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Argidius Foundation

EVALUATION OF THE VARIABLE PAYMENT OBLIGATION (VPO) TRUST PROGRAMME: *A Developmental Evaluation*

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Submitted by Itad

Results in development

Disclaimer

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Acronyms

AF	Argidius Foundation
ANDE	Aspen Network of Development Entrepreneurs
BAC	Banco de América Central - Credomatic
BDS	Business Development Services
BPN	Business Professionals Network
CADIN	Chamber of Industry of Nicaragua
CSR	Corporate Social Responsibility
CAPEX	Capital Expenditure
DAC	Development Assistance Committee
EGS	Enterprise Growth Services
EQ	Evaluation Question
FTE	Full Time Equivalent
HV	High Venture
IDI	In-depth Interview
IR	Inception Report
IT	Information Technology
LAC	Latin America
LF	Logical Framework/ Logframe
LBP	Local Bank Partner
LQ	Learning Question
LT	Long Term
MEFCCA	Ministry of Familial, Community, Cooperative and Associative Economy
MIFIC	Ministry of Development, Industry and Trade
MIS	Management and Information Systems
MoU	Memorandum of Understanding
MIF	Multilateral Investment Fund
MSME	Micro, Small, and Medium Enterprise
NGO	Non-Profit Organisation
NPL	Non-Performing Loan
OECD	Organisation for Economic Cooperation and Development
OIV	Offshore Investment Vehicle
PMU	Programme Management Unit
REN	Network of Nicaraguan Female-Entrepreneurs
SGB	Small Growing Business
SLA	Service Level Agreement
SME	Small and Medium sized Enterprises
ST	Short Term
TA	Technical Assistance
TiiF	Thriive Impact Investing Fund
ToC	Theory of Change
ToR	Terms of Reference
USAID	United States Agency for International Development
USAID-PACE	USAID - Partnering to Accelerate Entrepreneurship initiative
VPO	Variable Payment Obligation
VPOP	Variable Payment Obligation Programme

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Executive Summary

Introduction to this evaluation

This independent evaluation was commissioned by the Argidius Foundation (AF) in cooperation with Enclude Ltd, the programme manager, to assess progress and performance to date of the Variable Payment Obligation Programme (VPOP) which aims to support Latin American (LAC) Small and Growing Businesses (SGBs) to grow and expand while becoming sustainable and competitive in the markets they operate. The evaluation covers VPOP activities from inception until end November 2017. This corresponds to Phase 1 of the programme – a pilot phase designed to test the concept in Nicaragua. The evaluation has a primary focus on learning, given the maturity and status of implementation of the programme.

Context: The VPO Programme

The VPOP, established in 2015, is an innovative market driven initiative that aims to address the lack of access to formal financing by SGBs which are asset-constrained. The programme was officially launched in April 2016 in Nicaragua with: Enclude as the main contractor to lead, structure and manage the programme; Agora as the EGS delivery partner (and to support in loan origination and monitoring); BAC as the Local Bank Partner (LBP); and the Miller Centre of the University of Santa Clara as an advisor for the loan product and the third party funding mechanism. The VPOP provides cash flow-based financing, alongside Enterprise Growth Services (EGS) to SGBs with ambition to grow and help them with access to right-fit finance, and to increase their skills and knowledge to that end. The financing is channelled through BAC. The VPOP seeks to demonstrate that bundling an appropriate credit product with adequate EGS, can lower the borrower's risk of default and increase the loan's impact on the business' growth in a financially sustainable manner, and aims to showcase that banks can offer financing based on cash flow rather than collateral.

Key Evaluation Findings

What is the nature and scope of enterprises selected by the VPO Program for support, and how does the VPO Program select enterprises?

The target market for the VPOP is wide and diverse which has resulted in a portfolio of SGBs that is varied in terms of entrepreneurial capacity and business development stage. The VPOP has agreed terms with 10 SGBs for a VPO loan and Enterprises Growth Services (EGS). All beneficiary SGBs are local female owned. Seven out of 10 of the SGBs supported are in the agro-industry sector, two in textiles, and one in education. SGB annual revenues pre-VPOP range between US$70,000 and US$220,000, with employees numbering between seven and 20 full-time equivalent (FTE) (mean = 11 and median = 11). Of these 10, five are *'high venture'* SGBs, who might only be sometimes asset constrained with annual revenues above US$150,000 and clear capacity to grow; three are *'in progress'*, who are asset constrained with annual revenues between US$100,000 and US$150,000, and capacity to grow with support; and two are *'early stage',* who are asset constrained with annual revenues below US$100,000 and have capacity to grow with intensive support.

Agora has been the main driver for creating the pipeline of SGBs. Although its main strategy to source new potential clients has been to leverage on partnerships with other EGS providers such as Thriive and TechnoServe (70% of beneficiary SGBs). Agora has also been proactive in identifying alternative channels, such as other existing business relationships. The 10 SGBs with a loan approved were selected according to the following process: (1) Agora interviewed over 65 potential beneficiary SGBs in Managua, Somoto, Masaya and other locations (either face to face or via a conference call); (2) for those SGBs that passed the initial screening set up by Agora, a credit bureau check followed. Of the 65 companies, 42 SGBs passed the credit bureau check; (3) BAC and Agora visited 36 of those SGBs. For 28% (or 10) of these visited companies, a loan application was submitted by the loan officer and signed off by the SME business head, then submitted to the Bank's Credit Committee. 100% of the submitted applications were approved by the committee.

Beneficiary SGBs so far, fit with key target market selection criteria – SGBs that are asset constrained and have potential for growth.

What are the key bottlenecks/ growth opportunities facing enterprises that are selected, and how do these vary by enterprise and other types?

The evaluation's findings support the notion that access to financing with adequate terms and conditions is the most pressing constraint for aspiring SGBs in Nicaragua. Access to financing is severely hindered by the lack of strong collateral, complex paperwork requirements, and financial institutions' general unease with lending to this sector. SGBs receive limited support from the Government of Nicaragua whose priorities are more oriented towards benefiting larger corporations.

From the perspective of BAC, the appeal of lending to the SGB market segment is limited by a number of factors including: (1) Market context and environment: **Legal framework** for SGBs is out of date and perceived as unclear; **Tax system** does not create incentives for SGBs to grow; (2) SGB-specific: **Higher risks** associated with making loans to SGBs, linked to **limited repayment culture** by SGBs – trigged by the Government of Nicaragua when in 2008 it encouraged MSMEs to default on their debt obligations to the microfinanciers, and **deficient or lack of sound accounting systems** by SGBs that hinders banks' ability to undertake due diligence.

From the perspective of the SGBs, a range of bottlenecks concerning access to financing in addition to those cited from BAC include: (1) Market context and environment: **Legal barriers to accessing collateral** (such as, personal or business, property and land) limiting SGB access to attractive lending rates; (2) Finance provider-specific: **Lack of flexibility** for repayments under working capital constraints; **Cultural barriers** such as lack of mutual trust by the financial sector and SGBs; and (3) SGB-specific: **Lack of knowledge** by SGBs about financial service providers and products offered.

SGBs mentioned other **non-financial issues** which are constraining their growth ambitions, specifically: (1) Market context and environment: Limited **access to sector relevant information and connections** to increase their customer offer – i.e. market studies; **High transactions costs** when exporting goods out of the country; **Unfair competition** from the informal sector—as they do not have any official obligations – i.e. payment of taxes; and (2) SGB-specific: Difficulty to **attract skilled personnel** by SGBs – given limited remuneration packages they can offer.

The extent to which the SGBs' growth ambitions are inhibited vary according to their entrepreneurial capacity and business development stage, i.e. whether they are 'high venture', 'in-progress' or 'early stage'.

What is the nature, scope, and costs of the support provided by the VPO Program to these enterprises and how aligned are these with the bottlenecks and opportunities?

The cashflow-based debt finance product expected limited collateral requirements (i.e. guarantors and pledge over assets). Other main general features of the loan are: **Value:** between US$12,500 and US$50,000 (minimum of 25% of SGB annual sales); **Purpose:** capital expenditure (capex) around 80% and working capital around 20%; **Term:** 5 years; **Terms and Conditions, interest rate:** scalable; from 12% during the first two years, annually increasing by 2% until year 5 – to incentive early repayment of the loan; **Terms and Conditions, disbursement fee:** 1.25%; EGS fee at disbursement (of capital amount): 4%; annual monitoring and evaluation fee (of outstanding amount): 1.75%.

EGS is designed to help the entrepreneurs better manage this capital infusion to their SGBs, to provide support in loan monitoring and to increase skills and knowledge of the SGBs. These EGS are arranged flexibly, selecting from eight modules, which are delivered via a group or class approach and/or through individual one-to-one sessions, responding to the stated needs of the selected SGBs. Modules comprise Cash flow; Accounting; Marketing; Sales; Strategy and Key Performance Indicators (KPIs); Quality; Productivity; and Communications and Negotiations skills. To date, EGS modules Strategy and KPIs, Communication and Negotiation Skills, Productivity, and Quality have not been delivered or only delivered to one or two SGBs.

The cost of EGS services delivered by Agora totals US$177,661. Comparing this cost of delivery with revenues collected (US$10,285), observe that costs outweigh revenues by a large extent. Since inception, 29% of the costs has been allocated to pipeline development and appraisal of loan application, and 22% has been allocated to module development and design. These costs will be decreasing during 2018, as pipeline efforts are taken over by BAC and module design will be mostly completed, while costs allocated to BDS delivery will increase.

Current services provided by the VPOP – particularly financing – overall, address the most pressing needs of the SGBs. **The cashflow-based debt finance product** enables SGBs to access sufficient finance with adequate terms and conditions, enabling them to undertake their priority investments and working capital against their business plans. Crucially for SGBs, the debt servicing (interest and principal repayment) is based on cash flow generated during the preceding month – so SGBs can adjust repayments according to their revenue fluctuations. Additionally there is no need to provide a mortgage-based collateral to secure the financing, which is significant to most of the SGBs who are asset constrained, with a few unwilling to put up their property as collateral.

EGS are generally seen as complementary to financing and are meeting the needs of the beneficiary SGBs, helping to facilitate the achievement of their business and investment plans. The relevance, level and type of EGS very much depends on the stage of development of the SGB: *Less mature SGBs* acknowledge the demand for EGS services provided by the programme structured in modules, providing basic information on cash flow, accounting, sales and marketing. *More mature SGBs* (that have already benefited from other EGS initiatives in Nicaragua) demand flexible EGS that are tailor-made to their sector and market, as well as practical support in accessing and negotiating with potential clients.

Regarding the sustainability of services, the pilot has demonstrated that there is demand for the VPO product, and although it has higher transaction costs than an average SME or corporate loan, it is a profitable business for BAC. In addition, the VPO product is contributing towards supporting the bank in tapping an SME sub-segment of the market – SGBs with strong potential to grow but that still do not have a reference bank. At present the delivery of EGS is not profitable for the VPOP, and hence not on course to be financially sustainable. Given the varying levels of maturity and capacity of beneficiary SGBs, Agora has not been able to follow the standardised EGS delivery approach as planned but has incurred additional costs to adapt the model to the demand, capacity and skills of each beneficiary SGB.

The bank is in the process of mainstreaming the VPO product with a view to continue to target a commercially viable SME sub-segment and exploit product cross-selling opportunities. Since BAC started advertising the product on its website a few months ago, 10 requests for information about the VPOP have been received. Given the context in which the product has been introduced, this suggests that there is indeed demand for the VPOP in Nicaragua – albeit the market is currently small.

Do the services provided by the VPO Program create value for enterprises? What evidence, quantitively as well as qualitatively, can the VPO Program and the enterprises point to supporting the notion that the VPO Program services make a difference for key performance indicators?

Effects from the VPOP observed and captured against KPIs should be considered as tentative, given effects are still emerging and small sample size. Specifically:

Changes in SGBs business and management practices: the seven SGBs claimed that EGS delivered through the programme has contributed to reinforced marketing processes; and a high proportion of SGBs believe that the VPOP has helped them improve their accounting and financial processes.

Changes in SGB performance: 86% of SGBs report that their operational efficiency has improved; 86% of SGBs also claim that they have improved the quality of their products as a result of the programme.

Changes in financial performance and employment: Overall, the results of the analysis of company performance are mixed – some have increased and some have decreased, and at this point, change in financial performance for the seven SGBs in the sample cannot be attributed solely to the VPOP. Overall in the sample of seven, there has been a 16% increase in revenue, 15% increase in profits, and 27% increase in employment (from 81 to 103 staff). For the other three SGBs that joined the VPOP recently, it is too early to tell.

The additionality of the programme is broadly driven by: (i) the novelty of the product and approach, including packaging of products and services; and (ii) the reach of the programme to asset constrained SGBs. Overall, the **VPOP financing product itself is additional**, both in terms of innovation and reach. Most interviewed SGBs mentioned that without the VPOP financing product they would have financed growth organically using the company profits or personal loans, without seeking alternative sources of financing – thus growing and expanding at a slower pace. **SGBs in Nicaragua have access to a range of free or heavily subsidised EGS offered by governmental and non-governmental organisations**. Against this context, **it could be questioned whether the EGS provided by the programme, as originally designed, is additional for more mature SGBs** that have previously joined capacity building activities with support from public and private institutions, and/or have already established financial and accounting systems. This **is a complex question**, as companies need to constantly engage in continuous learning to evolve, and in some instances, some level of repetition is part of consolidating previously learning acquired. Moreover, to assess additionality stages, types, modes, mediums, and other dynamics at play during the EGS, delivery should be assessed. Agora is deviating from the initial EGS programme to adapt and ensure that the services it provides to mature SGBs are valuable and contribute to enhance their performance.

Albeit there are few **non-governmental organisations** in Nicaragua that offer a combination of financing plus EGS – Thriive and BPN Foundation – these seem to be catering for the needs of early stage SGBs that are committed to grow, but still need to 'get the basic institutional and operational arrangements in order'. **In comparison, the VPOP, perceived as a combination of financing plus EGS, becomes more additional to more established SGBs.** It remains to be seen how this fund – that at present has attracted US$350,000 in financing from investors – will influence the additionality of VPOP.

What is the willingness of enterprises to pay for these types of services in the future?

The VPO credit product is perceived as a commercially viable product by the bank. Interviews with BAC representatives confirmed that the VPO product has begun to contribute towards the profitability of BAC. Even if at a marginal level, the bank is now able to forecast what to expect in terms of portfolio growth for the new product according to realistic scenarios of number of actual borrowers, and their repayment speed in relation to the growing interest rates set up in the VPO loan. In addition, the bank sees the potential the VPO product offers to tap the SME sector, a niche market where there are interesting product cross-selling opportunities.

The VPOP as a vehicle to educate SGBs on EGS as a value-added service is perceived as worth paying for and hence contributing towards the sustainability of the EGS ecosystem**.** Some VPOP target SGBs have already gone through several free-of-charge capacity building initiatives, and when these SGBs start receiving VPOP EGS, they stated that they value those charged-for services, provided they are fit-for-purpose. However, some beneficiary SGBs are not aware of how much they pay for EGS. The ET recognises that this a long-term process and EGS providers will need support from donors in the short term to operate.

Conclusions

The pilot has proven that the VPOP business model is valid – proof of concept has been achieved – and products and services provided to SGBs are **overall additional to the Nicaragua market**. It is still too early to reliably assess effects of the pilot on beneficiary SGBs and on delivery partners, however some positive intended effects are starting to emerge in line with the ToC, and some additional unintended positive effects are emerging, along with a few negative. However, changes in financial performance for the seven SGBs in the sample cannot be attributed only to the VPOP as there are other contextual and operating factors contributing to these results. The sustainability of the programme in Nicaragua will be contingent on Enclude, Agora and BAC more effectively institutionalising the programme, formalising governance and management arrangements, successfully scaling-up into an additional country, and incorporating lessons learned from the pilot.

Recommendations to the VPO Programme and the sector

Our Recommendations are intended to facilitate the VPOP to transition from a pilot project in Nicaragua to a regional programme in Central/Latin America region, and to support learning in the sector recommendations. Specifically we recommend:

Targeting of Enterprises

1. Promote a gender-forward approach so non-female led SGBs that fit the VPOP profile can also benefit from the programme contributing towards achieving programme objectives;
2. Prepare communications materials describing the main features and achievements of the VPOP, as well as the role of each partner and include in screening and due diligence process, and promote the VPOP through a well-respected non-governmental organisation;

Technical Services Provision

3. Modify loan origination, by:
    - Ensuring that potential SGB applicants fully understand the terms and conditions of VPO services during the application process – including the fees to pay towards EGS;
    - Updating and standardising the investment plan template, setting clear limits for capex and working capital;
4. Modify the VPO Financial Product, by:
    - Introducing a credit repayment grace period (three months) for SGBs that will be: i) acquiring and importing equipment to Nicaragua or/and ii) refurbishing the production plant to accommodate new equipment with VPOP support;
    - Continuing to ease the asset pledge to capable SGBs;
    - Designing and applying a credit scorecard that reflects the profile of the VPOP target market;
    - Supporting beneficiary SGBs (in-progress or HV) that are performing above the average in terms of: i) loan repayment and; ii) effectively absorbing the capacity building obtained through the EGS with working capital financing;
    - Increasing flexibility and allowing to go beyond the current maximum ratio of revenues to loan value (25%) when the potential borrower is a consolidated SGB with efficient processes and procedures, has a sound investment plan and is financially sound;
5. Modify Provision of EGS services, by:
    - Formalising the provision of EGS with the beneficiary SGB from a MoU to Service Level Agreement (SLA). The MoU currently signed is insufficient and does not define the relationship, rights and obligations of each party;
    - For early stage or in progress SGBs, before they can start the loan application process and benefit from financing, they should provide Agora with a business plan;
    - Updating the pre-credit report that goes to the credit committee by adding more quantitative analysis on growth expectations by applicant SGBs; and

- Adapting EGS delivery offer to SGBs based on the stage of their development and absorption capacity (early stage, in progress or HV).

Scalability

6. Ensure sufficient resources are available and allocated to allow for effective programme replication/scale up;
7. Avoid launching the programme before the institutional arrangements, operational processes and procedures had been designed and tested;
8. Build on the successful trust-based VPOP working relationship and formalise for scale up;

Partnership selection and partnership structure

9. Clearly define actual roles and responsibilities of each delivery partner based on their capacity, reflected in a regularly updated VPOP Manual;
10. Before engaging investors, define how to integrate them into the VPOP. Charging third party investors with fees to invest their money in the VPOP is an unnecessary barrier. Sharing risks and increasing investable resources into the VPOP could be crucial to boosting the growth of the selected SGBs; and
11. To encourage effective learning uptake, establish a knowledge and information system so lessons learned can be taken across VPOP countries.

1. Introduction

This independent evaluation was commissioned by the Argidius Foundation (AF) in cooperation with Enclude Ltd, the programme manager, to *assess progress and performance to date of the Variable Payment Obligation (VPO) Programme (pilot phase in Nicaragua) towards supporting Latin American (LAC) Small and Growing Businesses (SGBs), to grow and expand, while becoming sustainable and competitive in the markets they operate*.

The evaluation also makes recommendations towards informing the next phases (replication and expansion) of the VPO Programme (VPOP). The evaluation intended to review the coherence between the design of the project, the delivery mechanism and the results attained to date – with a particular focus on the end beneficiaries, the SGBs – and has a primary focus on learning, given the maturity and status of implementation of the programme.

