El Salvador: Small-Scale Loan Offers by Financiera Calpiá

Ex-post evaluation

OECD sector	24030 - Financial intermediaries of the formal sector	
BMZ project number	1997 65 561	
Project-executing agency	Financiera Calpiá, S.A.	
Year of evaluation	**2003**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	Q I/2000	Q IV/2000
Financing, of which Financial Cooperation (FC) funds	EUR 4.09 million	EUR 4.09 million
Other institutions/donors involved	GTZ, BCIE, BID, ADEL, Fundasal	FMO, IFC, DEG, IPC GmbH, IMI AG, Fundasal
Performance rating	**1**	
• Significance/relevance	2	
• Effectiveness	1	
• Efficiency	1	

2. Brief Description, Overall Objective and Project Purposes with Indicators

The project involved the extension of a loan to the benefit of the credit institution Financiera Calpiá, S.A. (hereinafter "Calpiá") in the amount of EUR 4.09 million to refinance working capital and investment loans for small and micro enterprises in the commercial and agricultural sectors (loans with a term of > 1 year) as well as home rehabilitation and extension loans. The funds were to be disbursed in accordance with the increase in the number of loans granted. Project purposes were 1. to sustainably improve the access of the target group of micro entrepreneurs and small farmers to medium and long-term small-scale loans and 2. to strengthen Calpiá's role as a target group-oriented financial intermediary. In this way, the project was to contribute to improving the income situation and the living conditions for poorer parts of the population (overall objective). The project was to be carried out as an FC/TC cooperative project.

3. Major Deviations from the original Project Planning and their main Causes

- Change in the ownership structure

During the term of the project the ownership structure of the project-executing agency changed numerous times. The Calpiá foundation, created out of the business association Ampes, was the majority shareholder and held initially 30% and then 40% of the shares. In 2002 it sold its shares to DEG, FMO and IFC. The reason for the sale was a legal dispute between Ampes and the foundation, which initially represented a risk to the reputation of Financiera Calpiá but did not influence its operative business.

The Interamerican Development Bank (IDB) and the Central American Integration Bank (BCIE) and also the local Salvadorian development organizations ADEL sold their holdings in 2000. Since 2001 the German financial consulting service provider IPC GmbH has held 9.5% of the shares and, since 2002, 13%. IMI-AG[1] , another shareholder since 2001, has a 28.5% holding. The second-largest shareholder with a holding of about 22% is the Salvadorian NGO Fundasal, which already held the shares at the time of the project appraisal. In addition, FMO, IFC and DEG have a direct holding of 12% each. Once it is authorized to take up operative business as a full-fledged bank, its ownership structure will change again, however.[2] The holdings of IPC GmbH, IMI-AG and Fundasal will decrease slightly, but the holdings of FMO, DEG and IFC will increase to around 15% each.

- Transformation into a bank

The new banking law from the year 1999 no longer provides for the legal form that Financiera had, so that all formal financial intermediaries with a non-banking status are required to obtain banking status within a period of several years. These banks are required to have minimum equity of C 100 million (USD 11.43 million). In June 2003 Financiera Calpiá was given authorization for its transformation into a bank. Authorization to take up operative business as a full-fledged bank is expected in December 2003.

- GTZ cooperative project

The project was initially planned as a cooperative project since Calpiá had already received advice from GTZ prior to the project appraisal. Owing to delays in the disbursement of the FC loan[3] the two projects did not overlap, however. GTZ's follow-up phase ended in December 2000 and mainly comprised an analysis of the impact on the target group of Calpiá.

---

[1] Shareholders: IPC GmbH, IPC-Invest GbR, DOEN, DEG, Pro Credito, IFC, FMO, BIO
[2] These funds have already been paid out to Calpiá but will not be registered as equity until the authorization is issued.

4. Key Results of the Impact Analysis and Performance Rating

With approx. 43,000 outstanding loans with a total volume of EUR 44.5 million plus savings deposits of EUR 19.2 million (3/2003), Calpiá is one of Latin America's leading financial institutions specialized in micro, small and medium-sized enterprises (MSME). Since its foundation in 1995 Financiera Calpiá has granted over 400,000 loans with a total volume of more than USD 300 million. The defaults account for less than 1% of this sum.

