

Piloting Microleasing for the Salvadoran apiculture sector by the microfinance institution Credicampo

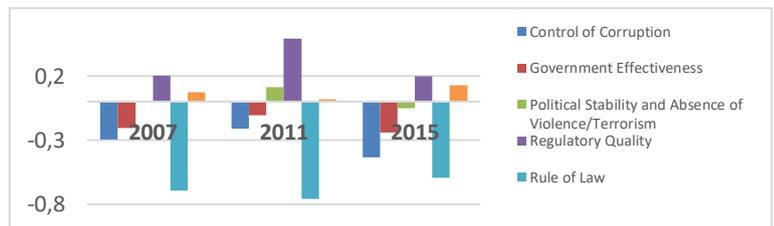
1. DEVELOPMENT RELEVANCE

Economic and poverty context

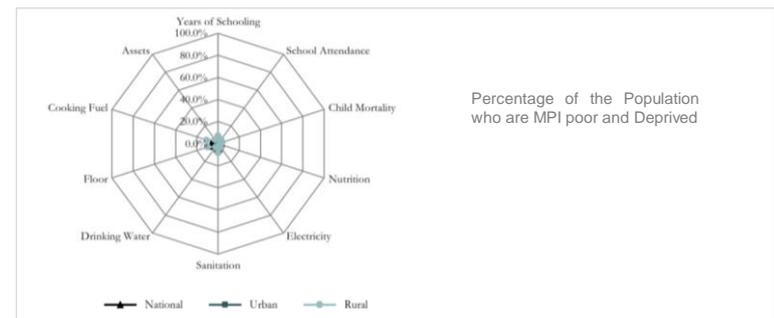
In the period 2013-2016, El Salvador experimented an economic growth of 1.96% of gross domestic product (GDP) and a reduction of the annual inflation rate from 1.7% in 2012 to 0.6% in 2016. Despite these improvements, the country still faces severe challenges, e.g. low added value to production, low productivity and low innovation. The national poverty rate dropped from 34.5% to 32.7% between 2012 and 2016.

Table 1: Population and economic indicators	
Population in million (2016)	6.4
GDP growth (2016)	2.4%
Inflation (2016)	0.6%
Trade balance (% of GDP) (2016)	-14.5%
Foreign direct investment (net) (% of GDP) (2016)	1.8%
Net ODA received (% of GNI) (2015)	0.4%
Remittances received (% of GDP) (2016)	17.1%
Economic Freedom Index ⁱⁱ (Rank among 186 countries) (2017))	62
Poverty indicators	
GDP per capita (USD) (2016)	4'223.6
Gini Index (0= equality 100= inequality) (2014)	41.8
International poverty rate (2014; at 1.90 USD/day)	3.0%
National poverty rate (2014)	31.8%
National rural poverty headcount rate (2014)	37.9%

Governance indicators chartⁱⁱⁱ, (El Salvador, 2007-2015)



Multidimensional poverty index chart^{iv}, (El Salvador 2017)¹



Financial sector context

The Central Reserve Bank (BCR) regulates and monitors the financial system, administers international reserves, and conducts and publishes economic statistics, projections and studies. In a recent report, the BCR mentions three elements of domestic demand that have had a significant impact on the country's GDP: family remittances, real wages and personal credit. The latter, as of August 2017, had an annual increase of USD 289.5 million (4%) with respect to August 2016, dynamism that has emerged through consumer financing. Personal loans represent 54.6% of the total loan portfolio. Financial inclusion has been facilitated in the country through the BCR by simplifying requirements and reducing costs for e-money and savings accounts.

