

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

1. DEVELOPMENT RELEVANCE

Economic and poverty context

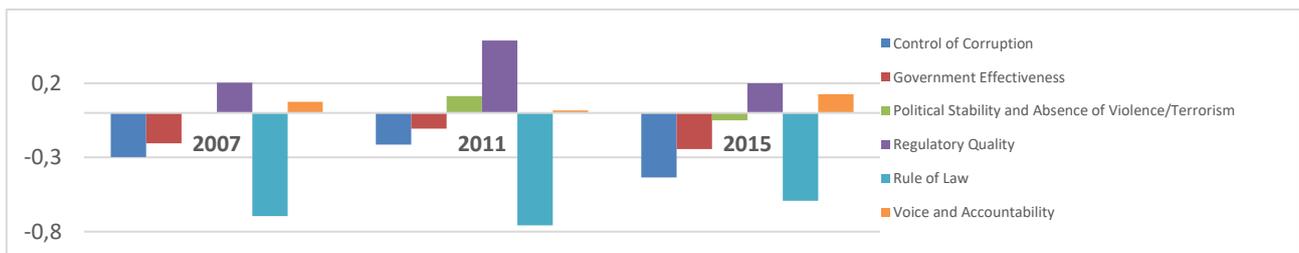
In the period 2013-2016, El Salvador experimented an economic growth of 1.96% of gross domestic product (GDP) and a reduction of the annual inflation rate from 1.7% in 2012 to 0.6% in 2016. Despite these improvements, the country still faces severe challenges, e.g. low added value to production, low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

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.

Figure 1: Governance indicators (El Salvador, 2007-2015)



Account ¹ (2014)	Formal savings (2014)	Formal borrowing (2014)	Global microscope (2016)
37%	14%	17%	13/56

Figure 2: Selected indicators from Global Findex by the World Bank (2014);.

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, 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.

¹ Data for individuals aged 15+

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, 3) fixed-term deposits from partners. The largest source is foreign, amounting to USD 18.23 million in 2016, or 83% of its total financing. To date Credicampo has 10 branches, distributed in the eastern and paracentral zone of the country.

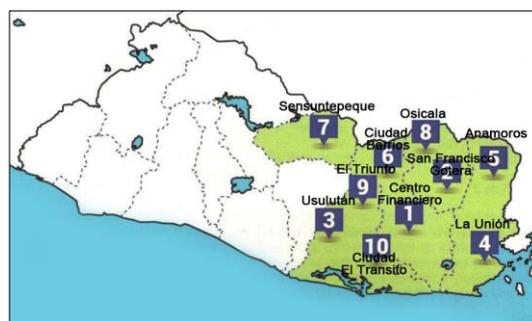


Figure 3: Credicampo branch network El Salvador 2015

2. INTERVENTION APPROACH

Capacity building needs

The credit supply of microfinance institutions in El Salvador focuses mainly on consumer and trade sectors while mechanisms for financing productive assets were largely inexistent. There are constraints on access to financial services related to widespread informality for MSMEs, such as limited or not accepted collateral, 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.ⁱⁱⁱ

The intervention intended to pilot microleasing with one small value chain to study the potential for replicating the product for scale in similar value chains. Beekeeping was selected due to prior experience in this sector in El Salvador and upcoming regulations forcing beekeepers to purchase new equipment for continued access to regional and international export 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>	Please refer to the FSW-03 feasibility study on microleasing in Latin American markets for background information relevant to partner selection. ^{iv}
Establishment of the legal and operative procedures to implement the new product in the partner financial institution	<p>a) Establishment of the microleasing mode. In partnership 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 among beekeepers; 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.</p> <p>b) Logo design and graphic material. A logo for microleasing and other graphic material related to promotion were developed for Credicampo.</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>b) A total of 300 micro-leasing contracts were expected by end of the intervention.</p> <p>c) only three contracts benefitting a total of 14 beekeepers were achieved.</p>	<i>Please refer to Section 4. Lessons Learned for a detailed analysis of why the roll-out did not scale as expected.</i>														
Adaptions and modifications in the procedures designed according to practical experience	<p>a) Technical assistance for asset suppliers. Linked supplier companies with a food safety unit (MAG DIPOA) to ensure certification of the leased equipment.</p> <p>b) Telemarketing. Workshops were held and a total of 775 leads were generated.</p> <p>c) Promotional workshops. Fourteen promotional events were held in different areas of the country, bringing together the equipment available for leasing and presenting payment options to interested parties. The workshops targeted people interested in the equipment, the endproduct or telemarketing.</p> <p>d) Adjustment of IT system, administration and accounting. In collaboration with a consultant software was developed to incorporate leasing into Credicampo's system.</p>	<p><i>Technical assistance for the asset supplier was not planned but turned out to be a critical component.</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>	<i>These activities were not fully carried out as only three leasing contracts were issued, too few for such exercises.t</i>														

3. RESULTS ACHIEVED AND NOT ACHIEVED

Client level

The project succeeded in placing three microleasing contracts.