Despite various natural catastrophes (hurricane Mitch in 1998, two earthquakes in 2001 and a fire in the central market of San Salvador in 1998) which led not only to defaults on loans but also to a deterioration of the economic situation in general, since it began operating Financiera Calpiá has been generating a profit.

Since 1998 its return on equity has – with one exception – always exceeded 10% (2001: 6.06%, March 2003: 12.8% on USD basis). In 2001 for the first time Calpiá distributed profits (in the amount of USD 243,000, or 54% of its profit after taxes; 2002: USD 532,000, or 60%). Due to its high return on equity in conjunction with a moderate distribution policy the institution has ensured both the preservation of its capital and its ability to attract investors.

A positive point worth mentioning is the expansion of its deposit business from about USD 340,000 in 1996 to approx. USD 21 million in March 2003. Since the interest on deposits paid by Calpiá is not higher than the cost of refinancing its credit lines, acquiring capital in the form of savings deposits is an attractive long-term option for the institution.

USD 7.6 million in subscribed capital, USD 5 million under long-term refinancing credit lines (terms of over one year) and an additional USD 24 million under credit lines cancellable annually are available to refinance the loan portfolio of USD 43.3 million.

In view of the average loan amount of USD 943 and average deposits of USD 624 (both figures from March 2003), the operative costs – which represent far less than 20% of the loan portfolio (since 2000, March 2003: 17.8%) – are low.

In relation to the outstanding portfolio, the operative costs have increased since 2000. Two reasons for this are the renovation of existing branch offices and the opening of three new branches. In accordance with its balance-sheet policy, these costs are written off in full the same year that they incur. Further, its marketing activities were intensified and additional staff – in particular for loan processing – was hired.

---

[3] There were problems at the outset involving the ratification of the loan agreement by parliament, so that the first disbursement could not be effected until the end of 2000.

Calpiá employs 322 people, 130 of whom are loan officers. With 49 loans granted (volume of EUR 40,477) per month and a total of 328 outstanding loans (volume of EUR 342,253) per loan officer (March 2003), its operative efficiency is very high.

The portfolio at risk (outstanding interest and redemption payments over 30 days) is, at 2.2% of the total portfolio (March 2003), relatively low, and the annual instalments ranged between 4.4% and 2.2% in the period 1999-2002.

The additional equity needed for its transformation into a bank offering the full range of banking services was used up in part by DEG and by other international financing institutions. These supplemental funds enable Calpiá to grow further and strengthen its sustainability. As a full-fledged bank, Calpiá can offer its customers additional products in the area of payment transactions, e.g. national and international money transfers. As Financiera it had to cooperate with full-fledged banks for this. The costs incurred as a result can now be saved.

Because it includes both development policy-oriented organizations (e.g. FMO, Fundasal) and also shareholders aiming to generate a profit (e.g. IPC GmbH), its ownership structure ensures a balance of interests between target group orientation, on the one hand, and operational sustainability for the institution on the other hand.

Thanks to the many years of experience of IPC GmbH in institution-building at financial institutions and also to the participation of IMI-AG in a total of 18 microbanks, Calpiá has long-term access to consulting services and benefits from further developments in projects with a similar design.

The indicators defined to measure achievement of the project purpose were all either reached or exceeded:

1) “Improvement of long-term access to small-scale medium and long-term loans for the target group of micro entrepreneurs and small farmers":

- If 70% of the customers of Calpiá receive at least one follow-up loan by 2001: achieved (situation in 2001: 74%, 3/2003: 68.9%).

For March 2003 this indicator was slightly under target (for 2001). It was to determine whether as many customers as possible build up a long-standing relationship with Calpiá and receive loans regularly (as “automatic loans”) since this offers planning reliability for investments. However, the indicator declines when the customer group grows even though the previous customers continue to receive follow-up loans on a broad scale. In order to meet this indicator, Calpiá would have to limit the number of its new customers. This would not make sense from a development-policy perspective, however. So, it would not be appropriate to define this indicator more closely.

- If at least 40% of the outstanding loans (number) have a stated loan amount of under USD 600 by 2001: achieved (in 2001: 58%, 2002: 58%).

- If the average loan term for the outstanding loan portfolio increases to 10 months by 2001: achieved (in 2001: 18 months, 2002: 18 months).