The Terms of Reference (ToR) for the Evaluation are attached in Annex 1 in Volume 2 of the report. This is the first evaluation commissioned by AF of its supported projects and programmes.[1]

1.1. Structure of this Report

The report is structured as follows:

- Section 1 lays out the **background and context** of the evaluation;
- Sections 2-7 present **main findings** organised around the OECD/DAC evaluation criteria – Relevance, Efficiency, Effectiveness, Impact, Sustainability - and also Learning:
  - Section 2: assesses the **strategic relevance** of the programme to partners, Nicaragua's development strategic priorities and SGBs' needs and priorities;
  - Section 3: assesses the **efficiency** of VPOP's main services; and
  - Section 4: assesses the **effectiveness** of the delivery model of the programme and its contribution to meeting its objectives and targets;
  - Section 5: identifies main **emerging impacts** (mid to long term effects) resulting from the VPOP;
  - Section 6: provides a light touch analysis of the **sustainability** of the VPOP; and
  - Section 7: briefly discusses VPOP **learning** processes and uptake.

At the start of each of findings section, we present 'a summary of key findings', answering each of the relevant evaluation sub-questions.

- Section 8: Concludes the evaluation and offers some **recommendations**.

[1] In 2016, AF's management team identified the need to better understand the results achieved by its partners and their programmes – both individually, and across the portfolio. In order to do so, as a first stage, AF (with Itad support) developed a Theory of Change (ToC) to identify expected outcomes causal pathways between AF interventions and its ultimate goal. As a second stage, AF decided to commission evaluations of selected programmes under its portfolio to test the ToC as well as to assess their progress and results to date.

1.2. Report map: Where to find the answers to the evaluation questions

This section directs the readers where to find the answers to the evaluation.

OECD/DAC's evaluation criteria	Evaluation sub-question	Answer to the sub-evaluation question
Relevance	1.1 Is the VPOP addressing critical constraints to SGBs growth in Nicaragua?	See Section 2.1.1
	1.2 Which services/combinations of services are the most important/valuable for small businesses in contributing to growth?	See Section 2.1.2
	1.3 Is the VPOP aligned with the Nicaraguan government strategic priorities?	See Section 2.1.3
	1.4 Are local partners' (BAC and Agora) strategic priorities aligned with the main objectives of the VPOP? Are they committed to the VPOP?	See Section 2.1.4
	2.1 To what extent are the services provided by the VPO Programme meeting the needs of the businesses served (both VPO loans and BDS)	See Section 2.2.2
	2.2 What is the additionality of the VPO Program? (additionality of (a) the financing component, (b) the BDS, and (c) financing plus BDS combined**)**	See Section 2.3
Efficiency	6.1 Which services/combinations of services are the most important/valuable for small businesses in contributing to growth in relation to cost of delivery? [ToR EQ 8 – LQ 2.2.] And for female-led business?	See Section 3.1
	6.2 Does the VPOP have adequate and cost-effective systems and procedures in place to ensure compliance of the VPOP manual?	See Section 3.2.4
Effectiveness	3.1 Is the VPOP selecting and engaging with the right SGBs? [ToR EQ 9 – LQ 2.3]	See Section 4.2
	3.2 To what extent are beneficiary SGBs locally owned? [ToR EQ 17 – LQ 2.5] (And female led)?	See Section 2.1.2
	3.2 To what extent is the VPOP delivery model in Nicaragua [BAC (financing partner), Agora (BDS provider)] effective? [ToR EQ 10 – LQ 2.1.1]	See Section 4.3
	3.3 What are the main outcomes of SGBs which receive VPO loans and BDS (new skills/knowledge/improved business and management practices, etc; revenues growth/job creation/investment raised)? [ToR EQ 1]	See Section 5.1
	3.4 To what extent does the VPOP meet the objectives and targets set by AF?	See Section 4.1
Impact	4.1 What are the effects - for Agora, BAC and beneficiary SGBs - (positive and negative) of the VPO's revenue generation model? This question will consider barriers to entry, whether the mechanism is a disincentive to participating, and whether it incentivises improved performance. [ToR EQ 12]	See Sections: 5.2 (SGBs) 5.3.1 (Agora) 5.3.2 (BAC)
	4.2 What unintended results (positive or negative) did the VPOP produce? [ToR EQ 15]	See Sections: 5.4.1 (SGBs) 5.4.2 (Agora and BAC)
	4.3 What are the aspects of the VPOP's support that lead to successful outcomes to SGBs (revenue growth/job creation/investment raised)? [ToR EQ 4 – LQ 2.4]	See Section 5.2
	4.4 What are the aspects of the VPOP's support provided that did not lead to successful outcomes to SGBs? (revenue growth/job creation/investment raised) [ToR EQ 6]	See Section 5.2
	4.5 [Attribution]: To what extent are the short and long-term outcomes attributable to the VPOP / did the VPOP contribute to? [ToR EQ 2]	See Section 5.5

	4.6 [Attribution]: What are the other contributing contextual factors to successful small enterprise growth (e.g. social and cultural setting, political and economic trends, parallel interventions, stakeholder actions) [ToR EQ 13 – LQ 2.6]	See Section 5.5
Sustainability	5.1 To what extent is the provision of the EGS sustainable, focusing on the extent to which fee structure is meeting the cost of delivery, and what should a sustainability objective look like in the context of the programme? [ToR EQ 11]	See Section 6.1
	5.2 To what extent is the provision of the VPO product sustainable i.e. - integrated into the main product offering by BAC to SMEs? What should a sustainability objective look like in the context of the programme?	See Section 6.2
Learning	7.1 How is the VPOP learning (a) internally, (b) from others in the sector, and (c) from the USAID PACE initiative/ Argidius partnership? [ToR EQ 14—LQ 5.2 & LQ 5.3.1]	See Section 7.1
	7.2 What are the successful aspects of the support provided that are replicable for the programme expansion? [ToR EQ 5—LQ 2.4.1]	See Section 7.3
	7.3 Are female led SGBs the adequate focus for the VPOP towards achieving maximum impact for Phase II and Phase III?	See Section 7.2
	7.4 What lessons does VPO's experience offer around how banks and international impact investors can most effectively work together to support businesses? [ToR EQ 16]	See Section 7.4

1.3. Context for the Evaluation

Small and Growing Business (SGBs), a sub-set of the SME segment, is the term generally used to refer to established commercially viable businesses with between five and 100 employees and that have strong potential to grow.[2] Unlike most small companies in the LAC region, who are established to provide a source of income for families, these companies are led by entrepreneurs with ambition to generate income beyond that to support their families: to create jobs to the wider community and economy and also to expand to new national or international markets with innovative products/services. Hence SGBs have the potential to contribute to a country's economic growth and competitiveness[3] and ultimately to poverty reduction[4] – especially through job creation.[5]

In Nicaragua, **access to debt financing by SGBs remains a key constraint to unlocking their growing potential.** According to the World Bank's Doing Business report, Nicaragua stands at 101 in the global ranking of 190 economies on the ease of obtaining credit. This is below the regional average the LAC region.[6] Access to credit with adequate terms and conditions is primarily hindered by their **limited ability to provide strong collateral** and to deal with complex paperwork requirements combined with a culture of 'fear' towards the banking system. Banking institutions are generally reluctant to lend to this segment as it is considered risky – due partly to a lack of sector knowledge and adequate processes to assess the capacity to pay by the SMEs. This is combined with the

[2] Source: VPO Proposal to AF, Enclude, 2014.

[3] Goyal, S., Sergi, B. S. and Kapoor, A. (2017). 'Evaluating the BDS Providers and MSMEs: Challenges and Strategic Actions'. The European Journal of Development Research 29(4): 725-744.

[4] The positive correlation between SMEs growth with both job creation and economic growth is inconsistent between small enterprise growth and both job creation and poverty reduction (Beck et al, 2005a, 2005b and 2007) and Ayyagari, M., Beck, T. and Demirguc-Kunt, A. (2007). 'Small and Medium Enterprises Across the Globe'. Small Business Economics 29(4): 415-434.

[5] Kongolo, M. (2010). 'Job creation versus job shedding and the role of SMEs in economic development'. African Journal of Business Management 4(11): 2288.

[6] World Bank. (2017). Doing Business 2017: Equal Opportunity for All. Economy Profile 2017. Nicaragua. A World Bank Group Flagship Report. Washington, DC, International Bank for Reconstruction and Development / The World Bank. P. 9, and 60.

fact that banks generally lack the adequate procedures/systems (i.e. scorecards) and financial products to effectively engage with, and conduct due diligence on the segment to assess its commercially viability. In particular, the structure of financial products generally available in the market at present do not take into consideration cash flow fluctuations of the borrowers (i.e. products are based on fixed payments).

1.3.1 Programme Design

The VPOP, established in 2015, **is an innovative market driven initiative that aims at addressing the lack of access to appropriate financing by SGBs which are asset constrained**. The VPOP provides cash flow based financing to SGBs that have an ambition to grow. It also provides Enterprise Growth Services (EGS) to SGBs. The financing is channelled through traditional commercial banking to showcase that banks can offer financing based on cash flow rather than collateral. The VPOP also seeks to demonstrate that by bundling an appropriate credit product with adequate EGS, it is possible to lower the borrower's risk of default and increase the loan's impact on the business's growth in a financially sustainable manner. Moreover, the programme design incorporates co-financing from third-party investors to enhance the impact of the VPO intervention as well as to reduce the Local Bank Partner (LBP)'s risk (for more details on the programme VPOP ToC, please refer to Annex 2 in Volume 2 of the report).

The VPOP has two core components:

1. **Cash-flow based debt financial instrument** with light collateral requirements (i.e. guarantors and pledge over assets). Other main general features of the loan are (as defined in the pilot in Nicaragua) as follows:
    - Amount: Between US$12,500 and US$50,000 (minimum of 25% of SGB annual sales);
    - Purpose: capital expenditure (capex) around 80% and working capital around 20%;
    - Term: 5 years;
    - Interest rate: scalable; from 12% during the first two years, annually increasing by 2% until year 5 – to incentive early repayment of the loan.
    - Disbursement fee: 1.25%; EGS fee at disbursement (of capital amount): 4%; annual monitoring and evaluation fee (of outstanding amount): 1.75%.
2. The VPOP package is complemented by **the provision of EGS to help the entrepreneurs better manage this capital infusion to their SGBs**, plus support in loan monitoring, increase skills and knowledge of the SGBs. These EGS are arranged in modules, which are delivered in groups or/and in individual sessions, responding to the needs of the selected SGBs. The Evaluators note thatSGBs are not required to produce a business plan as part of the VPOP applications process – but a simple investment plan,

The **VPOP is structured to be deployed in three phases**, with only the first two approved with a specific budget and implementation agreement:

1. <u>Phase 1 (pilot):</u> To test the concept in Nicaragua targeting female-led SGBs – in delivery;
2. <u>Phase 2 (replication):</u> During late stages of pilot implementation, the VPO will expand into at least one additional country in Central America and the Caribbean, incorporating other EGS providers and LBP (giving preference to banks in the regional BAC network) – scoping;
3. <u>Phase 3 (expansion)</u>: Expansion to additional countries that will be aided by the introduction of a loan syndication platform where SGBs in multiple sectors and geographies will gain access to bank and investor sponsored loans (post 2018 – no funding for this phase has been secured yet).

VPOP has benefited from **development grants awarded by AF and USAID-PACE** totalling US$2.2 million to support the set-up and launch of Phase I (pilot) and Phase II (replication) of the programme. Enclude Ltd

('Enclude'), is the programme manager and at present Agora Partnerships ('Agora') – the EGS provider – and BAC Credomatic ('BAC') – the financing partner – are the key delivery partners in Nicaragua.

1.3.2 Evolution of the Programme

The programme was initially articulated through two initiatives supported by AF: i) Technical Assistance (TA) provided by Enclude during 2013–16 to support BAC in Nicaragua to improve its SME lending activities.[7] During this TA Enclude identified the need for the bank to start tapping a sub-SME/SGB segment – for instance the women-owned business segment; and ii) An Argidius – ANDE supported financial challenge in 2012 where the Miller Center for Social Enterprise at Santa Clara University ('Miller Center') was a finalist of the first round of the challenge with a *demand driven investment vehicle*[8] (not collateral-based) oriented towards private capital investors to support SGB growth in emerging markets. [9]

In addition, the VPOP Manager put forward in 2013 to Enclude management **a concept note to create an electronic SME loan exchange** in Central America serviced by local banks and EGS providers. Local Banks and EGS providers in each country/area operating would certify SGBs whose profiles/products and pre-defined investment formats would then be uploaded into the exchange and a match made with investors.[10]

Against this background, **the programme initially emerged in an opportunistic way** to offer a collateral-light financing product targeting SGBs through the banking system, as a result of two key contextual factors:

- The Miller Center demand driven investment vehicle could be modified to be channelled through the commercial banking system as a lending product (later transformed into the VPO financial product), and hence it could be tested through BAC;
- BAC was keen to test its enhanced SME lending practices and updated SME processes achieved through the TA provided by Enclude. BAC agreed to become the LBP for the pilot in Nicaragua.

[7] This TA was triggered by the need of AF to gain a better understanding of the reasons why SMEs that have benefited from EGS (i.e. TechnoServe) were not successful in accessing bank financing.
[8] For details on the investment vehicle, please refer to: http://c.ymcdn.com/sites/www.andeglobal.org/resource/resmgr/Docs/Resources_AAF_Round_One.pdf
[9] This 2012 finance whallenge launched was designed to support scalable models to provide finance for small and growing businesses that require $20,000 - $250,000 in early stage capital. The goal of the challenge was to accelerate the development of solutions in a number of emerging markets, ideally establishing models that could be replicated. See. http://www.andeglobal.org/?page=Resources_AAFC
[10] Source: Jose Mantilla, SME Exchange concept Note, 2013.

In addition to the financing product, **EGS** was added into the programme's offer to the SGBs as an instrument to accelerate their growth and reduce risk for all parties involved (SGBs, LBP and third-party investors). Moreover, AF in line with its strategic focus, was interested in testing the 'financial opportunity by SGBs of being able to pay 'for a price' the cost of TA'. Finally, **a loan syndication model,** using an offshore investment vehicle to enable third party investors to co-lend alongside the LBP was incorporated, thereby reducing the bank's risk of testing the new product and segment while providing investors with an effective way to invest directly into SGBs.[11]

Table 1: Key dates and milestones for the Programme

Date	Milestone
2012	Enclude run its SME diagnostic tool in five selected Banks in Nicaragua –BAC selected to benefit from TA funded by AF
2013-2015	Enclude delivered TA to BAC to strengthen their SME business practices
June 2013	Concept Note prepared by Enclude on a SME exchange house
January 2014	Concept Note prepared by Agora for USAID PACE
April 2014	USAID-PACE selected the VPOP for potential award recipient for the PACE programme
August 2014	Enclude submitted full proposal of the VPOP to AF
March-June 2015	BAC, Agora and Miller customised the demand dividend model into a lending structure adjusted to BAC systems and demands (further adjustments happened)
July 2015	AF awarded a grant of US$1,177,661 to support the Phase I and Phase II of the programme – until December 2018
September 2015	USAID-PACE awarded the grant of US$1 million to support the Phase I and Phase II of the programme – until December 2018
Oct 2015 - mid-2016	Attempts to define the Offshore Investment Vehicle (OIV) to channel third party financing
March 2016	Final buy-in is obtained by BAC
April 2016	MoU between BAC, US Ambassador, Enclude and Agora signed
August 2016	First loan approved by the BAC credit committee
October 2016	BAC and partners decided to eliminate co-investment mechanism for the Pilot
October 2016	First loan disbursed by BAC
Last quarter 2016	Enclude and partners started scoping for Phase II

Agora[12] put forward an initial proposal to USAID PACE (January 2014) and later Enclude to AF (August 2014) to scope, set up and operationalise the programme, starting with the pilot in Nicaragua and then moving to Phase II and Phase III, with Agora as a key strategic partner to deliver the EGS (and to identify and select SGBs); BAC as the financing partner and with the Miller Center's stamp of approval as the key programme adviser– see Table 1 for timeline details.

[11] Source: VPO Proposal to AF, Enclude, 2014.

[12] The initial proposal for the USAID-PACE was put forwards by Agora in close consultation by the VPOP manager. At that time Enclude had not yet taken ownership of the project.

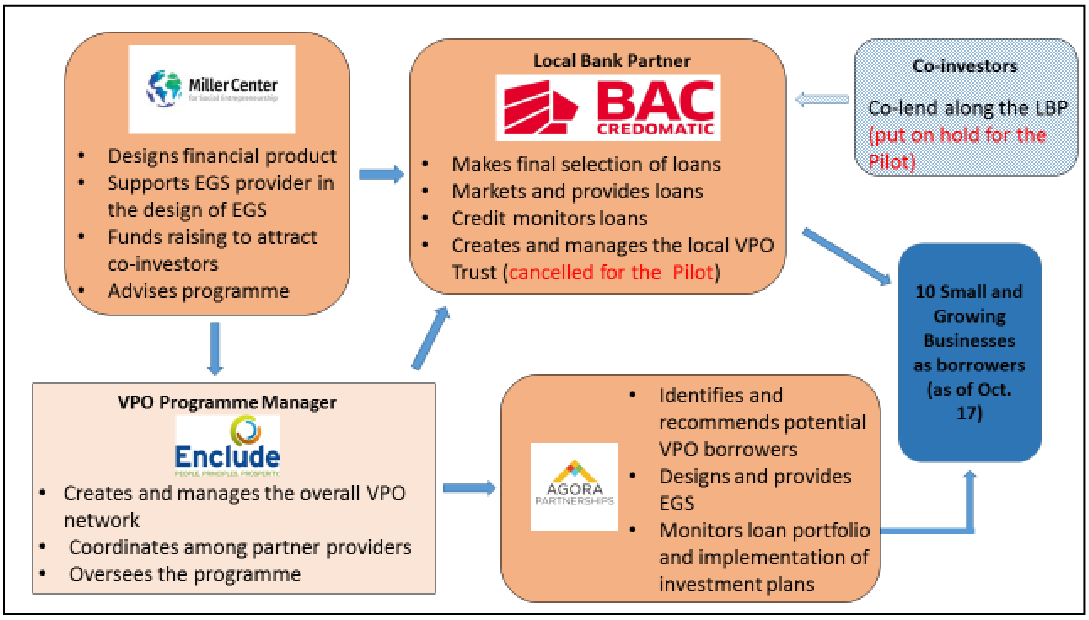
During late scoping stage (2015) for the pilot– the VPOP **put on hold the co-investment mechanism for the pilot** mostly due to delays in finding an effective solution for third party investors to channel their funding to Nicaragua that would satisfy all parties, combined with BAC willingness to take the risk and commence lending using their own balance-sheet, given the small scale of the pilot. During 2015, Agora, the Miller Center and a representative of the Bank – with some support from Enclude – customised the demand driven model into a lending structure satisfying BAC's demands and adapting to BAC's systems.