The most recent data from Global Findex by World Bank, show the following indicators from 2014, resp. 2016:

Account (age 15+) (2014)	Formal savings (age 15+) (2014)	Formal borrowing (age 15+) (2014)	CPIA financial sector rating (1=low to 6=high)	Global microscope (2016)
37%	14%	17%	n.a.	13/56

The banking sector is regulated by the Financial System Superintendence (SSF) regulating 11 commercial banks, 1 international bank, 2 states banks, 5 saving and credits cooperatives and 2 cooperative banks. At the same time, microfinance institutions are organized in an Association of Microfinance Organizations of El Salvador (ASOMI) represented by 12 institutions with a total of 97 branches. To facilitate financial access,

¹Source: Oxford Poverty and Human Development Initiative (2017). "El Salvador Country Briefing", Multidimensional Poverty Index Data Bank. OPHI, University of. www.ophi.org.uk/multidimensional-poverty-index

these institutions have established business alliances with networks of supermarkets and pharmacies to receive payments and enable virtual and mobile money platforms to broaden their outreach.

Partner financial institution

After a thorough evaluation process of interested financial partners, Credicampo was selected to implement this microleasing pilot for many reasons: their flexibility as a non-regulated Financial Institution (FI), their competitive interest rates, their proven capacity for learning and change and their growth and focus on inclusion. This is reflected in their mission statement to “provide financial leverage to Salvadoran families and communities, specialization in rural markets, application of a philosophy of participative work oriented to customer satisfaction and focus on sustainability.” By the end of 2015, the institution was serving 16’000 clients, including small producers in rural areas through a broad range of products and services.

Credicampo was created in February 2013 as a result of the growth and development of the credit program of Fundación Campo, an entity that has provided financial and social support to rural communities. Through its participatory community credit methodology, the institution facilitated access to credit for small agricultural producers and rural microentrepreneurs. Credicampo finances its operations through 1) local sources; 2) foreign sources; and since 2014 also 3) fixed-term deposits from partners. The largest source are foreign sources which by 2016 amounted to USD 18.23 million (83% of the total sourcing). To date Credicampo has 10 branches, distributed in the eastern and paracentral zone of the country.



Source: Memoria de labores 2015, Credicampo.

2. INTERVENTION APPROACH

Capacity building needs

The credit supply of microfinance institutions in El Salvador focuses mainly on consumer and trade sectors and there were no mechanisms for financing productive assets. There are still constraints on access to financial services related to lack of collateral and business informality (e.g. variable cash flows). With the support of SCBF, Swisscontact conducted a Feasibility Study to better understand both the constraints and needs of small entrepreneurs in the agricultural sector, as well as the potential of microleasing to increase productivity, income and competitiveness.

The intervention intended to pilot microleasing with a small value chain and later analyze the potential for other value chains and replicate the product there to diversify and scale.

Beekeeping was selected due to previous experience in this sector and value chain in El Salvador and the awareness of an upcoming regulation, which forced the beekeepers to purchase new equipment in order to continue exporting their honey to regional and international markets.

Main activity areas (goals, targets, resources & time frame) and outputs

Eleven main activities were carried out to develop microleasing piloting. These are described below:

Milestone	Results	Comments
Definition and establishment of strategic alliances with all of the actors within the microleasing model	<p>a) Establishment of a reliable financial ecosystem for the pilot implementation, signing agreements with relevant actors².</p> <p>b) Identification and selection of suppliers. An investigation was conducted to identify (7) potential suppliers of beekeeping equipment, of which 2 were selected upon evaluation: Miele Joya de Ceren and Ceramiel.</p>	
Establishment of the legal and operative procedures to implement the new product in the partner financial institution	<p>a) Establishment of the microleasing model, with a multidisciplinary consulting team, the administrative, accounting, IT, legal and operational bases were built.</p> <p>b) Validation workshops. Eleven workshops were held in different areas of the country to publicize the product and have feedback from beekeepers, to adjust the product. Feedback was collected from 319 participants.</p>	Establishment of the legal and operative procedures to implement the new product in the partner financial institution

² ASOMI, Microfinance Union; Fundación Campo, organization of financial support to the rural sector for its economic and social development; Cadena de la Miel and CONAPIS, beekeepers' guilds; Miele Joya de Ceren and Ceramiel, companies supplying beekeeping equipment and material; OIRSA, Organization in charge of establishing animal health regulations.