Tito David Flores (58 years, married, family group of five people)³
Mr. Flores leased a honey extractor, valued at USD 1'200, in April 2016. He owns 140 hives and has an average annual income of USD 18'500, of which USD 3'300 is derived through beekeeping and related transport services.

Under the new legislation Mr. Flores, would have had difficulty exporting his honey without the new honey extractor. Productivity improves include a 40% reduction in extraction time and a 15% increase in income over his baseline.

Nicolas Amaya Rivas (61 years, married with three children)³
Mr. Rivas leased a honey extractor and a decapper table, valued at USD 1'720, in October 2016. He earns his income primarily through agriculture-related activities, primarily beekeeping, and has an average income of USD 5'000, of which 40% is profit.

The acquired assets will be shared with another beekeeper. Their main benefit has been to improve the extraction of honey from the honey comb, thereby increasing overall volume and meeting export requirements. Nicolas increased production volume around 20%, leading to a similar increase in earnings.



³ Application statement submitted to Credicampo.



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

Mr. Hernández leased a honey extractor, a funnel and a decapper table, valued at USD 1'839, in October 2016.

He raises livestock, deriving his primary income from selling his livestock and milk., but also has 120 beehives, earning an average annual income of around USD8'000, around 50% profit.

This contract benefits eleven additional beekeepers in the area, who also learned about best practices and materials to improve productivity and better meet quality and safety requirements. The group is currently negotiating with an export company to buy their honey and increased their earnings by 10% over the baseline.

Partner financial institution level

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 have social and financial impact results on institution level.

Due to limitations faced by Credicampo in adapting the product, the implementation of the leasing program 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 personnel trained to develop new products that cater to the needs of small entrepreneurs in the agricultural sector.
- Credicampo recognizes the importance of opening agencies in the western part of the country to better serve their clientele.



Figure 4: Credicampo branch - San Miguel

Financial sector level

There was no general impact on the deepening of financial inclusion. During implementation the Agricultural Development Bank (BFA) developed a credit for productive assets that served a similar purpose and market, but was less expensive than the microleasing product. It was released end of 2017, serving, among others, the beekeeping sector.

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 to set the tone for the pilot implementation.
- **Organizational strengthening.** Credicampo valued the staff trainings and appropriated the knowledge.

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.

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.
- The financial service provider and asset suppliers should be involved in sector and value chain selection.
- If possible, pilot in a non-agricultural sector, where the climate is a highly unpredictable external factor. Awareness of risks for products linked to international market dynamics and where strict compliance with regulations (especially for export) is required. Rather **prove 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:

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

- Solid position in the microfinance market
 - Ensure common understanding with regard to **expected financial investments** from the beginning. The financial service provider must understand the need for extensive training of staff and promotion efforts (which exceed those for credit products) and be willing to bear the associated costs.
 - Review financial indicators to ensure **sufficient capital for leasing** is available or that reliable mechanisms in place to mobilize it.
 - Check other indicators, such as **resistance to organizational change** and an overview of planned external and internal projects.
 - Cost sharing between implementor and TA recipient to be agreed considering the local 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 their own resources to identify legal requirements for their microleasing product after transformation. Additionally, they abruptly dropped the beekeeping clients due to poor results, after initial interest.*
- Vision of the senior management, especially commitment to serving the low-income segments of the population and their capitalization process.
 - **All potentially involved departments of a financial service provider** need to be on board and understand the implications of such a pilot.
 - 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 staff commitment**. Need to ensure not only senior management and branch managers are committed, but especially the loan officers. It has proven better to have **exclusive microleasing officers** over adding microleasing to a loan officer's existing portfolio
 - Collaboration between the financial service provider and asset providers is essential, as each party needs to understand the others role in providing the financing and the asset, respectively. *There was a weak relationship between Credicampo and the asset suppliers, hindering results. We recommend selecting the partner financial institution through a competitive process. Few Credicampo staff were involved in microleasing and there was little internal support.*

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

- Select the sector and type of equipment to be leased with both asset suppliers and with MSMEs.
- The asset suppliers must be able to guarantee geographical coverage, availability and variety of product, and prompt response to potential sales as well as for customer support and maintenance.
 - Partner with well-established asset providers widely represented in the country, have experience with stock, maintenance etc. Plan for capacity building for informal asset providers.
 - Microentrepreneurs tend not to use equipment maintenance services. They question the payment for such service through asset providers because it is expensive and perceived to be low quality.
 - Include TA to support the client in asset selection and offer training on fully leveraging the asset.
- 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's Joya de Ceren only had one model.*

In conclusion, despite the clear demand for investment into productive assets coming from MSMEs, leasing through financial service providers and asset providers is complex, time-consuming and requires significant investment for success.

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 See the FSW-03 final report available here <http://scbf.ch/feasibility-studies/> as well as the 2015-02 and 2015-03 final reports available here <http://scbf.ch/product-upscaling-interventions/> for more information on the entire project.

^{iv} Ibid