Other main modifications made to the project design during pilot implementation were:

- **EGS modules** that were designed during early 2016, with inputs from focus groups, have been modified from four compulsory modules (1. Cash flow; 2. Accounting; 3. Marketing and Sales, and 4. Impact and decent jobs) to the existing five (Module 3 on Sales and Marketing has been divided into two to allow SGBs to absorb all knowledge in both areas) with Module 4 been replaced by Strategy and Performance Indicators. Agora has added three additional modules on Quality, Productivity, and Communications and Negotiations skills); [13] and
- VPO Loan product with a **repayment schedule based on the business's operating profit** envisioned alongside the revenue-based loan was not launched. According to Enclude's 2016 annual report 'level of effort required to calculate operating income was deemed to be too great, relative to the value of differentiating the two products, especially when the majority of the companies do not have financial statements when applying to the program'.

The programme was officially launched in April 2016 with Enclude as the **main contractor/programme implementer** to lead, structure and manage the programme, Agora as the EGS delivery partner (and to support in loan origination and monitoring) and BAC as the Local Bank Partner – See Chart below for VPOP Pilot roles and responsibilities.

Chart 1: VPOP – Pilot: Roles and responsibilities



The replication/expansion of the programme (Phase II and III) is at present under scoping stage. Albeit, at inception there was a certain linear thinking implied, i.e. finish the pilot, and then move to the next phase, in fact, in order to be able to attract third party investors and gain programme scale – SGB target market in Nicaragua is

[13] Agora interviews and documentation.

small[14] – replication/expansion scoping activities started during 2017 before the finalisation of the pilot. Enclude expects to have a MoU signed with BANRESERVAS in Dominican Republic in early 2018. **The Multilateral Investment Fund from the Inter-American Development Bank has committed up to US$3 million to the VPOP – acting as an anchor investor.** However, the operational arrangements to deliver the expansion phase of the programme (including the EGS component) still need to be defined.

In the strategy meetings in October 2017, expansion objectives and approach were agreed. The VPOP expects to **engage three to five local partner banks in at least two countries and develop a portfolio of US$10 million by end 2020**. This will be achieved by: i) leveraging on the BAC network in the region; ii) leveraging on the Multilateral Investment Fund (MIF) contacts in the banking sector; iii) exploiting personal banking connections in the region.

1.3.3 VPO Program Governance Arrangements

At present, **the programme does not have formal governance arrangements**. Enclude, the main contractor and the body accountable for the delivery of this project, submits to co-funders (AF and USAID-PACE) bi-annual reports that are then discussed through a conference call or meeting. Enclude sets separate meetings for each funder. For AF; once the report meets its expectations, a new tranche of funding is released, as per the grant agreement. AF also undertakes field visits on a bi-annual basis to check progress and meet with stakeholders.
In AF's view, there is no need at this point in time for this programme to establish steering groups or advisory committees.

1.4. Evaluation scope, approach and methodology

1.4.1 Scope

The evaluation covers VPOP activities from inception[15] to end November 2017.

1.4.2 Approach and methodology

The approach taken to carry out the evaluation was largely determined by the objectives and requirements of the ToR. Following our initial research and discussions, the evaluators have **revisited the Evaluation Questions (EQs)** set in the evaluation ToR. As a result, few additional questions have been incorporated mostly to reflect AF's interest to assess the effectiveness of the VPOP targeting SGBs, the relevance of the programme design and delivery model. In addition, EQs were regrouped to reflect the OECD/DAC's evaluation criteria for strategic relevance, effectiveness, efficiency, impact and sustainability of the programme.[16] The resulting EQ table is detailed in Annex 3 in Volume 2 of the report.

The **evaluation has used a mixed method approach** to collect primary and secondary data and information:

- *Literature review* to inform the assumptions of the VPOP theory of change;
- *Desk review of programme reports and SGB performance data* provided by Enclude, Agora and BAC;
- *Stakeholder Consultation* via conference calls/skype and face to face with key programme stakeholders to get a better understanding of the programme background, challenges, lessons learned as well as expectations (See Annex 8 in Volume 2 of the report for the list of people interviewed);
- *In-depth-interviews (IDIs) with 10 SGBs located in Managua and Somoto* that have been granted a VPO loan using a structured guideline (these were to date ALL SGBs that have been granted with a VPO loan). Questions were designed to help the evaluators understand: the companies as organisations and their businesses; the

[14] Albeit the evaluators have not gathered any evidence on the market size, this fact was recognised by all interviewed stakeholders during the field visit (i.e. Agora, BAC, EGS providers, USAID).
[15] For AF- July 2015 upon grant agreement signature; for Enclude April 2016 upon signature of MOU with BAC-USAID-Agora.
[16] OECD's Development Assistance Committee (DAC). Principles for Evaluation of Development Assistance. Available at http://www.oecd.org/dac/evaluation/daccriteriaforevaluatingdevelopmentassistance.htm

services contracted; their interaction with BAC and Agora, and the expected impact on the business and their operations – See Annex 5 in Volume 2 of the report for details. These IDIs have been the central method of data collection employed for the evaluation;

- *Two Focus groups with non-VPOP SGBs* (Managua and Somoto) – each group consisting of six and five respectively SGBs female owners/managers that showed interest in the programme but for various reasons dropped out from the selection process (See Annex 7 in Volume 2 of the report for details).

As planned, the evaluation has been divided into **two main phases**:

1. *Inception phase,* during which initial desk research and consultations where undertaken towards refining the evaluation questions and evaluation approach. Moreover, during this phase, the evaluators built a Theory of Change for the programme including main assumptions and level of evidence of these assumptions;

2. *Implementation phase*, during which the evaluators:

- *Conducted further consultations* with relevant stakeholders via skype/phone;

- *Made a field visit to Nicaragua form 20 November to 1 December*: to visit SGBs and to consult with other stakeholders in the programme (including Agora and BAC) as well as other secondary stakeholders that are active in the sector and can provide us with valuable insights,

- *Triangulated of data* collected during desk research, consultation and field visit to confirm and cross-validate findings against evaluation questions to assess the strength of the evidence. The Evaluators have updated the level of evidence of the ToC assumptions defined during the inception phase using findings from the field visit (See Annex 2); and

- *Prepared a first draft of the report* (this report) which presents key findings across all the evaluation areas as well as main conclusions and recommendations.

Potential bias

All methods are subject to potential bias and coping comprehensively with them is a substantial challenge for evaluators. There are two broader types of biases relevant to this report: (i) **respondent bias**, e.g. 'courtesy' which has been found to be strong in Latin American countries, 'social acceptability' and 'political correctness', and 'attribution biases' such as respondents' perception of events, and (ii) **evaluator biases** (e.g. contract renewal, friendship, and cherry-picking data).[17] The evaluators are professionally trained and experienced in empirical research involving qualitative data. Their backgrounds are contributory factors reducing the danger of unintentional biases, and to avoid the evaluators to cherry-pick the cases and data which support their argument, or sub-consciously note only evidence fitting with their prior expectations, omitting any contrary evidence.

Regarding the **respondent bias**, the interviews were undertaken exclusively by the evaluators. Implementing partners were not invited to attend the interviews. However, a senior consultant of Enclude accompanied the evaluators to the sites where the three initial interviews took place, without intervening in the administration of the interviews. The interviewees did not know that person and was not introduced to them as a representative of Enclude. Furthermore, the experience of the evaluators in professionally building rapport with interviewees combined with long interview conversations and observations, and further accounts of what has happened, what they are doing and what they expect: so, that offers chances to detect whether their exploit initial responses were close to what they think rather than what they may have said due to courtesy, social acceptability or political correctness.

[17] White, H. and D. Phillips (2012). 'Addressing attribution of cause and effect in small n impact evaluations: towards an integrated framework'. New Delhi: International Initiative for Impact Evaluation: 71.

With regards the **evaluator bias,** both members of the evaluator team are independent consultants, with diverse sources of income and their performance in this project was not driven by vested interests. Regarding 'friendship bias', their participation in this project consisted of less than 30 days and fieldwork took place within two work-intensive weeks only, where there was no real time to engage in friendship, beyond a good working relationship with Agora, Enclude, BAC, plus a basic rapport with the SGBs. Moreover, by talking to nearly 25 other people (stakeholders) in addition to the SGBs, the evaluators reduced the bias associated to 'friendship' and sympathy to 'similar-person' or to selecting informants or favour the views expressed by individuals to whom they most strongly identify.

As to the danger to 'cherry-pick' the cases, the evaluators coped with that by including 100% of the SGBs whose VPO loans were approved by BAC. While that avoided a problem of selection bias, it increased the effort in terms of data collection, analysis and reporting. Finally, to cope with the danger to cherry-picking the data, collection was based on the agreed script for semi-structured interviews and the focus group guide, at the time of the inception report.

2. Relevance

To assess the strategic relevance of the VPOP, the evaluation has answered three key evaluation questions (See Annex 3 in Volume 2 of the report for associated sub-evaluation questions):

Relevance: Summary of Main Findings

To what extent are VPOP's objectives aligned with partners', Nicaragua's development strategic priorities and SGBs' needs and priorities?

- In Nicaragua, access to finance (capital expenditure and working capita) is the most pressing need – and demanded service – by SGBs with ambition to grow. SGBs consider EGS to be a complementary but highly relevant service that will facilitate the achievement of their business/investment plans. However, the relevance of EGS depends of the stage of development of the SGB.
- Strategic relevance of the VPOP for Enclude and delivery partners has been increasing with initially Agora leading the program and BAC funding the portfolio on balance sheet. At present, BAC, Agora and Enclude are all committed to the successful delivery of the pilot, albeit the programme lacks formal institutional arrangements, and a programme champion at the bank level.
- The SME (and SGB) sector in Nicaragua is generally receiving limited support from the Government of Nicaragua as its priorities are more centred towards benefiting larger corporation, therefore the VPOP fills a key market gap.

To what extent does the VPOP design enable the programme to achieve its objectives and its conceptual theory of change?

- The VPOP was set up with ambitious objectives and targets, when considering limited resources allocated, and the level of sophistication of BAC. The initial design did not take into consideration challenges involved to set up the VPOP organisational arrangements – especially with the bank - and the timing involved to attract impact investors and to operationalise a mechanism to channel their funds to Nicaragua. Hence the initial pilot design was too complex. The design of the pilot had hence to be adapted (the removal of the co-financing mechanism and additional timeframe added).

Is the VPOP adding to the supply of financing and EGS services available in Nicaragua?

- The VPOP - seen as a combination of financing plus EGS – is additional, particularly to more established SGBs with actionable business opportunities to grow and expand.
- The VPOP financing product is additional to SGBs.
- It is questionable the extent to which the EGS provided by the programme as originally planned is additional for more mature SGBs that have already been capacitated by other entities, however Agora has adapted to address this issue and EGS appear now additional to the market.

2.1. The Relevance of the objectives

2.1.1 Critical constraints to SGBs growth

The evidence base (secondary data analysis, literature review and primary data collection) confirms that access to financing with adequate terms and conditions is the most pressing constraint for aspiring SGBs in Nicaragua. Access to financing is severely hindered by the lack of strong collateral, complex paperwork requirements, and financial institutions' general unease with lending to this sector. In particular, the lack of mortgage backed guarantee (or lack of legal registry of the property/land) hinders SGBs access to bank financing with attractive interest rates and maturity. This is relevant for women as land is usually held under the male partner's name. Moreover, banks do not provide flexibility for repayments when SGBs have working capital constraints. In addition, the recent new law allowing movable assets to be used as collateral enacted by the Parliament in

October 2017 that expects to facilitate access to collateral to SGBs is still not yet operating effectively due to unresolved issues regarding public registration.[18] Other constraints to accessing to bank financing mentioned by interviewed SGBs were as follows:

- **Cultural barriers**, such as lack of mutual trust by the financial sector and SGBs;
- **Lack of knowledge** by SGBs about financial service providers and products offered;
- **Limited repayment culture** by SGBs – trigged by the Government of Nicaragua when in 2008 it promoted MSMEs to default on their debt obligations to the Microfinanciers;
- **Deficient or lack of sound accounting systems** by SGBs that hinders banks to undertake due diligence. [19]

SGBs also mentioned other **non-financial issues** which are constraining their growth ambitions, related to:

- Limited **access to sector relevant information and connections** to increase their customer offer – i.e. market studies;
- **High transactions costs** when exporting goods out of the country;
- **Unfair competition** from the informal sector—as they do not have any official obligations – i.e. payment of taxes;
- Difficulty to **attract skilled personnel** by SGBs – given limited remuneration packages they can offer.

2.1.2 Demand for the VPOP programme in Nicaragua

As of end of November 2017, the VPOP has approved 10 loans with a value of US$283,500. **All beneficiary SGBs are local female[20] owned.** 66% of the loans in value terms (or 70% in number terms) have been allocated to the agro-industry sector- see Table 2. Of these, seven loans have already been disbursed to the SGBs. Seven SGBs are in the pipeline with a total estimated value of US$195,000. For details on status of EGS delivery by beneficiary SGBs please refer to Annex 4 in Volume 2 of the report.

Table 2: VPO portfolio in Nicaragua

#	Sector	Amount approved (US$)	Loan disbursed?	EGS status delivery
1	Agroindustry	22,000	Yes	2 group sessions, 11 individual sessions
2	Textile	25,000	Yes	4 group sessions, 9 individual sessions
3	Agroindustry	25,000	No	N/A - loan was declined by the client
4	Agroindustry	43,000	Yes	2 group sessions, 11 individual sessions
5	Textile	55,000	Yes	3 group sessions, 7 individual sessions
6	Education	15,000	Yes	4 group sessions, 10 individual sessions

[18] 'Nicaragua: Collateral for Loans. A law that allows companies to use their personal property as collateral to obtain production loans has now come into force'. Monday, November 6, 2017. Available at https://en.centralamericadata.com/en/article/home/Nicaragua_Collateral_for_Loans

[19] Council Superior of Private Enterprise (COSEP) and International Labor Organisation (ILO). 2015). Survey of Sustainable Enterprises Nicaragua 2015: *identification of obstacles for business development*. Geneva, Switzerland, International Labor Organisation. And focus groups run by Itad team in Managua and Somoto, November 2017.

[20] 60% (or six) of beneficiary SGB are female owned and 40% (or four) are co-owned with the husband. 90% (or nine) of the beneficiary SGBs are run by a female general manager.

7	Agroindustry	34,200	Yes	N/A – too early
8	Agroindustry	24,000	Yes	4 group sessions, 10 individual sessions
9	Agroindustry	15,000	Yes	2 group sessions, 11 individual sessions
10	Agroindustry	25,300	No	N/A – too early

Source: Agora

Sources of financing pre-VPOP by beneficiary SGBs have been mostly restricted to personal loans/company gains and loans provided by non-government organisations such as Thriive and the Business Professionals Network (BPN) Foundation – see Table 3.

Table 3: Access to finance by SGBs in Nicaragua – pre-VPOP

#	Personal loans / company gains	Banking system	Informal economy / Microfinance	Non-government organisations		
				Thriive	BPN	Techno-Serve
1	✓			✓	✓	
2	✓		✓			
3	✓			✓		
4	✓					
5	✓					✓
6	✓			✓		
7	✓	✓				
8	✓			✓		
9	✓					
10	✓					

Source: In-depth interviews with beneficiary SGBs

SGBs consider EGS to be a complementary but highly relevant service that will facilitate the achievement of their business/investment plans. However, the relevance, level and type of EGS very much depends of the stage of development of the SGB. Less mature (or early stage) SGBs – see Section 3.2 for classification details – acknowledge the demand for EGS services provided by the programme structured in modules, providing basic information on cash flow, accounting, sales and marketing. More mature SGBs – that have already benefited from other EGS initiatives in Nicaragua – demand flexible EGS that is tailor-made to their sector/market as well as practical support in accessing and negotiating with potential clients. In addition, **SGBs are keen to have exposure to networking opportunities** to: i) access potential clients; ii) share experiences with other entrepreneurs – peer to peer learning and business validation; and iii) engage with 'gurus'.

Since BAC started advertising the product on its website a few months ago, 10 requests for information about the VPOP have been received. The number might appear rather small, but it should be considered in the following context: 1) relatively recent introduction of the programme; 2) limited internet penetration in Nicaragua; and 3) low proactivity by entrepreneurs in Nicaragua to search for financing options as corroborated during our IDIs and focus groups. **This leads us to the conclusion that there is indeed demand for the VPOP in Nicaragua – albeit the market is small.**

2.1.3 Strategic Relevance for the Government of Nicaragua

The **SME (and SGB) sector in Nicaragua is generally receiving limited support from the Government of Nicaragua** as its priorities are more centred towards benefiting larger corporations (often due to vested interests e.g. strategic close friends and allies from high ranked civil servants). For instance, the SMEs law is over 10 years old and it is weakly enforced.[21] The Network of Nicaraguan female-Entrepreneurs (REN by its initials in Spanish) has put forward a proposal for an updated law, however the legal framework still has not been updated. The applicable law is perceived as unclear (rather confusing) by some interviewed stakeholders (i.e REN). The tax system generally does not create incentives for SMEs to grow.

The Government of Nicaragua through the Ministry of Development, Industry and Trade (MIFIC), **has only a few programmes to support SME development** [22] – such as MiPyme – with most of them funded by foreign donors. Flagship programmes launched to support entrepreneurship and the local economy were associated by some of our key informants as examples of innovative ideas that easily lose government's monitoring and deviate towards short-term electoral aims e.g. the Productive Bonus promoted by the Ministry of Agriculture and the Ministry of Family, Community, Cooperative and Associative Economy.[23] That programme involved support from the Inter-American Development Bank.[24]

2.1.4 Strategic Relevance for implementing partners

Programme Manager:

Enclude's initial commitment to the VPOP at design stage/inception was limited, in partly due to limited resources. The VPOP was perceived somewhat as a consultancy project that delivered TA to BAC, rather than as a programme driven mostly by one of their consultants. **It was not until the early stages of implementation that Enclude started to devote more core resources** to the programme with senior management becoming actively involved. **As at November 2017, Enclude has taken stronger ownership** of the programme demonstrated by: i) lead in VPOP strategy meetings held in DC (October 2017), and ii) interest by Enclude's partners to replicate the project in East Africa. However, Enclude has not put yet in place institutional arrangements that will enable the successful consolidation of the pilot and replication/expansion of the VPOP into two additional Central American countries.

Local Bank Partner:

Since receiving the TA to strengthen its SME business practices, **BAC has been increasing its strategic interest in the SME market segment, however at a slow pace**. The bank is conservative in nature with a very low tolerance for default: as at November 2017 only 2.10% of the bank's total portfolio were categorised as non-performing loans (NPLs) at 90 days. The SME department is still placed under the credit business unit and the SME portfolio is not yet consolidated into a single portfolio. SME loans are placed under the SME unit, corporate unit and under each of the eight branches that provide financing. Nevertheless, **BAC report that they perceive the SME segment as a niche and viable market with business opportunities**. SMEs are seen as loyal clients where product/service cross-selling opportunities can be exploited. At present, the SME portfolio accounts for 15.5% of the total bank's

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[21] http://legislacion.asamblea.gob.ni/normaweb.nsf/9e314815a08d4a6206257265005d21f9/ec29253dd104d7d30625741d005c6c8c?OpenDocument

[22] http://www.mific.gob.ni/es-ni/portal/proyectosyprogramasmific.aspx#10

[23] 'Developing capacities and capitalising them to implement self-sustainable productive systems that ensure the continuous improvement of productivity individual and collective of families, seeking the market surplus for good living'. CEPAL 2016 available at http://dds.cepal.org/eventos/presentaciones/2016/0418/Panel-I.7.Nicaragua-CIdiaquez.pdf

[24] http://www.iadb.org/en/news/news-releases/2008-11-19/nicaragua-to-receive-idb-loan-for-support-agrifood-production,4880.html?actionuserstats=close&valcookie=&isajaxrequest=

portfolio (US$113 million). Nevertheless, the bank has not set a SME portfolio target, but 'a 25% SME share of BAC's total portfolio would be a clear success for us'.[25]

BAC has demonstrated commitment to the VPOP, most evident when it decided to fund the pilot with its own funds totalling US$300,000 in 2015.[26] The bank sees the VPO loan as an innovative instrument to tap the SME market, learn from the sector, and attract future customers while facilitating the bank to project an image of commitment to financial inclusion. The VPOP has also become relevant to the BAC's Corporate Social Responsibility (CSR) department to support pushing their social responsibility agenda, through VPOP's prioritisation of access to financing to female-led SGBs. This interest from BAC CSR department initially arose from the CSR department in the bank subsidiary in Costa Rica.