Milestone	Results	Comments														
Salesforce and technical assistance training and design of the sales and marketing plan	<p>a) Training of Credicampo personnel. Trained personnel in the administrative, accounting, IT, marketing and sales areas. Strengthening competencies of different units.</p> <p>b) Logo design and graphic material. A logo for microleasing was developed to match the institutional colours of Credicampo. In addition, graphic material was developed for promotion.</p> 	<table border="1"> <thead> <tr> <th>Area</th> <th>Trained</th> </tr> </thead> <tbody> <tr> <td>Administrative</td> <td>11</td> </tr> <tr> <td>Sales</td> <td>19</td> </tr> <tr> <td>Marketing</td> <td>2</td> </tr> <tr> <td>IT</td> <td>1</td> </tr> <tr> <td>Accounting</td> <td>6</td> </tr> <tr> <td>TOTAL</td> <td>39</td> </tr> </tbody> </table>	Area	Trained	Administrative	11	Sales	19	Marketing	2	IT	1	Accounting	6	TOTAL	39
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Roll-out of the product into the national market	<p>a) Launch of the product. An event was held to publish the launch of the product offer, with the participation of important media.</p>	<p><i>A total of 300 micro-leasing contracts were expected by end of the intervention. Due to several reasons only three contracts benefitting a total of 14 beekeepers were achieved.</i></p>														
Adaptions and modifications in the procedures designed according to practical experience	<p>a) Technical assistance for asset suppliers. Articulation of supplier companies with a unit in charge of food safety (MAG DIPOA). Several activities to ensure that the offered equipment through microleasing was certified by the pertinent unit.</p> <p>b) Telemarketing. Workshops were held, reaching a total of 775 prospects.</p> <p>c) Promotional workshops. Promotional events (14) were held in different areas of the country, bringing together the equipment available for micoleasing and making payment scenarios to interested parties. These workshops were programmed with identified people interested in learning more about the product and equipment in telemarketing.</p> <p>d) Adjustment of IT system, administration and accounting. In collaboration with a consultant a software was developed to establish microleasing within the Credicampo system, as well as a portable microleasing simulator.</p>	<p><i>Technical assistance for asset supplier was not planned in the project design but turned out to be a critical component for the ecosystem.</i></p> <p><i>Telemarketing and promotional workshops were added during the project to ensure access to information and promote the solution towards the beekeepers.</i></p>														
Design & implementation of MRM and systematization of experience	<p>a) Preparation of replication</p> <p>b) Knowledge management for crowding-in</p> <p>c) MRM design and implementation</p>	<p><i>These activities were not fully developed due to several reasons but mainly to the fact that the operations were very few to make a proof of concept</i></p>														

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The project succeeded in placing three microleasing contracts, in this case the three clients were men and each contract benefited between 1 to 11 beekeepers.



Tito David Flores (58 years, married, family group of five people)³

Microleasing granted valued at USD 1'200 (honey extractor), contracted in April 2016.

He is mainly engaged in beekeeping and secondly in the provision of transport services. He owns 140 hives, has an average annual income of USD 18'500, with earnings of USD 3'300 through beekeeping and transport services.

Tito experienced problems to meet quality requirements demanded for the export of honey. With the extractor Tito can now easily comply with these requirements and on top has been able to reduce honey extraction time by 40%. During the season 2016-2017, Tito increased his income by 15% comparing to the baseline.

³ Application statement submitted to Credicampo.

Nicolas Amaya Rivas (61 years, married with three children)³

Microleasing awarded valued at USD 1'720 (honey extractor and decapper table), contracted in October 2016.

He is dedicated to agriculture, strong focus beekeeping. He currently owns 80 hives and earns an average annual income of USD 5'000, with a profit of up to 40%.

The acquired asset will also serve another beekeeper. Their main benefit has been to improve the extraction process, making better use of each comb, resulting in more honey to sell and additionally meeting quality requirements for export. Nicolas increased the volume of his production around 20%, leading to a 25% increase in earnings.



Roberto Antonio Hernández (58 years, married with one daughter)³

Microleasing awarded valued at USD 1'839 (honey extractor, funnel and decapper table), contracted in October 2016.