2) “Reinforcement of Calpiá as a target group-oriented financial intermediary”:

- If the return on equity (measured in terms of earnings after taxes in proportion to equity) is positive: achieved (in 2001: 6.1%, 3/2003: 12.8%)
- If the operating costs drop down to 20% of the mean loan portfolio by the end of the year 2001: achieved (in 2001: 16.4%, 2002: 18.4%, 3/2003: 17.8%)
- If the arrears rate does not exceed 5%: achieved (in 2001: 2.95%, 03/2003: 2.2%)

Impacts on the Target Group:

With regard to achievement of the overall objective, little information is available. A target-group analysis commissioned by GTZ contains only limited information on microeconomic and macroeconomic impacts. Given the high number of borrowers reached through the use of adequate loan technology, it is plausible to assume that the project made a positive contribution to the achievement of the overall objective.

The large number of automatic loans (approx. 23%), i.e. repeated loans to the same customers, is an indication of high customer satisfaction. The impact analysis mentioned above confirms this as well. In this study the customers were asked what they value about Calpiá and what they dislike. Advantages of Calpiá that are most often mentioned are fast disbursement and easy processing. Some other important aspects are the customer orientation of the staff (in rural areas in particular some may have had negative experiences with other institutions) plus the fact that loans are granted without being tied to a specific purpose. The most frequent response by those surveyed to the question of what they dislike the most about Calpiá was ‘nothing.’ The second most common responses were its strictness in collecting outstanding payments and also high interest rates. However, these aspects considered negative by customers are part of a sensible business strategy on the part of Calpiá.

The earthquake in 2001 did a great deal of damage to housing and other goods. Calpiá reacted to the earthquake by making generous debt restructuring offers (at half the former interest rate, redemption-free months) and by extending housing loans. This mitigated the impacts of the earthquake for Calpiá’s customers. Most of these loans were repaid after the restructuring with no delays. Calpiá cannot restructure the loans a second time. In cases of a continuing inability to pay the relevant loans are added to the portfolio at risk and are ultimately written off.

It is more than likely that without the loans offered by Calpiá, its customers would have to choose the alternative - in some cases informal and therefore much more costly loans - or they would not have access to credit at all. In 1999 the percentage of customers without access to other sources of credit was 55%, according to the study by GTZ.

Impacts on the Financial Sector:

Calpiá reaches approx. 50,000 customers in total, or 0.8% of the Salvadorian population. 55% of Calpiá's customers do not have access to other sources of credit. Only 16% have access to (other) formal (bank) loans.

It is estimated that 50% of the roughly 500,000 MSMEs in El Salvador have access to institutional financing (at the time of the project appraisal only 40% of the roughly 400,000 MSME at that time had access to formal credit). Calpiá has around an 18% share of this market, the cooperatives - as market leaders - 34% and commercial banks have a 13% share (volume).

45% of the loans that Calpiá grants have a volume of up to USD 500, and the loan amount of 90% is up to USD 3000. It is precisely this type of micro loan that commercial banks do not provide. 45% of the loans have a term of over one year. Thus, Calpiá also gives micro enterprises the opportunity to obtain long-term financing. The share of automatic loans, i.e. loans with a simplified approval procedure for customers who have already taken out other loans, is relatively high at 23% (in terms of number) or 10% (in terms of volume). This suggests a long-term customer retention by Calpiá and reflects the quality of the approval procedure for loans to new customers.

The expectation at the time of the project appraisal that Calpiá would focus on granting agricultural loans was confirmed. In 2002 agricultural loans accounted for 18% of the loan portfolio (number) and 40% of the customers of Calpiá lived in rural areas.

Over 20% of the funds extended by Calpiá were housing construction loans (March 2003), whereas this type of loan accounted for only 7% of the funds in 2001. 30% of the Financial Cooperation (FC) funds were utilized for housing loans, which is overproportionally high. Long-term FC financing made it possible to extend the range of housing loans on offer.