Since the portfolio started developing in early 2017, the Bank has further increased its commitment to the VPOP and it is starting to mainstream the VPO product across the bank. First, the bank is willing to increase the portfolio beyond US$1 million, provided that the asset quality is acceptable. In that regard, the bank has put forward a loan origination strategy that focuses on capturing clients through: i) branches – at least one potential SGB sent by each branch monthly to the SME unit for assessment; ii) tapping the Walmart suppliers' database from the Bank; iii) website applications. In doing so, BAC will be taking the ownership of the loan origination process from Agora and aims to capture around 25 SGBs by June 2018 with this strategy while willing to allow a small percentage of loans default, a change since inception when the bank aimed at no loan defaults.[27] Finally, the bank is at present, training one additional loan officer and branch managers on the VPO product. However, at this point in time, **loan officers are not yet adequately incentivised (see Section 3.3) and the bank lacks a champion, to empower and fully mainstream the VPOP.**

EGS Delivery Partner:

The VPOP fits well with Agora's strategic priorities. Since Agora became involved in the programme in 2014 it has been fully committed, demonstrated by:

- In January 2014, Agora put forward the initial VPOP proposal to USAID-PACE, since at that time there was not enough buy-in for the programme from Enclude's senior management;
- Agora's involvement during 2014–15 with BAC, Enclude and the Miller Center in the adaptation of the VPO product to BAC's demands and management and information systems (MIS) limitations;
- During the pilot, Agora has been adapting the EGS to the needs, stage of development and absorption capacity of the SGBs. Agora is even providing additional mentoring services, outside of programme scope, for the less mature SGBs (See Section 5.1 for more details).

2.2. The Design

2.2.1 Programme Objectives

The VPOP was set up with ambitious objectives and targets, particularly given the small core programme team. Though these were reduced during the design period, the initial financial modelling for the pilot assumed that BAC would disburse 30 loans in 10 months (2014). Expectations were kept high given available resources, and the level of sophistication of the LBP when formal targets were developed (34 loans to be disbursed during the pilot phase (I) with a total value of US$1 million funded by the bank and third-party investor; and 75 loans to be disbursed by the end of phase II). However, the VPOP manager did not take into consideration challenges involved

[25] Source: Credit Director interview.
[26] Bank's Board of Directors approved in May 2015 to contribute US$300,000 to the VPOP.
[27] Source: BAC interviews.

in setting up the VPOP organisational arrangements, especially with the bank, as well as the time and effort required to attract impact investors and to operationalise a mechanism to channel their funds to Nicaragua. **Hence, the initial pilot design was also too complex.**

Hence, in response to challenges the design of the pilot eliminated the co-financing mechanism and additional time allocated was allocated. In addition, Agora has been adapting the EGS to respond to the needs and capacity of absorption of each beneficiary SGB– leading to modifying the EGS delivery structure from four standard modules (with group and individual sessions) to selecting eight modules[28] to deliver to the SGB depending on the client's needs. Moreover, the EGS provider is also providing mentoring services to SGBs that are less mature, which goes significantly beyond the standard 40 planned hours per business. EGS is perceived by the bank as crucial for reducing the SGBs lending risks considerably by ensuring that their business practices are improved and growth plans can be achieved. Thus, at present, the current design for the pilot is supporting the programme to achieve two of its main objectives: (1) increase access to finance to SGBs that are currently excluded from the formal finance market; and (2) open a new, profitable market for the bank. However, the programme has not yet generated a new business opportunity to third party investors, as planned.

2.2.2 Programme meeting needs of SGBs

Current services provided by the VPOP – particularly financing – are addressing the most pressing needs of the SGBs. The main VPO service enables SGBs to access significant bank financing (US$15,000 – US$50,000) with adequate terms and conditions enabling them to undertake their priority investments and working capital against their business plans. Of relevant value for the SGBs is the fact that:

- debt servicing (interest and principal repayment) is based on cash flow generated during the preceding month – so SGBs can adjust repayments according to their revenue fluctuations; and
- there is no need to provide a mortgage-based collateral to secure the financing, which is significant to most of the SGBs who are asset constrained, and with a few of them unwilling to put up their property as collateral.

However, despite this overall suitability of the financial product to SGB needs, there are some perceptions of continued challenges:

- a few SGBs – the most mature ones – consider the scaling interest rate of the loan to be on the high side; and
- though SGBs value the fact that the programme allows them to access working capital, the capex/working capital ratio for the VPOP is still low at 80/20, and is not adequate for SGBs current and real needs for working capital.[29]

EGS provided by the VPOP – that are generally seen as complementary to the financing – are so far meeting the needs of the beneficiary SGBs[30]. This has been achieved so far because Agora has been innovative and flexible, adapting the initially agreed EGS model detailed in the VPOP manual to the needs and capacity of each beneficiary SGB. Agora has developed and tested new additional modules of Quality and Productivity to address an initial demand by one SGB and is now rolling out these modules to other SGBs that operate in manufacturing businesses. Table 4 summarises other EGS that beneficiary SGBs would consider as valuable and contribute to the improvement of their business' financial performance and to the achievement of business growth plans.

[28] Current modules offered by Agora are: Cash-Flow, Basic Accounting, Sales, Marketing, Strategy and KPIs, Quality, Productivity and Communication and Negotiation skills.
[29] Source: In-depth interviews with beneficiary SGBs and focus groups with non-VPOP SGBs.
[30] Source: SGB interviews.

Table 4: Additional EGS – seen as valuable by SGBs interviewed in Nicaragua

#	Additional EGS to further support their growth which they wished they could get from the VPOP or alternative source
1	EGS that are tailor made to the sector/market niche of the SGB.
2	• EGS tailor made to the sector/market niche of the SGB (e.g. on dressmaking quality). • Deeper capacity building across all thematic areas, both in groups and individually.
3	• Focused networking with peers from other countries who managed to cope with similar challenges and can provide guidance and best practices.
4	• EGS that are tailor made to the sector/market niche of the SGB – i.e. e-commerce/sales in the textile sector – as well as to facilitate market studies at the national and international level. • Facilitate SGBs to attend international fairs where best practices are shared. • The bank (through its CSR department) should facilitate business connections between the VPOP clients and other BAC clients.
5	• EGS to support the SGB to formalise the company and further strengthen its accounting systems. • Mentoring to facilitate SGBs to gain access to affordable market studies. • Increase networking events so she can benefit from peer-to-peer learning.
6	• EGS that are tailor made to the sector/market niche of the SGB (e.g. on digital marketing). • Devise flexible approaches to deliver the EGS to bypass barriers faced by some SGBs owners and key staff, so they can attend the capacity building activities.
7	• EGS that are tailor made to the status of development of the SGB – i.e. Digital marketing.
8	• EGS that are oriented towards acquiring new clients – for instance soft skills

Source: In-depth interviews with beneficiary SGBs

2.3. Additionality

The basic justification for the VPOP as a market-driven programme, supported by donor funding, is to provide asset-constrained SGBs with access to bank financing and capacity development services not readily available from private commercial or not-for-profit service providers. Therefore, the additionality of the programme may broadly be driven by:

- *Innovation/novelty in product and service design and/or delivery approach:* based on the uniqueness of the services it offers and the EGS provider offering (adding) a new, potentially more sustainable, mechanism for entrepreneurial capacity development; and/or

- *Targeting and reach:* accessibility to asset constrained SGBs.

2.3.1 Access to formal commercial bank financing

Findings from IDIs and focus groups indicate that the **VPOP financing product is additional, both in terms of innovation and reach**. Most interviewed SGBs mentioned that without the VPOP financing product they would have financed growth using the company profits, personal loans without seeking alternative sources of financing, thus growing and expanding at a slower pace. Table 5 below provides a summarised landscape of financing sources available to SGBs in Nicaragua. It illustrates that most SGBs need financing in the order of US$30,000, but without any established formal relationship with a bank (excluding savings accounts), cannot access bank financing without mortgage-based collateral or with adequate interest rates. Moreover, it is worth noting that

SGBs that have successfully benefited from Thriive or BPN financing still struggle to subsequently access commercial financing.[31]

Table 5: Indicative – potential sources of financing for SGBs (new clients)

Institution	Indicative Amounts	Interest rate range	General Collateral policy for new customers
BAC – VPOP	US$15,000 – US$50,000	12% – 18%	Pledge and personal guarantor
BAC – SME loans	Above US$10,000	10.5% – 13%	Mortgage-based collateral
BDF –SME loans	Below US$25,000	12%	Mortgage-based collateral
BanPro – SME loans	Above US$10,000	12%	Mortgage-based collateral, pledge, personal guarantor
Microfinance Sector	Below US$10,000	4.5%–2% monthly	Pledge (in some cases)
BPN Foundation	Below US$10,000	8%	No collateral
ThriiveCapital Loans	US$10,000 – US$50,000	n/a*	No collateral

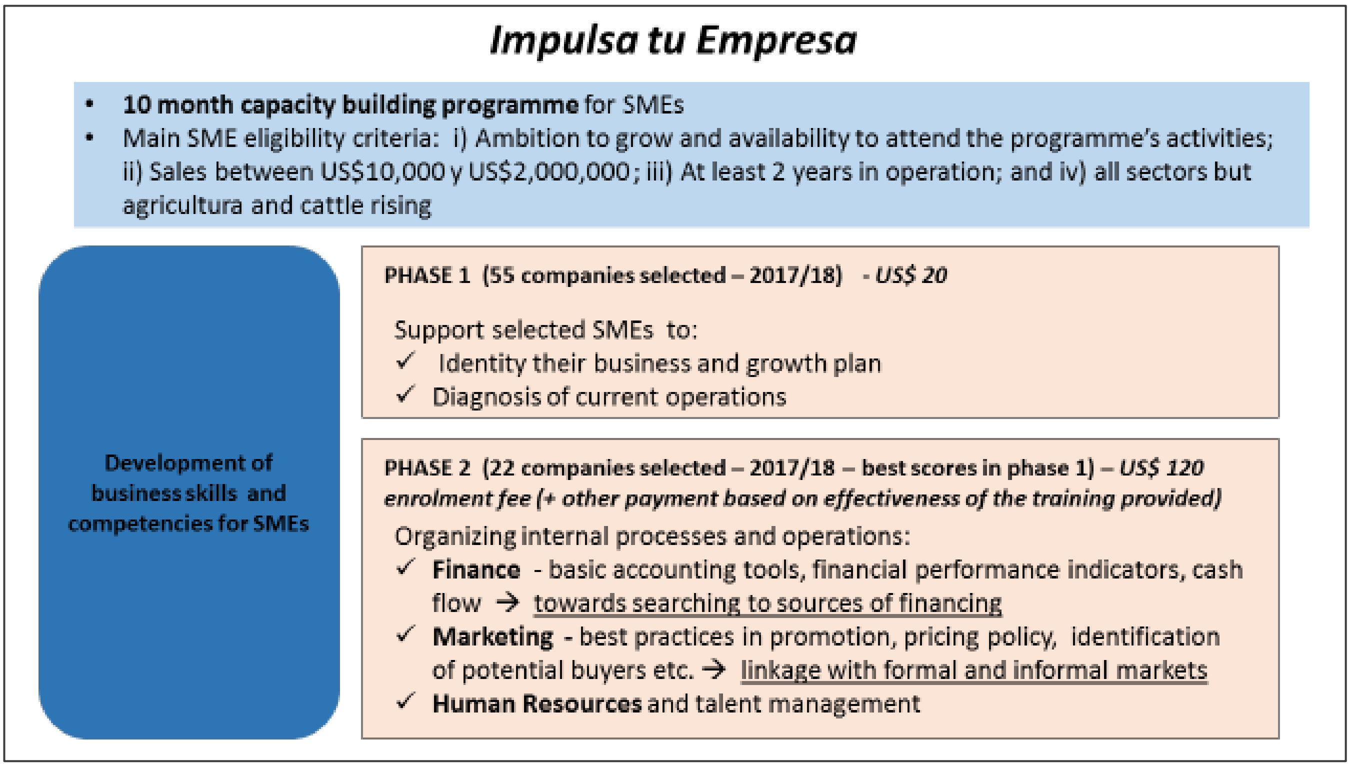
**10% of the capital is repaid during the first year and the remaining 90% of the loan has to be paid in the form of community services.*
Source: Interviews with BAC, SGB, Thriive and company websites.

2.3.2 Enterprise Growth Services

SGBs in Nicaragua have access to a range of generally free or heavily subsidised EGS offered by governmental and non-governmental organisations. Of relevance are capacity building activities provided by the Ministry of Industry, Trade and Development (MIFIC), Chamber of Industry of Nicaragua (CADIN), Women's Network of Nicaragua (REN) and by non-governmental organisations such as Thriive, TechnoServe and BPN Foundation. It appears that these organisations either provide basic capacity building in activities in core themes in discrete or integrated ways – see TechnoServe chart below – or provide trainings in specific topics. For instance, in Somoto the Ministry of Familial, Community, Cooperative and Associative Economy (MEFCCA) is providing training to one company on how to register the product – as designation of origin for the Somoto region. Big service providers (i.e. Walmart) also provide capacity building activities to its suppliers – for instance on quality control and processes.

[31] Source: TechnoServe and Thriive interviews.

Chart 2: TechnoServe capacity building programme in Nicaragua



Source: TechnoServe

Against this context, **it could be therefore questioned whether the EGS provided by the programme as originally designed is additional for more mature SGBs** that have previously joined capacity building activities with support from public and private institutions and/or have already established financial and accounting systems. However, the evaluators acknowledge that this **is a complex question**, as companies need to constantly engage in continuous learning to evolve and in some instances some level of repetition is part of consolidating previously learning acquired. Moreover, to assess additionality stages, types, modes, mediums, and other dynamics at play during the EGS delivery should be assessed. This is why, Agora is deviating from the initial EGS programme to adapt and ensure that the services it provides to mature SGBs are valuable and they will indeed contribute enhance their performance (as well as providing some out of scope mentoring services).

2.3.3 Financing and EGS combined

Albeit there are few **non-governmental organisations** in Nicaragua that offer a combination of financing plus EGS – Thriive and BPN Foundation – these seem to be catering for the needs of early stage SGBs that are committed to grow but still need to 'get the basic institutional and operational arrangements in order'.[32]

In comparison, the VPOP, perceived as a combination of financing plus EGS, becomes more additional to more established SGBs that have already consolidated sales and long-standing relationships with relevant clients (supermarkets chains etc.) and have identified actionable business opportunities to grow and expand. However, **Thriive has just created a regional Impact investing fund** (Thriive Impact Investing Fund –TiiF) **that seems to be the targeting the same SGB segment** as the VPOP. TiiF fund lends between US$10,000 –US$50,000 to SGBs at 7% interest rate with a three-year maturity, without collateral and pledges. However, unlike the VPOP which is open

[32] Source: Agora, TehcnoServe and Thriive interviews.

to any SGB business model, TiiF seeks SGBs that have an intentional social or/and climate change purpose. Thriive's main rationale to establish this fund was twofold:

- Inability for SGBs that have successfully benefited from *ThriiveCapital* loans to access affordable growth capital from commercial sources, and
- Limited opportunities for impact investors to invest in high-potential but small-scale early stage businesses.[33]

So far, Thriive has finalised a pilot in three countries, including Nicaragua. It remains to be seen how this fund – that at present has attracted US$350,000 in financing from investors – will influence the additionality of VPOP – however the evaluators see this as a positive initiative in the context of the broader SGB market development. Finally, there is no evidence to the evaluators that the VPOP played a role in encouraging Thriive to launch the programme.

[33] Thriive Investment framework, 2017.

3. Efficiency

This section focuses on answering the two specific questions related to cost effectiveness of the VPOP services and the operational efficiency of the VPOP pilot in Nicaragua. Given the early stage of programme implementation, the ET was not able to undertake a cost benefit analysis. The evaluation is based on a review of management reporting and financial statements and IDIs with beneficiary SGBs and discussions with delivery partners and Enclude.

Summary of Main Findings: Efficiency

Which services/combinations of services are the most important/valuable for small businesses in contributing to growth in relation to cost of delivery?

- Financing with variable payments combined with adequate EGS provision is a better value proposition than those services in isolation. However, to date, the cost benefit ratio of intervention is negative.
- To date, the EGS modules delivered to 7 SGBs from the total package available are cashflow, sales, basic accounting and marketing (with strategy and KPIs, communication and skills, productivity, and quality not delivered or only delivered to one or two SGBs to date. It is too early to tell how this bundling compares to other combinations, and also the sample size (7) is too small at this stage.

Does the VPOP have adequate and cost-effective systems and procedures in place to ensure compliance of the VPOP manual?

- The systems and processes put in place for the VPOP delivery are limited especially those corresponding to the provision of the financing product. So far, this has been compensated as key partners have a good working relationship based on trust.
- to ensure that the VPOP delivers value for money; however, the pipeline strategy is in transition now as BAC takes ownership of the process.
- VPO loan approval, disbursement and monitoring processes: BAC has outdated and non-automated credit systems and processes that result in the VPO product been assessed and monitored inefficiently.
- The VPOP Manual has not been updated with procedures that are currently followed to deliver the programme not reflected anywhere. The way the bank handles the VPO loans is rather informal, with no proper institutional workflow as per the bank's culture.
- SGB selection: Agora has been the main driver for creating the pipeline. The SGB selection process has been adjusted to adapt to lessons learned
- EGS delivery system and processes: Agora has more formal and systematic approaches to the delivery of their services compared to those of BAC for the financial product. However, some of Agora's activities relating to the VPOP were designed and implemented outside the Manual which does not contribute to the institutionalisation and appropriate oversight and control of the programme.

3.1. Cost-effectiveness of VPOP services

All beneficiary SGBs for the programme to date, as well as participants in the focus groups confirmed that **financing with variable payments combined with adequate EGS provision is a better value proposition than delivering those services in isolation.** For beneficiary SGBs, the VPOP enables them to gain access to bank financing without mortgage-based collateral, with adequate terms and conditions, alongside capacity-building resources suited to their needs and capacity. Both services contribute to the achievement of their growth plans. However, the initial motivation to engage with the programme is financial. Once SGBs experience the benefits of the EGS, they realise how valuable and essential these are to their businesses.

