisions of the current business parameters, the methodology, the procedures and security, as well as the plan to strengthen the capacity of the promoters to be able to manage more portfolios.

E) A well directed marketing plan should be implemented to increase the operations.

F) The independent operation revision would be able to continue to point areas that need improvement. The revision program is a healthy process and should be maintained and the entity must try to understand its purpose better and prepare strategies to attend its suggestions.

SUGGESTONS FOR FUTURE PROJECTS

This is an innovative project in its modality of organization of users of loans, and the interest of legalizing the operation was conceived together with its initial formulation. However, these two phases could not have been managed simultaneously. The legalization of the operation should have taken place once the necessary elements were in place: a clear vision of the project and the required capital.

This project also has considerable pretensions for which the operative management should have been established as top priority after the organizational conformation. At the present time, the procedures are well defined for which we can assure its fulfillment through a strong induction plan and strict vigilance procedures.

The operative revision was done at a late date, leaving the current administration without an orientation guide. This type of supervision should be required and mandatory by the sponsors of the project to ensure the proper investment of the funds provided.

USAID, as the sponsor of the project should require from the external auditor a yearly certification or by semester, on the use of the funds provided and the destination of the investment, even when the director of the project provides periodic reports on this, for which precise instructions should be formulated on the scope of the revision and the data to be reported. The handling of the information to be verified should be done directly by USAID to guarantee the integrity of the information to be verified.