He is dedicated to livestock farming, mainly sale of livestock and milk. In addition, he dedicates a good part of his time to beekeeping. He currently owns 120 beehives and earns an average annual income of USD 8'000, with a profit of at least 50%.

This contract benefits eleven additional beekeepers in the area, who learned about best practices, adequate material, in addition to better meet quality and safety requirements. The group is currently negotiating with an exporting company to buy their honey. Roberto and the group increased their earnings by around 10% compared to the baseline.

Partner financial institution level



Credicampo branch - San Miguel

The project strengthened important areas of Credicampo, building additional competencies for the development and promotion of new products. The results obtained were not sufficient to obtain social and financial impact results on institution level.

Due to the limitations of Credicampo in terms of the adaptation processes of the product, the implementation of the new product began in October 2015. One year later, only three microleasing contracts with a total value of USD 4'759 were placed. In the same period, at least three transactions did not materialize due to slow processing by Credicampo.

Nonetheless, significant achievements were made at the PFI level:

- Credicampo now has trained personnel and knowledge to develop new products corresponding to the needs of small entrepreneurs in the agricultural sector.
- Credicampo has recognized the importance of opening agencies in the western part of the country to better serve their clientele.

Financial sector level

There was no general impact on the deepening of financial inclusion.

However, it is important to note that during its implementation the Agricultural Development Bank (BFA) has been developing a product similar to microleasing, basically a credit for productive assets, but less expensive than the microleasing product. It was released end of 2017, serving the beekeeping sector - among others.

4. LESSONS LEARNT

There is a broad range of lessons learnt from this pilot. Unfortunately, challenges heavily affected the project implementation and resulted in delay and limited numbers of placements. While we would like to highlight the importance of partner selection and crucial organizational strengthening of partners, there are some additional aspects to be mentioned under lessons learnt as follows:

A) Aspects identified as relevant by the actors:

- Credicampo, asset suppliers, and trade unions highlighted the importance of a **feasibility study** during product development, setting the tone for the pilot implementation.

- **Organizational strengthening.** Credicampo perceived design and implementation of staff trainings as critical learning on good piloting practices, besides generation of important institutional know-how.

B) Timeframe & design:

- Calculate **three to four years** when introducing microleasing with existing organizations (vs. green fielding). Even if experiences from other regions are available and integrated in design and implementation it is too complex to implement within 18 months.
- Start with feasibility study and thorough pre-selection of partners, followed by value chain analysis, product development and a longer period of sensitization including small pilots, product adjustments, trainings. Finalize with roll-out and an ongoing systematization.

C) Selection of sector:

- Select sector and value chains with a **critical mass of clients and a variety of assets**, otherwise implementation and later scaling are unrealistic.
- Financial service provider and the asset suppliers should be **involved in selection of sector** and value chains, as they have relevant experience to add.
- If possible, not pilot in agriculture sector, where climate is a highly unpredictable external factor. Awareness of risks for products linked to international market dynamics and compliance with high quality requirements (especially for export) required. Rather **proof the case in a commercial sector** first (e.g. hospitality, small shops, transport).

The anticipated regulation was postponed for 12 months, so beekeepers were less interested in acquiring the necessary assets and during the 2015/2016-harvest the honey price fell by more than 40% due to regional and international market dynamics. This insecurity heavily discouraged beekeepers from any investment.

D) Selection of Financial partner:

Additionally, to the selection criteria outlined in the application, the following aspects should be considered:

- Solid position in the microfinance market
 - Ensure common understanding around **expected financial investments** for all involved parties from the beginning. Thorough analysis of the partners at a very early stage. Financial partner needs to understand costs for extensive training of staff and promotion efforts (which exceed any credit product requirements).
 - Review financial indicators to ensure **sufficient capital for leasing** is available or mechanisms in place to mobilize the necessary funding.
 - Check other indicators, such as **organizational change resistance** on all levels and an overview on planned external and internal projects (including transformations, etc.).
 - Cost sharing between implementor and TA recipient to be agreed considering the practices and offers in a specific country context. It is challenging to cooperate with entities in regions used to generous distribution of ODA funding.