However, **though the VPOP is delivering the right type of services to SGBs, at this point of time the programme costs seem to be outweighing benefits.** At the end of 2016[34], the VPOP had already spent US$625,000 (or around 29% of total budget) of the development grants approved for Phase I and Phase II and had only disbursed two loans to the value of US$39,000 with EGS provision under design/pilot stage. To date, the VPOP has so far:

- **Developed a small portfolio**: eight loans disbursed by end of November 2017 totalling US$233,200;
- **Commenced roll out of six EGS modules** (combination of group and individual sessions) to seven SGBs. Each SGB has received, on average, 10 individual sessions and a minimum of one group session (and a maximum of four). Nevertheless, none of the SGBs have completed the EGS delivery plan (See Annex 6 in Volume 2 of the report) for details on actual and planned EGB provision by SGB). Table 6 provides a summary of EGS services provided to date.

Table 6: EGS delivery to November 2017

Module	Group Sessions (# beneficiary SGBs)	Individual Sessions (# and beneficiary SGBs)
Cash flow	5	27 to 6 SGBs
Basic Accounting	4	9 to 6 SGBs
Sales	5	15 to 7 SGBs
Marketing	5	13 to 7 SGBs
Strategy and KPIs	0	0
Communications and skills	0	0
Productivity	1	1 to 1 SGB
Quality	1	4 to 1 SGB
TOTAL delivery	**5**	**69 to 7 SGBs**

Source: Agora

3.2. Processes and systems to deliver the VPOP

Formalised systems and processes put in place for the VPOP delivery are limited, especially those corresponding to the provision of the financing product. So far, this has not significantly constrained day to day operations, since key partners have a good working relationship based on trust. Evidenced by the fact that the **VPOP Manual has not been updated with procedures that are currently followed to deliver the programme not reflected in any document**. The way the bank handles the VPO loans is rather informal, with no proper institutional workflow. That leads to uncertainty and higher transaction costs. The evaluators learned that the absence of manuals is not specific to the VPO product but a general practice within BAC Nicaragua.

Similarly, programme knowledge management is limited. There is no central repository system for documents, with most of them held by Agora, others by Enclude, BAC and others in the personal computers of the staff involved. The evolving strategic thinking of the programme is not reflected in any document. The availability or lack of systematic records of that thinking process will impact on the replication strategy.

3.2.1 SGB identification and selection system and processes

To date, **Agora has been the main driver for scouting and identifying beneficiary SGBs – creating the pipeline**. Although its main strategy to source new potential clients has been by leveraging on partnerships with other EGS provider such as Thriive and TechnoServe (70% of beneficiary SGBs), Agora has also been proactive in identifying alternative channels – see Table 7 that showcases how beneficiary SGBs have been identified. However, given the recent and limited marketing and campaign initiatives undertaken by the programme so

[34] The evaluators do not have cumulative expenditure to September 2017.

far (programme relaunched in September 2017 by the BAC CSR department[35]) the **SGB market operating outside Managua and Somoto is generally unware of the VPOP**.

Table 7: Identification approach for beneficiary SGBs

Identification approach	# SGBs with the VPO loan approved
Agora identified the SGB in Walmart	1
Agora contacted the SGB – as a result of a Thriive (and to a lesser extent TechnoServe) connection	5
BAC connected the SGB with Agora	1
Thriive networking event	2
Previous business relationship with Agora	1

Source: In-depth interviews with beneficiary SGBs

During the second half of the pilot, **the SGB selection process has been adjusted to ensure that the VPOP delivers value for money.** For instance, at first Agora was visiting all SGBs, but given the time-consuming nature of the exercise, this initial screening phase of the due diligence was replaced by a 15-minute phone call. The VPOP also incorporated additional upfront screening procedures including:

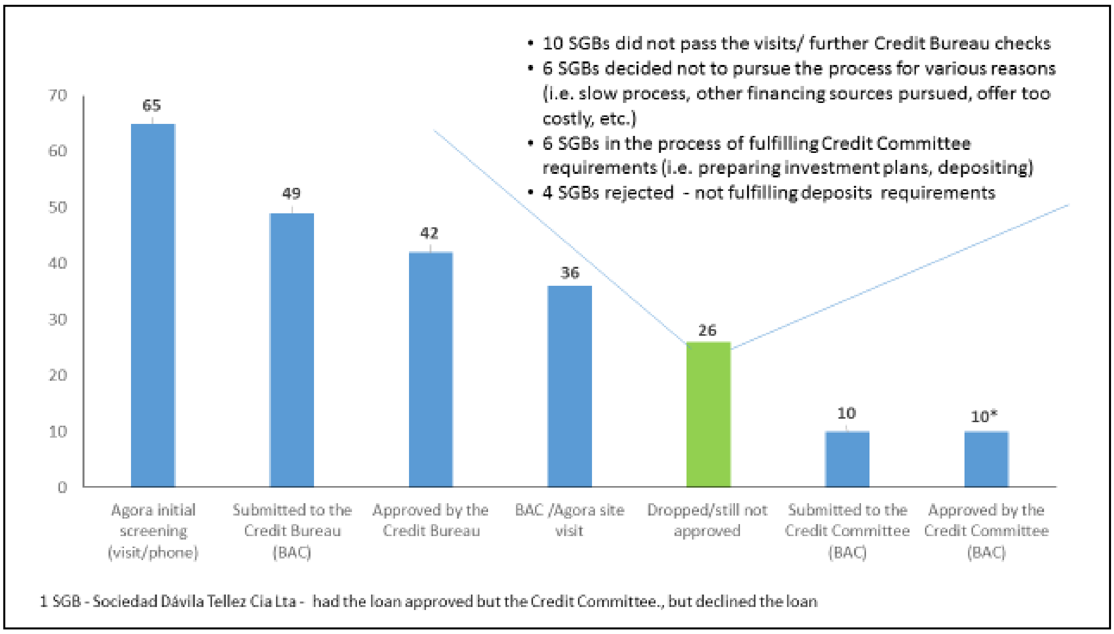
- emphasising on evaluating whether the candidate will be willing to adapt the way their business has been managed, including using a bank account to deposit sales;
- credit bureau checks upfront; and
- willingness of candidates to share confidential information for transparency purposes.

The 10 SGBs with a loan approved have been the result of the following step process (See Chart 3 for more details):

1. Agora interviewing over 65 potential beneficiary SGBs in Managua, Somoto, Masaya and other locations (either face to face or via a conference call);
2. For those SGBs that passed the initial screening set up by Agora, a credit bureau check followed. Of the 65 companies, 42 SGBs passed the credit bureau check;
3. BAC and Agora visited 36 of those SGBs. For 28 % (or 10) of these visited companies a loan application was submitted by the loan officer and signed off by the SME business head, then submitted to the Bank's Credit Committee. 100 % of the submitted applications were approved by the Committee.

[35] 'BAC Credomatic presents financing program for women entrepreneurs''. La Nueva Radio Ya. Nicaragua. 06 September 2017. (https://nuevaya.com.ni/bac-credomatic-presenta-programa-de-financiamiento-para-mujeres-empresarias)

Chart 3: Loan origination process – Status as of September 2017



Source: Agora documentation

The pipeline development strategy is currently changing, **with BAC taking ownership of the process**. So far, it is constrained by:

- lack of a project champion at the bank (i.e. product manager) to drive the program through;
- the risk-averse culture of bank branches and lack of knowledge of the VPO product (Agora/BAC are now capacitating selected branches); and
- a lack of capacity to tap into the bank's suppliers from big retailers such as Walmart, La Colonia database.

3.2.2 Loan approval, disbursement and monitoring systems and processes

BAC has outdated and non-automated credit systems and processes with **inefficient internal departments that operate in silos** that result in the VPO product being **assessed and monitored in a very inefficient way.** It took the bank an average of four or five months to process the first loans during 2016/early 2017. With regards to loan monitoring:

- Monthly calculations to define the 6% of the cash flow to be used to repay credit expenses of the SGBs is done manually;
- Wholesale clients need to contact BAC requesting money transfers from the escrow account to their current accounts as the bank does not have a system to automatically do that.

The bank staff has a weak culture relating to following established policies and procedures (i.e. credit policy manual), partly as a result of this lack of sophistication/ inefficient systems. This applies to the VPO Manual, which is very basic e.g. it does not include checklists and a scorecard system, and it currently has not been updated. In addition, during project implementation BAC's team changed some policies and criteria related to the programme, which are not reflected in any updated manual.

Regarding the degree of satisfaction among all the SGBs who had their VPO loans approved in relation to Agora and BAC's support during loan application and negotiation process, and monitoring visits by Agora. Table 8 and Table 9 show contrasting levels of satisfaction by the SGBs with regards the support received from BAC [between

60% very satisfied and satisfied, and 20% Unsatisfied] as opposed to the support received from Agora during the process of application and negotiation [between 90% very satisfied and satisfied, and none dissatisfied]. Regarding the process of monitoring visits by Agora, the level of satisfaction is the highest with no dissatisfaction.[36]

Table 8: Level of satisfaction of support during loan application/approval process

Level of Satisfaction	Agora (n=10)	BAC (n=10)
Very Satisfied	80%	20%
Satisfied	10%	40%
Neither satisfied nor unsatisfied	10%	20%
Unsatisfied	0%	20%
Very unsatisfied	0%	0%
Total	**100%**	**100%**

Source: Beneficiary SGB interviews

Table 9: Level of satisfaction of monitoring process by Agora

Level of Satisfaction	Reply(n=7)
Very Satisfied	100%
Satisfied	0%
Neither satisfied nor unsatisfied	0%
Unsatisfied	0%
Very unsatisfied	0%
Total	**100%**

Source: In-depth interviews with beneficiary SGBs

3.2.3 EGS delivery system and processes

Agora has a more formal and systematic approach to the delivery of their services. As earlier mentioned in this report, Agora has been providing mentoring services outside of the VPOP's scope to support the less mature SGBs. While the provision of those supplementary support services has proved to be a positive contributor to the aims of the VPOP, the fact that part of those activities were designed and implemented outside the Manual does not help to institutionalise and appropriate control of the programme (e.g. early detection of unfavourable situations that increase risks; the implementation of measures to cope with risks, etc.).

3.2.4 Compliance with the VPOP Manual in Nicaragua

Since it was first issued at programme inception, the VPOP Manual for the Nicaraguan pilot[37] has not been updated to reflect programme adjustments and evolvements. The existing manual rapidly lost relevance because it had not been updated to reflect the adjustments made to the Pilot, not only for the LBP but for all

[36] In deciding about the degree of satisfaction, the evaluators did not rely simply on direct answers to the question of satisfaction, but taking into consideration the overall expressions throughout the whole interview and the background information obtained during the field visit.

[37] The Manual was produced with the explicit intention to clarify the **VPOP's terms and conditions for the Nicaragua Pilot**, and the roles and responsibilities of each of the parties involved in the operation and the coordination mechanisms between them (Manual section 2: Purpose).

participants in a systemic approach. Hence, no **cost-effective systems and procedures are in place to ensure the compliance with the VPO Manual.** The manual still incudes a Section (5) devoted to detail all processes and systems to manage the investment funds that will be channelled to the VPOP. There is also a requirement for SGBs to acquire and use a cash underwriting tool (PymeSoft) to build a proxy cash flow for borrowers – this tool was never used as it was far too complex for SGBs.

Other illustrative examples can be found in section 12 ('Loan Disbursement') of the VPO manual:

- 'Within two days of Loan approval, the Originator will communicate to the BDS Provider and the Program Agent, that a Loan has been approved, the Borrowers name and industry, the Loan amount, the amount to be disbursed. The parties will agree on a communications format to be sent electronically'. The evaluators learned that BAC sends this information via WhatsApp to one staff member of Agora, and there is no official record where the parties had agreed the use of that means of communication;
- No formal notification is provided to clients regarding their status when they are no longer in the pipeline or potential candidates. For example, in the case of one enterprise the SGB whose loan was approved but the company declined to take it – no official notification or final status was provided to them.

The three main reasons for a lack of compliance are:

- for BAC, absence of an institutional culture of discipline to produce and follow manuals;
- for Agora, willingness to provide effective (and outside programme scope) support to the selected SGBs, and
- for both implementing parties, the pressure to make the VPOP work at all costs despite its initial ambiguity and changes through the implementation stages.

4. Effectiveness

To assess the effectiveness of the programme intervention, the evaluation has addressed three main issues (See Annex 3 in Volume 2 of the report for associated sub-evaluation questions):

Effectiveness: Summary of Main Findings

To what extent is the VPOP meeting the objectives and targets set by AF?

- The pilot (Phase I) was set up with ambitious objectives – 34 loans disbursed with a total value of US$1 million for Phase I that was expected to last 18 months. The pilot (that has been operational for over 17 months – if we take official launch as April 2016) has made slow progress to date and it is off track to reach pilot (and phase II) milestones (results: eight loans disbursed with a value of US$233,200). Since mid-2017, the pilot learning curve has been achieved, with the bank taking ownership of the VPO product and expecting to generate 25 approvals by June 2018.

Is the VPOP selecting and engaging with the right SGBs in Nicaragua?

- Beneficiary SGBs so far fit with key target market selection criteria: SGBs that are asset constrained and potential for growth.
- The target market for the VPOP is wide and diverse which has resulted in a portfolio that is varied in terms of entrepreneurial capacity and business development stage (three types of businesses have been identified: High Venture, In Progress, and Early Stage).

To what extent is the VPOP delivery model in Nicaragua [BAC (financing partner), Agora (EGS provider)] effective?

- The VPOP delivery model operationalised for the pilot in Nicaragua has been so far informal but effective towards gaining traction– taking into consideration institutional (BAC) and programme resources limitations. The VPOP working relationship is based on trust among partners and there is limited formal agreement around current roles of each partner. Given this lack of formality, programme management is casual and this potentially risks effective programme replication/ scale up.

4.1. Achievement of VPOP targets

As per the VPOP logframe (LF) (for Phase I and II), they main programme objectives, used as a basis to define LF performance indicators, are as follows:

- Increase access to finance for SGBs;
- Strengthen the capacity of SGBs to successfully use and manage the funds received and to grow their businesses; and
- Develop a new market opportunity for banks and third-party investors.

As reflected in the Inception Report, **assessing the progress of the VPOP using the AF LF poses challenges:**

- Some LF output and outcome level indicators do not follow the Theory of Change[38]; and

[38] A number of output indicators are in fact outcome level indicators (i.e. *(#) of companies from Phase 1 that access non-VPO BAC products through Phase 2*). For more details please refer to the Inception Report of the Evaluation. Moreover, relevant

- the **LF has not been fully updated to reflect the current delivery model of the pilot** – i.e. without co-financing.
- due to the lack of a centralised data management system for the VPOP (See Section 6.2 for details), the evaluators have found several inconsistencies in LF reporting.[39]

As a result, the evaluators have used data included in Enclude's official reporting to AF as well as Agora's latest presentation to the AF Investment Committee in October 2017.

VPOP Phase I (pilot) was set up with ambitious objectives. It was expected that the programme would disburse 34 loans during the pilot phase with a total value of US$1 million;[40] with the pilot expecting to last 18 months since the official launch. The evaluators set out the official launch in April 2016 – when the MoU with BAC was signed, as opposed to the LF that set out the baseline in June 2015.

As Table 6 shows, **the Pilot made slow progress and is off track to reach pilot (and Phase II) milestones**. At the end of October 2017 (17 months since the project start – as per the evaluators, or 28 months – as per LF), the VPOP had achieved only 24% of the milestone set for number of loans disbursed (in number terms 8/34) and 29% in value terms of portfolio developed to reach US$233,200. This delayed start can be mostly attributed to:

- the dynamics of integrating and coordinating multiple innovations and developments simultaneously implemented by different delivery partners;
- significant time being devoted to investigating a solution to channel foreign investment to Nicaragua and into BAC in a cost-effective manner;
- the lack of initial traction by BAC and the lack of automated systems and bureaucratic and inefficient internal departments operating in silos resulted in the bank spending over four/five months to process the first loan applications; and
- the fact that the programme manager was not based in Managua for inception also contributed to this delayed start.

Since mid-2017, the **evaluators observed that the pilot learning curve has been achieved**, with the bank becoming more comfortable with the product, new client segment, and with the loan application process. In addition, BAC is starting to take ownership of the loan origination process. The Bank expects to build an internal pipeline of 60 companies by June 2018 to reach 25 approvals, with Agora's support, by capacitating BAC staff, assessing potential clients and following up on selected potential clients that had already engaged at some level with the programme.

However, it remains to be seen if the bank will provide all the required resources to capacitate and incentivise staff and trigger a cultural shift at branch level towards perception of SMEs (and SGBs) as a commercially viable market segment, and drive the process. With regards to the latter point, **at this point in time the Bank lacks a champion, to empower and fully mainstream the VPOP.**

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indicators key to track progress of the VPOP, such as *VPO portfolio generated during Phase I in number terms, VPO portfolio generated during Phase II in value terms* are not reflected in the LF.

[39] For details of these inconsistencies, please refer to the Inception Report.

[40] The last revised LF as of end 2016 has revised this target to US$800,000 (Source: Enclude, VPOP Annual Report 2016). However, BAC and Enclude counterparts consider this target to be US$ 1 million.

Table 10: Relevant Targets and results of the pilot VPOP

Level*	Selected indicators	Baseline (June 2015)	31st Dec - 16		30th June -17		31st Oct-17	31st Dec -17	31st Dec -18
			Milestone	Actual	Milestone	Actual	Actual	Milestone	Target
LT Outcome	(#) of companies from Phase 1 that access non-VPO BAC products through Phase 2	0	**0**	0	**0**	0	5**	**0**	**10**
ST Outcome - portfolio growth	(#) Value of loans disbursed by LBP through Phase 1	$0	**$400,000**	$39,000	**$800,000**	$199,000	$233,200	**$800,000**	**$800,000**
	(#) of loans disbursed (*replacing # companies selected through Phase 1)*	0	**0**	2	**34**	6	8	**34**	**34**
	(#) of loans disbursed through Phase 2	0	**0**	2	**34**	6	8	**34**	**75**
ST Outcome - Asset Quality	(#) of companies defaulting through Phase 1	N/A	**N/A**	0	**N/A**	0	0	**1**	**1**
	(#) of loans successfully paid back through Phase 2	0	**0**	0	**0**	0	0	**0**	**70**
ST Outcome - EGS	(%) companies reporting increased confidence to manage their businesses (in topic areas covered by BDS) through Phase 1	N/A	**N/A**	N/A	**N/A**	N/A	N/A	**N/A**	**80%**
Output	(#) of trainings delivered on the hard skills specified in the curriculum through Phase 1	0	**0**	2	**0**	6	6	**0**	**3**
	(#) of individual and group consulting hours delivered per company through Phase 1	0	**0**	36	**0**	N/A	36	**0**	**16**
	(#) of companies interviewed through Phase 1	0	**0**	55	**45**	51***	N/A	**45**	**45**
	(#) of applications received through Phase 1 (cum.)	0	**0**	23	**70**	63	N/A	**70**	**70**
	(#) of capital raised through Phase 1	$0	**$700,000**	$3,000,000	**$700,000**	$3,000,000	$700,000	**$700,000**	**$700,000**
	Trust fund established	0	**1**	0	**1**	0		**1**	**1**

**Defined by the ET*

*** Agora Presentation to the AF Investment Committee meeting in October 2017*

**** Includes only pre-screen interviews and then only companies jointly visited by BAC and Agora*

Source: Enclude reporting to AF, Agora documentation.