In the last few years other financial intermediaries have become more active in the field of microfinance. For example, at the end of 2002 32 institutions – including Calpiá – were active in El Salvador's microfinance sector. Apart from commercial banks, two of which have created separate departments specialized in microfinance, the majority of these institutions are NGOs and cooperatives. 140,000 loans are outstanding in this market segment (Calpiá approx. 45,000, or 32%; figures from 2002). The loan volume in this area averaged USD 150 million between 1999-2001. During this period the average interest rates ranged between 20% and 30% p.a. (both Calpiá and NGOs). The average loan amount was between USD 630 and USD 1900 (Calpiá: approx. USD 800). The loan technology applied by Calpiá is also used at other institutions, albeit less efficiently and with higher losses.

In 2002 58% of Calpiá's borrowers were women. The assumption made at the time of the project appraisal that the share of women borrowers would not drop below 50% in the medium term was clearly confirmed. The share of women staff members has been relatively constant for years at around 50%. Therefore, the project is assigned to category G1.

Since Calpiá provides loans for micro enterprises in particular, it reaches poorer parts of the population (the average loan amount in rural areas is USD 746). Also, Calpiá's stronger commitment in the field of home construction and extension contributes significantly to poverty reduction, especially in connection with the earthquakes. Therefore, the project is classified into category SHA [self-help oriented poverty reduction].

The project does not have any noticeable impacts on participation and good governance and is therefore assigned to category PD/GG0.

In 2001 Calpiá introduced its environmental policy and appointed a representative for environmental issues. Companies applying for a loan must comply with El Salvador's environmental, health and safety laws. An exclusion list explicitly excludes certain sectors from receiving loans. All other companies seeking a loan are divided into one of four categories of environmental risk. Companies in the highest risk category are not offered a loan. Measures of improvement are proposed to companies in the two middle categories of risk. Most borrowers were classified into the lowest risk category. Owing to Calpiá's responsible environmental policy, no impacts are expected on the environment. Thus, it is assigned to category UR0 (environmental and resource protection).

The risks identified at the time of the project appraisal did not arise:

- Deterioration of the reliability of the institution due to turbulence on the financial market: the reliability of the financial institutions was reinstated by the legal changes applying to the transformation of all financieras into banks (see above).

- Ability of Calpiá to survive as a formal financial institution: its strong growth in past years as well as its transformation into a bank in 2003 ensured Calpiá's ability to survive.

- Management and shareholders change the institution's strategic goals: given its ownership structure, the institution's strategic goals are not expected to change.

- Increase in the arrears rate through the extension of medium and long-term loans: the arrears rate did not increase.

- Introduction of home rehabilitation and extension loans: the introduction of housing loans did not give rise to any discernible problems.

In a <u>summarized assessment</u> of all above mentioned impacts and risks we have arrived at the following rating of the project's <u>developmental effectiveness</u>:

- All of the project objectives were either achieved or exceeded. The use of a revolving fund ensures that funds will always be available for microfinance. Decisions affecting the management and the ownership structure set the course for Calpiá and ensure its long-term commitment; they also enable its business volume in El Salvador's financial sector to grow even further. Therefore, we classify the project's **effectiveness** as **very high** (partial evaluation: **rating 1**).

- The project has great **relevance** for development policy. The lack of access to financial services still impedes the growth of small and micro enterprises. Commercial banks do not extend low-volume housing loans, either, for which demand was high after the earthquakes. In view of the number of customers reached, the project made a **significant contribution** to closing this financing gap. Since, with regard to the overall objective, the development-policy impacts can only be measured to a limited degree, we judge the project to have a **satisfactory** degree of **relevance/significance** (partial evaluation: **rating 2**).

- The institution's operative costs, as with the default rate in the field of microfinance, are very low. Thus, Calpiá has a high return on equity. We rate the **efficiency** of the project **very good** (partial evaluation: **rating 1**).

Taking effectiveness, efficiency and significance/relevance into consideration, we judge the project's **developmental effectiveness overall to be very good (rating 1)**.

5. General Conclusions applicable to all Projects

If more FC budget funds are to be spent on El Salvador's microfinance sector, the support should not be limited to Banco Calpiá but instead be available for other financial intermediaries as well. On the national level Banco Calpiá is strong enough so that targeted support for Calpiá no longer seems necessary. Instead, the entire field of microfinance should be promoted, for example by way of an apex unit.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness

Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its classification during the final evaluation into one of the various levels of success described below in more detail concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project's microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project concept)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on their own and generate positive results after the financial, organizational and/or technical support has come to an end.