Credicampo decided at the end of the intervention to apply for transformation into a regulated entity. Further collaboration and support was not justifiable as Credicampo was not willing to invest of their own resources to investigate legal requirements for their microleasing product after transformation. Additionally, they decided to abandon the beekeeping clients from one day to another, due to unsatisfying results.

Credicampo was very interested and engaged in developing and launching microleasing, unfortunately they did not have the required flexibility to quickly adjust the product to clients' needs.

- Vision of the senior management, with commitment of serving the low-income segments of the population and supporting their capitalization processes
 - **All potentially involved departments of a financial service provider** need to be on board and understand the implications of such a pilot.
- Involvement in the selection of sector and the process of design and implementation of the new product, and strengthening of staff capacities
 - Ensure ownership by involving them in the sector selection and clearly **link this to their existing clientele and sector expertise**. Check whether this corresponds to interests of potential asset suppliers and covers real needs of micro enterprises.
 - **Rigorous agreements required to frame commitment of their staff**. Need to ensure not only senior management and branch managers are committed, but especially also the loan officers. It has proven to be better to have **exclusive microleasing officers** instead adding microleasing into general loan officer's portfolio. Microleasing is a complex product and loans are easier to sell.

- Conditions must be created to establish strong linkages with asset suppliers to **encourage collaboration – on both sides**. Requires strong partners with proper structures in place. Loan officers need to understand the asset and the sector, same as the asset suppliers need to understand the financial product and its conditions.

In the piloting there was a weak relationship between Credicampo and the asset supplier companies, this hindered the achievement of results.

We recommend selecting the partner financial institution in a competitive process in which they submit an application and elaborate how they will contribute to the project.

At Credicampo only few staff were involved in microleasing and no internal support was available to facilitate and accelerate client engagement.

E) Selection and collaboration with other partners (asset suppliers, technical assistance providers):

- Investigate together with **asset suppliers** which **sector** to target and what equipment they want to promote via microleasing. Check whether this corresponds with interests of potential financial service providers and covers real needs of micro enterprises.
- The **ecosystem of asset suppliers must be considered** when establishing the production chain to guarantee geographical coverage, availability, variety and prompt response. Ensure proper training for equipment use, quick delivery of asset and availability of quality support and maintenance, when needed.
 - Rather partner with well-established asset providers who are widely represented in the country, have experience with stock, maintenance etc. or, if there are no such partners available, include capacity building for local informal asset providers.
 - By culture microentrepreneurs do not use equipment maintenance services. They question the payment for such service especially because the service offered by the suppliers is considered expensive and often not of high quality.
 - Calculate resources for technical assistance to support the client in asset selection and offer additional training on how to take advantage of the asset and thereby reduce time to reach increased productivity and achieve income objectives.
- The technical assistance implementor needs in-depth knowledge of the sector to identify key actors of the business model and allow establishing active links between all involved parties.

None of the asset suppliers within the beekeeping sector were ready to meet the demand for equipment. In the specific case of piloting for the 2015/2016 season, Ceramiel did not have any demonstration equipment and Miele Joya de Ceren only had one model.

During the promotion stage, radial spaces were designed, however, this strategy was changed by telemarketing and equipment demonstration days and simulation of payment scenarios - actions that demanded joint work and meant a clear improvement of the promotion strategy.

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ⁱ The World Bank Group (2017). World Development Indicators database. Washington, DC. <http://data.worldbank.org>. Accessed (15/08/2017)

ⁱⁱ Heritage Foundation, (2017) Index of Economic Freedom, <http://www.heritage.org/index/ranking> Accessed (18/08/2017)

ⁱⁱⁱ The World Bank Group (2017). Worldwide Governance Indicators database. Washington, DC. <http://databank.worldbank.org>. Accessed (18/08/2017)

^{iv} Oxford Poverty and Human Development Initiative (2017). Global Multidimensional Poverty Index Databank. OPHI, University of Oxford. http://www.dataforall.org/dashboard/ophi/index.php/mpii/country_briefings Accessed (17/1/2017)