4.2. The beneficiary SGB profile

The target market for the VPOP is wide and diverse and this has resulted in the **VPOP, so far, developing a portfolio that is varied in terms of entrepreneurial capacity and business development stage**. The evaluators in partnership with Agora and Enclude have developed a typology of SGBs that the VPOP has supports so far by development stage of the SGB. Those categories and definitions were based on emerging ideas from the evaluators analysis in relation to the primary and secondary data collected for this report. Hence, three types of SGBs have been defined:

- *High Venture:* More mature and established businesses, generally, with no collateral (or reluctant to use the collateral or collateral has already been used) and with very clear specific needs to grow their businesses;
- *In progress:* Growing businesses with an acceptable growth vision with no collateral and requiring capacity building activities to varying degrees – depending on EGS received in the past (pre-VPOP);
- *Early Stage:* Unsophisticated entrepreneurs that have been operating for several years with limited skills or knowledge that demand substantial resource inputs from Agora, and that would not otherwise have access to loans. They generally lack financial statements and do not have access to collateral.

Table 11: Types of beneficiary SGBs

Development stage	Articulated growth strategy	Capacity to grow	Producing financial statements	Relationship with the banks	Assets constrained?	Sales Volume	# SGBs
High Venture	Yes	Yes	Yes	Through deposits or point of sales	Sometimes	> US$150k	5
In progress	To some extent	Yes, with proper TA	Sometimes	Through Deposits	Yes	US$100k – US$150k	3
Early Stage	No	Yes, with intensive TA	No	Through Deposits	Yes	< US$100k	2

Beneficiary SGBs so far fit with key target market selection criteria: SGBs that are asset constrained and have capacity to grow. The programme so far has selected SGBs with substantially varying levels of services demand, depending on their business stage development, skills and capacity. For instance, for early stage (and some In-progress) SGBs, Agora has input significant more resources than previously envisioned to support them (See Section 3.2 for specific examples) to:

- articulate an investment plan;
- understand the VPOP;
- produce financial statements and monthly cash flows;
- support with the applications process; and
- address growth challenges that emerge.

Agora is in fact providing those companies with out of scope mentoring services. For example, Agora has devoted over 100 hours so far (against the agreed 40 hours) to support an SGB in the VPO portfolio.

4.3. The VPO delivery model in Nicaragua

The VPOP delivery model operationalised for the pilot in Nicaragua has been informal but effective towards gaining some traction, given institutional (BAC) and programme resources limitations. The Programme manager from Enclude, BAC and Agora have established excellent working relationships, and their roles and responsibilities – especially for BAC – have evolved to address their capacity limitations (See Section 1.3.2 for initial implementer's roles and responsibilities). VPOP working relationships are based on trust among partners and there is no formal agreement on the current roles of each partner.

Programme Manager

The Programme Manager initially defined roles that were adequate, however these have not been fully operationalised or formalised. This is partly due to limited resources allocated to the programme and also to limited attention by Enclude's management. Altogether diluted their ownership during early inception. For this programme to have timely and effectively kicked off, a full-time manager could have been deployed in Managua to work alongside implementing partners to coordinate partners and push the programme through, especially in the absence of a programme champion at the bank. The evaluators recognise that Enclude sent the manager for a few months during the Fall of 2016 to Nicaragua in response to programme delays and no loans disbursed since the official launch in April 2016. At present, the programme manager can only devote 30% of his time to the project for managing the pilot in Nicaragua, with BAC taking ownership of the loan origination process and scoping for Phase II – replication into another country.

The Local Bank Partner

As mentioned above, BAC was chosen as the financing partner for the programme given its relationship with Enclude (and AF). **BAC was potentially not the ideal partner to test an innovative financing product in a risky market segment (SGBs- SMEs)** given its limited sophistication and risk averse culture. Nevertheless, BAC was keen to be part of the pilot and agreed to fund on balance sheet, the initial US$300,000 loans. **Within this context, Agora and the programme manager had to invest additional time and resources to transition BAC into a suitable partner for the VPOP** by first driving fully the origination process, finding creative solutions to overcome BAC IT shortcomings[41] and even take over some of the bank's monitoring functions – as per the VPOP manual. For instance, on a monthly basis, Agora (instead of the bank, as planned) calculates the equivalent of 6% of sales to be deducted from the accounts – based on cash flow calculations – for each beneficiary SGB and then sends this information to BAC. However, the process is still not working within the timeline established by the VPOP manual – process to occur within the first fifteen calendar days of every month. According to Agora only three SGBs met this deadline, while one took two months to produce cash flows. Enclude highlights that given the nature of Nicaraguan SGB market there may be a need to put in place alternative solutions e.g. setting a minimum amount that is automatically allocated to repayment, and then adjusting later, once actual figures are obtained e.g. setting a minimum amount that is automatically allocated to repayment, and then adjusting later, once actual figures are obtained.

In addition, **the Bank does not yet have the right incentive structure[42] in place to enable the VPOP portfolio to grow.** VPOP loan officers at BAC have unclear and limited incentives to dedicate efforts on the VPO product. Given the time and effort required to identify, review, approve, and monitor the day to day administrative work

[41] The bank (and the Group Credomatic) still uses the 1970's IBM banking software - IBM S400. IBM dropped this system from its catalog in 1996. The bank has no incentive to update the IT system, as at present they are profitable and hence, the have no need to increase its operational efficiency (or cost/income ratio).

[42] Enclude and Agora claim the Bank in fact counts each VPO loan twice towards the annual portfolio goal of the loan officer. However, the loan officer did not acknowledge this fact during the interviews.

demanded by the VPO loans, it is more attractive to the BAC's team to concentrate on ordinary credit services. Similarly, branches have no clear incentive to develop the portfolio and the prospects is of a time-consuming responsibility. This is reflected in the view of the main loan officer who sees their participation in the VPOP more as a CSR initiative than a profitable mainstream product.

EGS Delivery Partner

Agora, given its highly skilled staff with in-depth knowledge of the SGB sector as in Nicaragua, **has been an excellent EGS partner** for the programme. Agora has fulfilled their defined role and gone the 'extra mile' to ensure that the programme kicked off with beneficiary SGBs receiving EGS that fit their capacity needs (including mentoring services for the less mature ones) and ensuring that SGBs can calculate monthly cash flows to service their debts. However, this has required additional resources from Agora. This additional investment has been part of their learning curve and to fulfil the additional capacity building needs of each of the companies that are not completely fulfilled through the mandatory modules. This brings into question the financial sustainability of the services delivered by Agora for the longer term (See Section 6.1).

There is lack of understanding by the business community interested in VPOP (including SGBs) in Nicaragua of the role of each delivery partner and this particularly applied to Agora.[43] Agora is seen as the owner of the programme in Nicaragua with the Bank having a minor role. Some beneficiary SGBs believed that the funding was from Agora. This is because Agora led the loan originating process and has been highly active for the programme to gain traction.

[43] Source: Beneficiary SGBs and SGB related organisations (i.e. REN).

5. Impact

This section of the report assesses emerging effects (intended and unintended, positive and negative) of the VPOP on improving the performance of beneficiary SGBs, and more generally in contributing to the development of the SGB sector. *Please note that these effects correspond to Short (ST) and Long Term (LT) outcomes identified by the evaluators that are aligned with the programme ToC.* The Evaluation addresses this issue by drawing on three sources of evidence:

- The perceptions of SGBs that have had a VPO loan approved (10) – on the effects of the VPOP on the companies' performance based on IDI;
- A preliminary quantitative analysis of the performance of client companies *before* and *after* VPOP's intervention;
- Interviews with BAC, Agora and the VPOP Programme manager.

There are several conceptual and practical difficulties in quantifying the financial and developmental effects of VPOP's services on beneficiary SGBs:

- First, given the early implementation stage of the VPOP – first loan disbursed in October 2016 – **most of the assessment is based on a very limited portfolio that has only been recently developed**. (See Section 2.1.2 for VPOP portfolio details). Hence short and long-term effects (with a focus on outcomes) are still emerging and subject to change, and should be considered preliminary; and
- Second, it is generally difficult to attribute improvements in SGB performance to VPOP (or any other single factor) rather than other factors, such as changes in the business environment, the entry and withdrawal of strong competitors, etc. Therefore, we should expect the VPOP to contribute to observed changes only.

Summary of Main Findings: Impact

What are the effects - for Agora, BAC and beneficiary SGBs - (positive and negative) of the VPO's revenue generation model?

- Main effects of the VPOP on the implementing partners are:
  - Agora: The VPO as a vehicle to educate SGBs on EGS as a value-added service worth paying for and hence contributing towards the sustainability of the EGS ecosystem. Agora and other EGS providers cooperate to support the SGB sector developing the EGS system.
  - BAC: The VPO lending product is perceived as a commercially viable product by the bank. New knowledge has been generated within the bank and the bank is becoming more flexible with the product conditions (i.e. default). The VPOP has allowed the bank to share resources across BAC's departments (e.g. CSR and corporate bank). Potential increased competition with at least one bank showing interest on the product.

What unintended results (positive or negative) did the VPOP produce?

- Main unintended effects of the VPOP on SGBs are:
  - *Positive:* Belonging to a new business community, greater confidence and negotiation power, greater visibility useful for business purposes, greater understanding and control over their companies, becoming knowledge transfer beacons within and beyond their VPOP community, improving social and environmental actions and outcomes aligned with their views and businesses.
  - *Negative:* Less time available to the household, high opportunity cost of travel for Somoto SGBs, exposure from media/social media leading to potential/actual unwanted attention/ rumours

- Main unintended effects of the VPOP on implementing partner Agora:
  - *Positive:* Promotional/branding benefit since many SGBs perceived VPOP as led by Agora, learning about SGB sector by innovating EGS services, new role as quality control of EGS in other countries
  - *Negative:* potentially raising false expectations regarding cost of services given free mentoring services provide to date, and high programme opportunity costs

- Main unintended effects of the VPOP on implementing partner BAC:
  - *Positive:* increased flexibility of pledge acceptance for established clients, cross-learning from VPOP to other products
  - *Negative:* high transaction costs

To what extent are the short and long-term outcomes attributable to the VPOP / did the VPOP contribute to? What are the other contributing contextual factors to successful small enterprise growth?

- Given multifactorial considerations and the timing of the evaluation, it is problematic to attribute specific improvements in the performance of the SGBs to the VPOP. However we can make some preliminary statements:
  - *Findings on behavioural changes and variations in the performance of the SGB* as a result of the VPOP are still preliminary- but there is positive evidence:
    - All SGBs claimed that EGS delivered through the programme has contributed to reinforce their marketing processes. A high proportion of SGBs, believe that the VPOP has helped them improve their accounting and financial processes.
    - 86% of SGBs reported that their operational efficiency and the quality of their products has improved as a result of the programme.
    - Anecdotal evidence suggests that networking has been translated into new customers and new revenue streams for the SGB.
  - *Results of the analysis of company performance are mixed* and at this point change in financial performance for the seven SGBs in the sample cannot be generally attributed to the VPOP.
- Other contributing contextual factors which contribute to/constrain SGB growth include:
  - *Contribute:* the new law on moveable assets as collateral
  - *Constrain:* tax system for SMEs, lack of women's empowerment in society, lack of repayment culture limiting commercial banking sector perception of segment as commercially viable

5.1. Main outcomes of the programme

Main expected outcomes (or mid-term effects) of the pilot phase for the SGB are summarised in Table 12. These identified outcome level statements and associated indicators are aligned with the ToC –but are not generally reflected in the VPOP's LF. Agora is currently tracking revenues growth and employment generation for each beneficiary SGB and plans to capture net income soon. The next section (5.2) provides preliminary findings of these identified outcome level indicators using IDIs with SGBs and their financial performance.

Table 12: Main expected outcomes of the programme

Outcome statement	Possible Outcome indicator
Peer to peer learning and identification of business opportunities (through networking events)	No. of events where business linkages were made by SGBs
Improved business and management practices (as a result of behavioral change) across key EGS areas	No. of SGS reporting changes across key business and management practices
Increased customer base	No. of new customers captured
Increased customer offer	No. of new products/services introduced in the local/international market(s)
Improved productivity	No. of SGBs reporting increased productivity
Enhanced operational efficiency	Reported as an operational efficiency ratio
Improved financial performance	Revenues (US$) Net income (US$) Net margin (US$)
Direct employment generation	No. of full-time FTE No. of part-time FTE
Investment mobilised	Value of additional investment mobilised (US$)

Source: In-depth interviews with beneficiary SGBs, VPOP ToC and VPOP monitoring system

5.2. Effects (with a focus on outcomes) of the VPOP on SGBs

5.2.1 Peer to peer learning and identification of business opportunities

Agora has promoted several networking events to encourage peer to peer learning and identify business opportunities among entrepreneurs (VPO and non-VPO) as well as to integrate them to the rest of the entrepreneurial ecosystem, as part of their EGS value. During 2017 Agora has co-promoted several events including:

- January 2017: Communications workshop, in partnership with TechnoServe and Thriive and sponsored by USAID. Over 75 entrepreneurs participating;
- 7 March 2017: Interactive event with three simultaneous workshops on conscious leadership, resource finding and networking skills to promote alliances and networks of entrepreneurs with 32 women entrepreneurs participating, representing 26 companies;
- 7 March 2017: Negotiation workshops for 29 female entrepreneurs from the Nicaraguan women's network of entrepreneurs (REN).

It is still too early to assess effects of networking events on peer to peer learning and identifying business opportunities, given the programme maturity and the fact that these effects have not been defined (output and associated outcome level indicator) and are hence not tracked and integrated into the Programme LF. However, a beneficiary SGB mentioned that through an Agora networking event, she was able to connect with a company that has now become her customer. So, networking has been translated into new customers and new revenue streams for this SGB.

5.2.2 Changes in SGBs business/management practices and performance

The following findings are based on a very small sample of beneficiary SGBs (seven); of the 10 SGBs with IDIs conducted: One did not accept the loan while one is waiting for disbursement and with another the loan was disbursed on 30 November 2017. In addition, none of the seven SGBs included in the sample have completed the whole EGS modules package yet. Hence, **findings on behavioural changes and variations in the performance of the SGB as a result of the VPOP is still preliminary as they are still emerging**.

IMPROVED BUSINESS AND MANAGEMENT PRACTICES

General managers/owners interviewed indicated that so far EGS is helping their companies to improve their business and management practices[44] in a number of ways, including two key ones:

- The seven SGBs claimed that **EGS delivered through the programme has contributed to reinforced marketing processes**; a key initial step to increase their market share. For instance, a High Venture (HV) SGB claims that marketing training is/will support them design advertising campaign for their new e-commerce platform.
- A **high proportion of SGBs, believe that the VPOP has helped them improve their accounting and financial processes.** That is partly due to the fact that SGBs have to learn to produce monthly cash flows so they can service the loan. For less mature SGBs, a great contribution of the programme has been the fact that they now keep and record all invoices – and have an understanding of their revenues and cost streams. Other SGBs – in progress – claim that now they can understand numbers and analysis produced by the accountant. On the other side, HV SGBs have benefited less from these modules – as they generally had already sound accounting and financial processes in place (For details on each SGB please refer to Annex 6 in Volume 2 of the report).

Table 13: VPOP contribution to SGB's behavioural changes – emerging

VPOP contribution – emerging	Companies with positive contribution (n=7)
Improved accounting processes	86%
Strengthened financial and forecasting processes	86%
Reinforced marketing processes	100%
Enhanced communications and negotiation practices	71%
Improved accounting processes	41%

Source: In-depth interviews with beneficiary SGBs

Detailed changes in business and management practices by interviewed SGBs worth highlighting are as follows:

- Introduction of basic IT systems; as a result of the VPOP an SGB is now using computers for the first time;

[44] These have been defined for the purposed of the evaluation as: i) improved accounting processes; ii) strengthened financial and forecasting processes; iii) reinforced marketing processes; iv) enhanced communications and negotiation practices; and v) improved accounting processes.

- Introduction of an invoice record keeping culture in early stage SGBs;
- Improvement of the packaging of the products of an SGB resulting in an increased number of clients;
- Capacity to monitor and interrogate the SGBs' financial statements when these are produced by an external accountant;
- Enhancement of an SGB delivery routes for their products resulting in an increase in operational efficiency.

CHANGES IN THE PERFORMANCE OF THE COMPANY:

General managers/owners interviewed claimed that that VPOP has contributed to the improvement of company performance in the areas that they have been capacitated. For instance:

- **86% of SGBs report that their operational efficiency has improved.** This is understandable given that SGB are in the manufacturing sector and most of them have acquired new machinery or made improvements in the production plant with the financing. For instance, a corn-based biscuit ('*rosquillas*') producer claims that since enhancements in the construction plant were made, she is saving four hours/day to produce the same amount of *rosquillas* than before.

- **86% of SGBS also claim that they have improved the quality of their products as a result of the programme** – thanks to the additional modules designed by Agora on Quality. For instance one company has been recently awarded by Ministry of Industry, Trade and Development with the National Quality Award prize for 2017. The SGB specifically attributed this success to Agora support (For details on each SGB please refer to Annex 6 in Volume 2 of report).

Table 14: VPOP contribution to SGB's overall performance – emerging

VPOP contribution - emerging	Companies with positive contribution (n=7)
Increase market share	71%
Increased range or quality of products	86%
Employment generation	71%
Increased operational efficiency	86%
Improved technology	71%
Additional financing mobilised (investment)	0%

Source: In-depth interviews with beneficiary SGBs

The positive perception of the VPOP held by a substantial proportion of its beneficiary SGBs is further strengthened by the assessment that **over 80% of interview respondents believe that the value of VPOP financial product and EGS delivered so far was equivalent to or exceeded the fees charged.**

Table 15: Perceived Value of VPO Services

	Financial Product	EGS
Value higher than fees	29%	29%
Value equivalent to fees	57%	57%
Value lower than fees	14%	14%
Total	**100%**	**100%**

Note: Percentages may not add because of rounding; Source: In-depth interviews with beneficiary SGBs

CHANGES IN FINANCIAL PERFORMANCE AND EMPLOYMENT[45]:

The evaluation has compared the financial performance of seven beneficiary SGBs *before* and *after* VPOP's intervention, in terms of the revenue, pre-tax profitability and employment.

The baseline 'before' data refer to the year prior to the start of each company's contract with VPOP.[46] The 'after' data is reported as at September 2017.

Performance data for each business includes:

- Net income: margin (provide by the SGB) applied to the revenue data (provided by Agora);
- Employment: data provided by the SGB at the time of the in-depth interview.

To normalise the measurement of companies of differing sizes and duration of VPOP involvement, the absolute changes in the performance measures were translated into average annual percentage changes for each company that can be compared more easily.

Overall, the **results of the analysis of company performance are mixed and at this point change in financial performance for the seven SGBs in the sample cannot be attributed solely to the VPOP**. It is advisable to begin observing the full effects of the VPOP, at company financial performance level, after the loan-financed investment programme has been running for 1.5 years. For instance, a HV SGB has experienced a share decrease in sales (31%) due to fact that it lost three big clients to the (cheap) competition – unrelated to the VPOP. At present they are in the process of recapturing the clients.

As the Table 16 shows, the sample SGBs increased revenues overall by over US$130,000 (or 16% a year) over the period of their VPOP interventions. The average profits of the sample group of companies increased by US$20,000 (or 15% a year). Direct employment increased on average by 22 (or 27% a year)[47], and average employment of women has slightly decreased by 2, but this is mostly attributed to a company decline of 38% (from 18 to 11 employees), and could be attributed to seasonal employment adjustments.

Table 16: Total Change in Surveyed SGBs' Performance before and after VPOP

	Total Performance (n=7)			Average SGB Performance (n=7)		
Item	**Before VPOP**	**After VPOP**	**Annual % change**	**Before VPOP**	**After VPOP**	**Annual % change**
Revenue (US$)	840,000	972,434	16%	120,000	138,919	16%
Profit/Loss (US$)	139,600	159,847	15%	19,943	22,835	15%
Total Employees (No.)	81	103	27%	12	15	25%
Employees – female (No.)	61	59	-3%	9	8	-11%

Source: In-depth interviews with beneficiary SGBs, Agora

Nonetheless, there are **some emerging positive stories** that are starting to arise from beneficiary SGBs. Some SGBs (HV and in progress) have leveraged on the technical assistance and financing provided by the programme and have improved business practices and their customer base, leading to an increased growth: this is the case for three companies. While in other cases, they joined recently the VPOP (and are not included in results from Table 16) and it is too early to observe an increase in their pre-VPOP growth. Their trend and past performance (based on what seems to be good and rational business decisions) suggest the plausibility of continued growth and consolidating financial sustainability thanks to the

[45] For confidentiality reasons, the evaluators have not included individual SGB data and results in this section. However, individual data can be found in Annex 6 for Volume 2 of the report.

[46] In fact, this data was calculated the day BAC/Agora visited the SGB as part of the loan applications process. Hence, data is from 12 months preceding the visit.

[47] Employment figures do not capture the employment generated indirectly through the supply chain.

support from the VPOP. The same conclusion is less clear regarding other SGBs, but in these cases, whether or not they increase their growth and reach financial sustainability may not be a direct consequence of the VPOP, as they also have other challenges.

Key **aspects of the VPOP's** support provided that are **contributing to successful outcomes to SGBs**[48] are:

- **EGS flexible delivery** plan, and implementation adjusted to the capacity and specific needs of the SGB – adjusting group and individual modules and even developing new modules as per the client request (i.e. Quality and Productivity);
- **Networking events** to promote business opportunities across SGBs, validation of businesses – see Section 5.2.1;
- **Approach strategy**: the fact that the EGS provider first approaches the SGB (instead of the bank) to discuss the programme. Early stage or in progress SGBs generally have a very limited understanding of the bank and have not developed a relationship yet. One SGB mentioned that before she joined the VPOP she was 'terrified of the banks';
- In relation to the lending facility:
    - **Flexible interest and principal repayment**: cash based loan product, allowing the SGB to repay its loan depending on its previous monthly revenues;
    - **Scalable interest rate**: incentivising SGB to repay before the loan reaches maturity. For instance, one SGB (loan disbursed by 20 October 2016), has already repaid 20% of its principal;
- VPOP financing partner is a well-known and respected bank in Nicaragua –giving the **SGB a stamp of approval and increase in confidence** on its growth ambitions;
- Involvement of the CSR department of the Bank – beyond VPOP standard services – that contributes to the development of the SGB ecosystem;
- Agora's **mentoring services** (out of scope) to enable: i) less mature SGBs to acquire the required accounting and financial skills to service the loan and ii) more mature SGBs to address ad-hoc demands to achieve a growth objective.

Key **aspects of the VPOP's** support provided that **are not contributing to successful outcomes to SGBs** are[49]:

- For early stage and in progress SGBs: **there is no requirement** by the programme to put forward a simple **business plan** that articulates how they will achieve their growth ambitions and how the financing requested will contribute to the achievement of this business plan. This leads to Agora spending extra time supporting the SGB to prepare the investment plan;
- **Bank operating arrangements**: Lack of automated systems in the bank delays the loan application, approval and disbursement process. This fact is exacerbated by the fact that bank departments work in silos and do not coordinate effectively;
- For the lending facility: **Lack of grace period,** without which some SGBs have to commence repayment for machinery in advance of being in operation and generating revenue;

[48] Source: Interviews with SGBs and delivery partners.
[49] Source: Interviews with SGBs and delivery partners.

- **Deficient programme MIS** – i.e. key VPO manual not updated to reflect current delivery processes and procedures and hence not followed by BAC or Agora.

5.3. Effects (with a focus on outcomes) of the VPOP on implementing partners

5.3.1 EGS delivery partner: Agora

The VPOP as a vehicle to educate SGBs on EGS as a value-added service is perceived as worth paying for and hence contributing towards the sustainability of the EGS ecosystem**.** Some VPOP target SGBs have already gone through several free-of-charge capacity building initiatives, and when these SGBs start receiving VPOP EGS, they stated that they value those charged-for services, provided they are fit-for-purpose. However, some beneficiary SGBs are not aware of how much they pay for EGS. The ET recognises that this a long-term process and EGS providers will need support from donors in the short term to operate.

Agora and other EGS providers cooperate to support the SGB sector developing the EGS system. Agora has leveraged on other EGS partners (and has built alliances) in the country to build the pipeline and to promote networking events. For example, Agora has resorted to their good reputation and collaborative relationship and has established working relationships with other relevant EGS providers such as TechnoServe, Thriive, and REN to feed the VPOP pipeline. Moreover, as mentioned in Section 5.2.1, Agora has also joined efforts with EGS providers to promote networking events. This corresponds to another expected effect of the VPOP over the EGS provider: the scaling up of the EGS market, as per the ToC, and the SGBs ecosystem.

5.3.2 Local Partner Bank: BAC

Since mid-2017, **the VPO portfolio has been gaining some traction** with the bank finally taking ownership of the product and starting to mainstream across all branches and departments. Moreover, **the asset quality for the product remains excellent** (zero default) as the bank targeted.[50] Given that the product has now got 'its stamp of approval' and internal operational and working arrangements are in place (albeit inefficient), BAC aims at aggressively growing the VPO portfolio during 2018. This will inevitably translate into a slight worsening of the VPO asset quality. The Bank is at present willing to accept some defaults, therefore **has become more flexible** – please refer to Section 2.1.4 for more details.

The VPO credit product is perceived as a commercially viable product by the bank. Interviews with BAC representatives confirmed that the VPO product has begun to contribute towards the profitability of BAC (See Section 6.2 for details). Even if at marginal level, the bank is now able to forecast what to expect in terms of portfolio growth for the new product according to realistic scenarios of number of actual borrowers and their repayment speed in relation to the growing interest rates set up in the VPO loan. In addition, the bank sees the potential the VPO product offers to tap the SME sector, a niche market where there are interesting product cross-selling opportunities please refer to – Section 2.1.4 for more details.

BAC's participation in the VPOP has represented a learning process at both the individual level within the team in charge of the new product, as well as at institutional level, including the involvement of the bank's Corporate Social Responsibility department. **New knowledge has been generated within the bank because of their VPOP dealings with the SGBs**, **with Agora, and with corporate clients** that are also principal clients of some of the borrowers (e.g. Walmart and La Colonia). To some extent, this process has led BAC to educate part of the corporate sector in the adoption of bank transfers rather than traditional cheques. Moreover, BAC has started

[50] According to Enclude's Managing Director, although this is one challenge faced by BAC in Nicaragua, the implementing parties know that it is not healthy. That pursuit of a zero level disproportionately drives up costs (slow, double and triple checking, overly granular selection and assessment, and so on), and it probably keeps slightly more but still reasonably risky business out of the product.

training managers of branches – an essential step given the strategic and frontline role that branches play for the mainstreaming of the VPO lending.

The VPOP has allowed the bank to share knowledge resources across BAC's departments (e.g. CSR and corporate services unit). BAC has gained a fresh image, and there is visibility of the VPOP in the media.[51] Also, an early exchange of ideas for synergies with BAC Costa Rica's CSR is starting to happen.

Successful implementation of the VPOP is **expected to generate interest among local commercial banks** SGB sector is seen as a commercially viable market by banks (as per the ToC). Around the time of the field visit another bank had approached Agora to comment on their commercial interest in the VPOP. They showed awareness that it is a BAC product, which is reaching an untapped segment in Nicaragua.

5.4. Ancillary effects (or unintended effects)

The in-depth interviews with beneficiary SGBs indicated that there have been other positive and negative effects for SGBs and the implementing partners. These are summarised in Tables 17 and 18 below.

5.4.1 For beneficiary SGBs

Table 17: Ancillary effects for beneficiary SGBs

Theme	Benefit
Community and household development	✓ Building a business community and the sense of ownership and belonging to a new breed of entrepreneurs in Nicaragua characterised by aspirations to grow, professionalism and cooperation. ✓ Some SGBs are financially educating their clients – who are entrepreneurs too– in their local markets where those SGBs sell their products. That has had a positive influence on non-VPOP entrepreneurs who have opened a bank account for the first time to deposit their business sales. × Less time available to dedicate to household activities. × For Somoto SGBs: travel time to Managua – high opportunity cost for their businesses
Business growth/success	✓ Positive exposure to traditional media (e.g. local newspapers and national TV), social media (Facebook and YouTube) and networking events to attract potential clients. Moreover, Agora usually takes photographs during visits, focus groups, capacity building sessions and networking events. Some of those images are displayed in subsequent events, further expanding the visibility of the SGBs among relevant business people and organisations. × Broader and frequent exposure to the public via social media, has created awareness and some concern due to the higher risk of being targeted by the government, and becoming victims of malicious attacks or unfounded comments/rumours affecting their companies. ✓ Enhanced accounting systems reducing the risk of employees stealing from the company. ✓ Increased confidence and negotiating power by SGBs since BAC offered them the loan product.
Social and environmental outcomes	✓ Company employees along with the entrepreneur are benefiting from the VPOP EGS.
	✓ At least in one case, the SGB owner has gone through health check for the first time, motivated by the insurance application process required by BAC to the VPOP borrowers. It is unlikely such medical check would have taken place otherwise.
	✓ Reduction of stress levels in staff and improvement in customer satisfaction. ✓ Enhanced accounting systems and automation of sales orders, delivery and payment processing, increasing efficiency, reflected in reduction of stress levels in staff and improvement in customer satisfaction.

[51] Examples cited in footnotes 38, 59, 60.

	✓ Environmental benefits as key production methods use eco-friendly modern equipment acquired using the VPO loan. That adds to other environmentally-friendly practices used by some of the SGBs.
	✓ Substantial reduction of wood consumption by corn-based biscuits producers (*rosquillerías*) by replacing traditional ovens with improved technologies based on wood combustion or modern technologies based on gas.
	✓ Improvement of working conditions for SGB's employees, by avoiding production processes based on wood combustion. This change has reduced health risks from indoor-generated air pollutants such as carbon monoxide and particulate matter from indoor wood burning.

Source: In-depth interviews with beneficiary SGBs

5.4.2 For Implementing partners

Table 18: Ancillary effects for implementing providers

Theme	Benefit
EGS provider: Agora	✓ VPOP ownership: The VPOP is perceived by some SGBs as led by Agora. In fact, some of them know the VPOP as 'the Agora's programme', which offers good marketing/promotional benefit for Agora. ✓ Agora's role has unintentionally included mentoring and advice services into their activities to address SGBs needs, enabling them to learn more about the SGB sector. ✓ Business opportunities. Given its crucial function in the pilot in Nicaragua, Agora is being envisaged by Enclude and Agora themselves as a sort of overall controller and standardiser of the work to be done by other EGS providers in countries in Central America where Agora do not have physical presence. × Beneficiary SGBs are becoming accustomed to having access to Agora mentoring services at no extra cost. Similarly, some future applicants to the VPOP – especially those who are learning about the VPOP by word of mouth from existing participants – could be getting false expectations about the type and extent of support provided by the VPOP over the longer term, which risks raising false expectations or sustainability of the programme. × High opportunity costs, due to the high transaction costs associated with the VPOP – programme coordination and tailored EGS provision.
Local Bank Partner: BAC	✓ Increased flexibility of pledge acceptance for established clients i.e. SGBs in the VPOP. ✓ Transfer/integration of some VPO features (e.g. deposits for the payment system) to other products for credit services offered to SMEs unrelated to the VPOP. The loan officer mentioned that this idea occurred to them thanks to the VPOP. × High opportunity costs due to the high transaction costs associated with the VPOP.
Programme coordinator: Enclude	✓ Knowledge acquired on a new innovative business model that can be replicated in other regions × High opportunity costs – implementing partners and Enclude are based in different locations.

Source: Beneficiary SGBs interviews

5.5. Contribution and Attribution

As mentioned earlier in this section, given multifactorial considerations and the timing of the evaluation, it is problematic to identify VPOP contributions to the changes in business and financial performance of the SGBs and hence to attribute specific improvements in the performance of the SGBs solely to the VPOP:

- For ST outcomes related to behavioural changes, some emerging evidence that can the VPOP has contributed to can be observed. That specially applies to SGBs that have for instance improved their accounting and financial management practices (See Section 5.2.2);

- For LT outcomes related to changes in financial performance of the SGBs, at this point in time, contribution by the VPOP to this change is weak (See Section 4.2.2).

Moreover generally, as mentioned above, it is difficult to determinate contribution of the VPOP to improvements in company performance to VPOP (or any other single factor) rather than to other factors, e.g. changes in the business environment, the entry and withdrawal of strong competitors, etc. Table 19, summarises replies from SGBs on which external factors are contributing to or constraining successful SGB growth. However, it seems unlikely that these contextual factors at this point of time ¡, had influenced the outcomes. It is too early to observe such a possible influence.

Table 19: Contextual factors that might be contributing to or constraining SGB growth

Theme	Contextual factors in Nicaragua
Enabling environment	× **Tax system for SMEs**: in general, the tax system is perceived as unfavourable: both taxation on its own, as well as some aversion among Nicaraguan entrepreneurs to full transparency to the government. There is also weak confidence in the proper use of their data by the tax authority and politicians. This is consistent with the literature reviewed.[52] ✓ **New law on movable assets**: One positive development in the institutional framework in Nicaragua is the law reform aimed at facilitating the use of movable goods as a more common means of collateral to increase access to finance to SMEs. However, that law reform has remained 'law on the books' so far, as it was enacted in 2017 but the procedural details are pending and thus the new 'Secured Transactions Law' has not been fully implemented yet.
Women's empowerment	× **Insufficient** levels of **women empowerment and education** to cope with non-supportive attitudes by their male family members while leading a business.
Operating environment	× **Lack of repayment culture:** Creditors have good reasons to show some aversion to MSME lending – collapse of the microfinance sector in Nicaragua in 2008 and the way its aftermath effects were handled by the central government (e.g. acknowledging that there is a prevailing no-payment culture and delaying law enforcement measures).[53] This point emerged in interviews with key informants.

Source: In-depth interviews with beneficiary SGB

[52] Council Superior of Private Enterprise (COSEP) and International Labor Organisation (ILO). 2015). Survey of Sustainable Enterprises Nicaragua 2015: *Identification of obstacles for business development*. Geneva, Switzerland, International Labor Organisation. Pp. 13, 20, 21, 46-49, and 55. Also, IDIs and focus groups conducted by Itad team in Managua and Somoto, November 2017.

[53] Nicaraguan microfinance sector 'demands the Government to end the culture of non-payment'. 06 September, 2010. *La Prensa.* Nicaragua. Available at: https://www.laprensa.com.ni/2010/09/06/cultura/463596-exigen-al-gobierno-poner-fin-a-la-cultura-de-no-pago

6. Sustainability

This section focuses on answering two specific evaluation questions related to the sustainability of the VPOP services. Given the limited progress made on the pilot, to date, the evaluators have only been able to gather limited emerging evidence during the field visit to Nicaragua. Hence, this section should be read bearing this in mind.

Summary of Main Findings: Sustainability

To what extent is the provision of the EGS sustainable, focusing on the extent to which fee structure is meeting the cost of delivery, and what should a sustainability objective look like in the context of the programme?

- The delivery of EGS is not profitable for the VPOP as currently delivered and hence at present is not in the right track to be financially sustainable. The EGS delivery model has evolved and been adapted to the demand, capacity and skills of each beneficiary SGB resulting in change in module approach and the inclusion of out of scope activities - mentoring services - at no cost.

To what extent is the provision of the VPO product sustainable i.e. - integrated into the main product offering by BAC to SMEs? What should a sustainability objective look like in the context of the programme?

- The pilot has demonstrated so far that there is demand for the VPO product and that albeit it has higher transaction costs that an average SME or corporate loan and it is a profitable business for BAC. The Bank is in the process of mainstreaming the VPO product with a view to tap a commercially viable SME sub-segment and exploit cross-selling opportunities.

6.1. Delivery of EGS services

At present **the delivery of EGS is not profitable for the VPOP and hence at present is not in the right track to be financially sustainable**. As mentioned throughout the report, given the varying levels of maturity and capacity of beneficiary SGBs, Agora has not been able to follow the EGS delivery approach as planned. Initial agreed VPO operational arrangements included:[54]

- **Compulsory EGS**: each SGB would receive 40 hours of EGS (24 hours in groups and 16 hours of individual sessions) divided into four core modules 1. Cash-Flow, 2. Basic Accounting, 3. Sales and Marketing, 4. Impact and decent Jobs). The delivery cost of these compulsory core services is included in the disbursement fee (4% of loan value);
- **Non-compulsory EGS**: Add-on services – requested by the SGB– to be offered by the EGS provider at an additional cost for the SGB.

During the pilot this EGS **delivery model has evolved and has been adapted to the demand, capacity and skills of each beneficiary SGB**. This has resulted in Agora designing and piloting eight modules instead of the initially planned four: 1. Cash-Flow, 2. Basic Accounting, 3. Sales, 4. Marketing, 5. Strategy and KPIs, 6. Quality and 7. Productivity and 8. Communications and Negotiations skills; with each beneficiary receiving only the individual

[54] Source: VPO Proposal to AF, Enclude, 2014.

or/and group sessions of selected modules. Modules 6, 7 and 8 are additional modules that Agora has designed and is delivering (or will deliver) at no cost.

If we analyse the cost incurred by Agora with regards to developing and delivering EGS for the VPOP programme as opposed to revenues collected, we observe that costs outweigh revenues by a large extent – see Table below. It is worth mentioning, however, that the VPOP is introducing an EGS payment culture in Nicaragua, as before the VPOP was launched, most of the EGS targeting SGBs are free of charge or are very cheap. Moreover, the EGS are not cheap services – according to Agora – and at current EGS eco-system development stage, EGS feed cannot be increased.

Table 20: EGS development and delivery revenues vs costs

Direct Costs incurred by Agora (US$)

	2015	2016	2017	TOTAL
Salaries	12,216	62,450	96,508	**171,174**
Phone	n/a	1,116	1,149	**2,265**
Transport for company visits	n/a	1,604	2,618	**4,222**
TOTAL	**12,216**	**65,170**	**100,275**	**177,661**

Revenues (loan approval fee and monitoring fee) (US$)

TOTAL	**10,285**

Source: Agora

By analysing in detail Agora costs incurring by developing and implementing the programmes, we observe that since inception 29% of the costs has been allocated to pipeline development and appraisal of loan application and 22% have been allocated to module development and design. These costs will be decreasing during 2018, as pipeline efforts are taken over by BAC and module design will be mostly completed, while costs allocated to BDS delivery will increase.

Table 21: Detailed EGS development and delivery cost breakdown

	2016	2017	TOTAL	as %
Program management, reporting, and partners coordination	10,553	16,122	**26,675**	*17%*
Eco-system development	n/a	11,614	**11,614**	*7%*
Pipeline y and appraisal analysis	30,435	14,979	**45,414**	*29%*
Module Design and development	16,390	17,888	**34,278**	*22%*
BDS delivery	5,073	20,282	**25,355**	*16%*
Cash flow support and mentoring	n/a	9,014	**9,014**	*6%*
BAC support	n/a	6,606	**6,606**	*4%*
TOTAL	**62,450**	**96,505**	**158,955**	***100%***

Source: Agora

Finally, **Agora has been providing mentoring services beyond the scope of the VPOP at no cost.** Given the close relationship that Agora builds with each borrower, Agora ends up becoming its trusted advisor and they are consulted frequently on business decisions/issues and even provide hands on support on specific challenges that affect the SGB's growth. For instance, Agora supported one SGB to process final paperwork so they could get the Walmart contract.

Table 20 provides detailed evidence on the number the hours spent so far by Agora on three beneficiary SGBs: an early stage and two in progress SGBs. Between 40% and 60% of Agora's time has been devoted to the delivery of EGS. **All three SGBs are already reaching the 40 hours threshold established by the programme and have not yet concluded their capacity building plan**. Consequently, Agora has already devoted over 100 hours to support one SGB 46% of this time has been devoted to ensure compliance with cash flow reporting while also receiving mentoring services.

Table 22: Number of hours devoted to selected SGBs by Agora

	# *In progress* # hours		# *In progress* # hours	# *Early stage* # hours
Loan application support	**14**		**9**	**10.5**
of which support to prepare investment plan	*21%*	#	*44%*	***29%***
EGS delivery -modules				
Cash Flow group session	3		3	3
Cash Flow individual session/s	15		7	11
Basic accounting group session	3		0	3
Basic accounting individual session/s	4		4.3	3
Sales group session	4.5		4.5	4.5
Sales individual session/s	5		7	4
Marketing group session	0		4	4
Marketing individual session/s	2		1.5	1.5
TOTAL	**36.5**		**31.3**	**34**
Mentoring services (out of scope)	**6**		**0**	**0**
Monitoring	**48**		**18**	**12**
TOTAL of support provided by Agora	**104.5**		**58.3**	**56.5**

Note: This analysis does not include time spent by Agora on documentation review from the SBG to calculate cash flow, visits preparation, workshops preparation and on supporting the bank on managing SGB's accounts. Six hours of mentoring services for one SGB are total hours – at the point the analysis was made.
Source: Agora

6.2. The VPO financing product

At this point in time, BAC is in the process of mainstreaming the VPO product and is willing to extend its financing beyond US$ 1 million accepting provided that the asset quality remains acceptable**.** The bank has recently incorporated the VPO product into their online SME services offer**.** The Bank is also capacitating branches and has set up product volume targets for 2018. **The pilot has demonstrated, so far, that there is demand for the VPO product and that though it has higher transaction costs that an average SME or corporate loan, it is a profitable business for BAC – as corroborated by the loan officer.** BAC does not calculate the profitability of its financing products. Nevertheless, the loan officer has estimated that for an average US$30,000 loan, the bank spends around three days for loan origination and then one day /month on loan monitoring. With an annual interest rate of 12%, it has been estimated that the bank could earn around US$600 annually for this loan – excluding commission fee and operational costs.

In addition, the **VPO product is contributing towards supporting the bank in tapping an SME sub-segment**: SGBs with strong potential to grow but that still do not have a reference bank.[55] The Bank aims at becoming their reference bank and exploit product cross-selling opportunities. Overall, the VPO product is on track to become sustainable, however in order to do so the bank should also:

- fully mainstream the VPO product across all of the 8 branches that can provide credit while capacitating the bank's staff adequately;
- take full ownership of the loan origination process and implement the defined strategy with Agora's support; and
- further leverage on the CSR department to learn about the SGB market while supporting them with targeted initiatives.

At present, the SGB sector is seen as a commercially viable market by banks (as per the ToC). Around the time of the field visit another bank had approached Agora to comment on their commercial interest in the VPOP. They showed awareness that it is a BAC product, which is reaching an untapped segment in Nicaragua.

[55] A reference bank is one used by SGBs/clients for most of its financial services: operating/savings accounts, other core financial products.

7. Learning

This section focuses on answering four specific evaluation questions that are related to the VPOP learning.

Summary of Main Findings: Learning

How is the VPOP learning (a) internally, (b) from others in the sector, and (c) from the USAID PACE initiative/ Argidius partnership?

- VPOP **internal learning** (between Enclude, Agora and BAC) has occurred informally via simple mechanisms and without any formal learning process in place, limiting effective learning uptake. Some knowledge products have been developed so far. Learning from others in the sector has taken place mainly through relationships with other relevant EGS providers. Knowledge and information sharing between the VPOP and AF is achieved mostly through programme reporting and field visits by the Investment Committee complemented by calls.

What are the successful aspects of the support provided that are replicable for the programme expansion?

- Main lessons learned to feed into **replication/expansion of the VPOP**: i) limit the selection of beneficiaries who are early stage SGBs; ii) clearly define actual roles and responsibilities of each delivery partner based on their capacity, reflected in a regularly updated VPOP Manual; ii) promote the VPOP through a well-respected non-governmental organisation in cooperation with the LBP; iv) and to avoid launching the programme before the institutional arrangements, operational processes and procedures had been designed and tested.

Are female led SGBs the adequate focus for the VPOP toward achieving maximum impact for Phase II and Phase III?

- **A 'gender forward' approach** instead of a 'women-only' approach is best suited for the VPOP's purposes.

What lessons does VPO's experience offer around how banks international impact investors can most effectively work together to support businesses?

- As to **third party investors** and LBPs working together: before engaging with them, the programme must define how to integrate them into the VPOP; charging third party investors with fees to invest their money in the VPOP is an unnecessary barrier, and sharing risks and increasing investable resources into the VPOP could be crucial when some of the SGBs have emerging business opportunities to boost their growth with additional financing.

7.1. Learning process and uptake in the programme

VPOP learning has been generally achieved informally and through simple mechanisms. To date, the VPOP has established limited learning procedures, reflecting the lack of formal processes that exist to run the programme. This is mostly due to resource constraints and the fact that the core team (Agora and Enclude manager) have been focusing on getting the programme off the ground while finding ways to work around BAC's limitations.

Internal learning between Enclude, Agora and BAC **occurs constantly (and smoothly) through informal mechanisms** – via WhatsApp/emails/calls etc. – and through meetings when the Enclude manager is in Nicaragua. Moreover, Enclude and Agora hold **weekly meetings** (face to face /via skype or call) to discuss progress of the pilot/scoping for replication and issues to address and other emerging matters. The evaluators note that in October 2017, a strategy meeting was held with Enclude, Agora and the Miller Center to discuss project progress and Phase II design and implementation. The fact that the VPOP does not have a knowledge MIS, limits information exchange among delivery partners and thus effective learning.

VPOP has developed some knowledge products: A series of video recordings showcasing the VPOP and its benefits (with IDIs to beneficiary SGBs) have been published on YouTube and also broadcasted by 'Nicaragua Empresaria TV'.[56] Similarly a video has been produced to showcase BAC's CSR initiatives to support SMEs in Nicaragua, including the VPOP.[57] There are other independent similar TV videos showcasing SGBs that have participated in the VPOP.[58] On the whole, this material constitutes initial evidence of positive experiences, inspirational cases and knowledge about the VPOP that is being generated. However, there i**s to date no knowledge strategy for the programme.**

Learning from others in the sector has been achieved generally through relationships with other relevant EGS providers such as TechnoServe, Thriive, and REN in Nicaragua (See Section 5.2.1 for details). It is worth mentioning that BAC through its CSR department has been promoting activities to support SGBs (VPOP and non-VPOP) in the sector and thus learning about the target market. However, at this point in time it is not clear to the evaluators how the knowledge obtained through these CSR activities is taken up and used to feed the VPOP.

Knowledge and information sharing between the VPOP and AF is achieved mostly through programme reporting and bi-annual field visits to Nicaragua by the Investment Committee complemented by calls when required. These learning channels satisfied AF. However, as mentioned above, the programme has not transformed knowledge and information sharing into a formal process and thus learning between AF and the VPOP is generally **done informally and on ad-hoc basis** – if we take out reporting requirements and bi-annual visits.

7.2. Female-owned business focus of the VPOP

At this point in time, there is consensus between Enclude and Agora that the programme should not be exclusively women focussed but instead be 'gender forward'. To the evaluators this means that, given the market where the programme operates, more SGBs led or managed by women will benefit from the VPOP. However, for the pilot in Nicaragua, the programme was delivered as a women-focussed programme with the bank promoting the programme as part of their CSR activities.

The SGB sector in Nicaragua seems to have more women-led enterprises. That is partly due to some advantages that women have in that country. For example, additional support from local government programmes, from international donors and from other private organisations such as EGS providers. However, for the aims of the VPOP, there is no reason to present the VPOP as exclusive to women i.e. excluding men. Provided that the right entrepreneurial profile is met, the gender aspect is not an intended barrier to men-led enterprises. Thus, there is need for a more creative approach to cope with situations where a few men attend group sessions that are part of the VPOP (e.g. networking or capacity building) and men are requested to leave (on the grounds that their comments or presence are necessarily disruptive or undesirable) – see Section 8.2.

The evaluators agree that **a 'gender forward' approach instead of a 'women-only' approach is best for the purposes of the VPOP** towards achieving its main aims and objectives.

7.3. Lessons learned for programme expansion and replication

The evaluators have identified aspects of the pilot that should be taken into consideration when replicating and expanding the model into other countries in Central America, as follows:

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[56]:https://www.youtube.com/watch?v=xEHnTRx3mqA&feature=youtu.be, and https://www.youtube.com/watch?v=x4fbYto4LXs.

[57] 2-minute video published by CWTV news channel Nicaragua 'BAC Credomatic present at the 13th Forum 'UNIRSE'. Published on 03 September 2017. Showcasing BAC's Corporate Social Responsibility initiatives to support SMEs in Nicaragua. Available at: https://www.youtube.com/watch?v=cPHHZOvzZww&feature=youtu.be

[58] 4-minute video published by Channel 4 TV, Nicaragua. 'Growing together: Carmelita Coffee'. 14 May 2013, showcasing 'Davila Tellez co.' available at https://www.youtube.com/watch?v=QI1T7hhVoWc&feature=youtu.be

Target Market:

The evaluators agree with Agora and Enclude to use a gender forward approach when selecting SGBs to maximise the impact of the programme – improved SGB's financial performance and employment generation. However, without making any reference to gender in the targeting criteria, the types of businesses targeted will typically be women-led or women-owned anyway, given the dominance of women in the SGB sector in Nicaragua.

Limit the selection of VPOP beneficiaries who lack a clear strategy and adequate capacity to leverage on the VPOP and achieve growth objectives (i.e. early stage SGBs). This SGB profile requires intense hand holding by delivery partners, with the EGS partner not being able to operate on a least cost recovery basis. Moreover, such a profile could result in a negative image of the programme. Clearly established criteria as to what constitutes the right profile of beneficiary SGBs should be laid out in the VPOP manual for each VPO replication.

Programme Delivery:

When expanding to a new country, there needs to be **a clear definition of 'real' roles and responsibilities of the delivery partners** since inception based on their capacity, reflected in a VPO Manual that will be adapted to the country context.

In countries where access to banking finance is still low due to cultural barriers – lack of mistrust of financial institutions by viable SGBs – the **VPOP should be promoted by a well-respected non-governmental organisation** that supports the development of the SME sector in the country. Ideally, this role should be played by the EGS delivery partner that would also be responsible for the initial screening (in cooperation with the LBP).

When entering into a new market with new delivery partners, **do not launch the programme until institutional arrangements, operational processes and procedures have been established and tested.** This way, the implementing partners can establish a good reputation in the markets from the beginning and avoid negative interactions with the first SGB clients (See Section 8.2 for further details).

7.4. Lessons from investors and banks working together

There was limited information available to derive lessons for investors and banks working together, since the evaluators were not granted clearance to interview potential investors (i.e. Triple Jump or OikoCredit) due to commercial sensitivity issues. At this point in time, lessons learned from implementing the VPOP with a bank as a key partner for the pilot country while attracting third party investors to co-finance the initiative, are as follows:[59]

- **Before engaging with third party investors, the programme must define how to integrate them into the VPOP** by ensuring: i) the LBP has been secured and feasible options to channel co-financing have been discussed and agreed; ii) the term sheet for the OIV has been produced; iii) local and OIV location legal and tax advisors have been consulted. Otherwise implementing partners will end up burning the investors if they engage them too early, as was the case in the pilot.
- **Charging or overcharging third party investors with administrative or other fees as a condition to invest their money in the VPOP is an unnecessary barrier.** However, the way to put forward that possibility seemed to be crucial too. From our fieldwork investigations, we learned that some investors were put off by the expectation of BAC (more specifically, its trust department 'Fideicomisos') to charge a fee (0.5%) for managing the account where investors were going to channel their financing for the VPOP.

[59] This section was brainstormed with Jose Mantilla, VPOP Manager.

- **Sharing risks and pulling a larger amount of investable resources into the VPOP allows for a larger capital base available, to support some SGBs who have realistic emerging business opportunities for further growth if they could count on additional financing during the VPO loan's amortisation period.** In the absence of co-investing between third party investors and local commercial banks, there is room for missed viable financing opportunities. This seems to be especially true when the VPO borrowers correspond to the right SGBs profile (ambitious, consistently proactive and seeking continuous growth as opposed to entrepreneurs satisfied with a one-off credit).

8. Conclusions and Recommendations

8.1. Conclusions

After a slow start, during which programme targets/ambitions had to be revised down, **the pilot in Nicaragua has gained some traction** with 10 VPO loans approved (and eight disbursed) at the end of November 2017 and with fit-for-purpose EGS designed and delivered to them. Programme delivery adjustments have been made to adapt to: i) the VPO loan product to demands and capacity limitations of BAC; and ii) EGS provision to SGBs maturity and capacity profile. The pilot has proven that **the VPOP business model is valid – proof of concept has been achieved – and product and services provided to SGBs are overall additional to the Nicaragua market.**

It is still too early to reliably assess effects of the pilot on beneficiary SGBs and on delivery partners, however some positive intended effects are starting to emerge in line with the ToC (and overall some additional unintended positive effects are emerging, along with a few negative). Through the VPOP, Agora is educating SGBs to pay for EGS services and is contributing to the EGS ecosystem in Nicaragua, whilst developing critical market know-how. BAC sees the VPO lending product as a commercially viable product and is beginning to mainstream the Programme. For SGBs, positive behavioural changes and improvements in performance have been realised, e.g. EGS delivered has reinforced their marketing processes and improved their accounting and financial processes, and access to finance has enabled them to procure necessary equipment/assets that they otherwise couldn't finance. SGBs reported that their operational efficiency and the quality of their products improved. **However, changes in financial performance for the seven SGBs in the sample cannot be attributed only to the VPOP as there are other contextual and operating factors contributing to these results.**

The sustainability of the programme, and scale-up, will be contingent on Enclude, Agora and BAC more effectively institutionalising the programme and formalising governance and management arrangements. Current operational arrangements, set up to deliver the pilot and coordinating multiple delivery partners, are informal with limited processes and procedures in place (the VPO manual has not been updated and it is not used) and with a casual management approach, which risks sustainability of the programme particularly if scaled up.
A key driver of the success of the pilot has been Agora (EGS provider) going beyond its core mandate, bringing into consideration the financial sustainability of their services provided. It remains to be seen whether BAC taking ownership of the pipeline, without automated systems and without an internal champion, will be able to grow the portfolio.

8.2. Recommendations

These recommendations have been put forward to facilitate the VPOP to transition from a pilot project in Nicaragua to a regional programme in Central America/Latin America region. When relevant, these recommendations have distinguished between the pilot and the expansion/replication phase.

Overall, we recommend to **commission an impact evaluation, adequately resourced, during 2019** when Phase II is expected to be completed and the VPOP will be operational in at least two countries. At that time, it should be possible to fully assess expected effects of the VPOP on SGBs (especially at the outcome and impact level) as per the ToC as well as to determine the cost benefit analysis of the intervention (both financial and economic).

8.2.1 Governance arrangements

Establish simple and lean governance arrangements to oversee the direction of the programme, provide strategic guidance, address challenges and mitigate risks. This could be operationalised by simply setting up quarterly calls among key stakeholders (funders, programme manager and EGS coordinator) where the programme manager would set the agenda and provide some background documentation. This would provide a **common platform** for key stakeholders to effectively engage.

8.2.2 Organisational and management arrangements

Set up formal organisational and management arrangements as well as clear lines of accountability to facilitate the delivery of the VPOP's objectives. This implies the **establishment of a formal Project Management Unit (PMU)** with its own full-time project manager, headed and managed by Enclude. The PMU should plan and coordinate work across key delivery partners, design and implement standard key processes/procedures and tools for the delivery of the VPOP across countries. Other functions of the PMU could be (not exhaustive):

- Oversee and manage programme delivery;
- Scope new bank partners for expansion and design VPO delivery model into new markets;
- Lead on early implementation to ensure the successful scale-up of the VPOP;
- Set up a knowledge and information system so lessons learned can be taken across VPOP countries towards improving programme delivery, along with a centralised data management system;
- Ensure that VPO Manuals are used, and updated periodically to integrate lessons learned in each delivery country; and
- Design and use a risk matrix for the VPOP.

Phase I: Pilot (Nicaragua)

- **Update the VPO Manual** so it reflects current delivery model. Set up a process by which the Manual is updated on a regular basis; for example, semi-annually, while ensuring the updated Manual is uploaded on a central data system. The Programme should appoint a **champion at the bank** (or recruit a product manager) that can support the bank taking ownership of the programme and pushing the pipeline while consolidating and mainstreaming the product across the Bank.

Phase II/III: Expansion/replication

- Create a **'Bible VPO Manual'** (that can be the current one with some adjustments) that reflect the basic delivery model of the programme. Then this Manual has to be adapted to the local partner bank and country context. Set up a process by which the Manual is updated on a regular basis; for example, semi-annually, while ensuring that the updated Manual is uploaded on a central data system;

8.2.3 Strategy /Communications

- Promote a **gender-forward approach** so non-female led SGBs that fit the VPOP profile can also benefit from the programme contributing towards achieving programme objectives, whilst maintaining a focus on business owners from those societal groups that typically have least access to right-fit products and services.

Phase I: Pilot (Nicaragua)

- Draft a **strategy note** where delivery partners agree on their roles and responsibilities. This note should also include a strategic approach to pipeline development – VPOP portfolio should be a mix of early stage/in progress/HV SGBs to enable financial viability of the programme (ensuring an effective portfolio balance of financial sustainability and developmental impact);
- Track and communicate **unexpected social and environmental positive effects** that are emerging in SGBs as a result of the programme. More should be done to track and communicate those social and/or environmental practices benefits as unintended positive consequences; and

- Prepare **communications materials** where the main features and achievements of the VPOP are described, as well as the role of the bank and of Agora are clearly spelt out. Each potential SGB should receive this material as part of the screening and due diligence process.

8.2.4 Technical Services design

Phase I: Pilot (Nicaragua): The following recommendations can also be taken into account when entering into a new market.

Loan origination modifications:

- Ensure that potential SGB applicants fully understand the terms and conditions of VPO services during the application process– including the fees to pay towards EGS;
- Update and standardise the investment plan template setting clear limits for capex and working capital. Moreover, a questionnaire should be also filled in together with the client where the reasons of why the client fits into the VPOP are clearly spelt out and their expansion plans are clearly articulated.

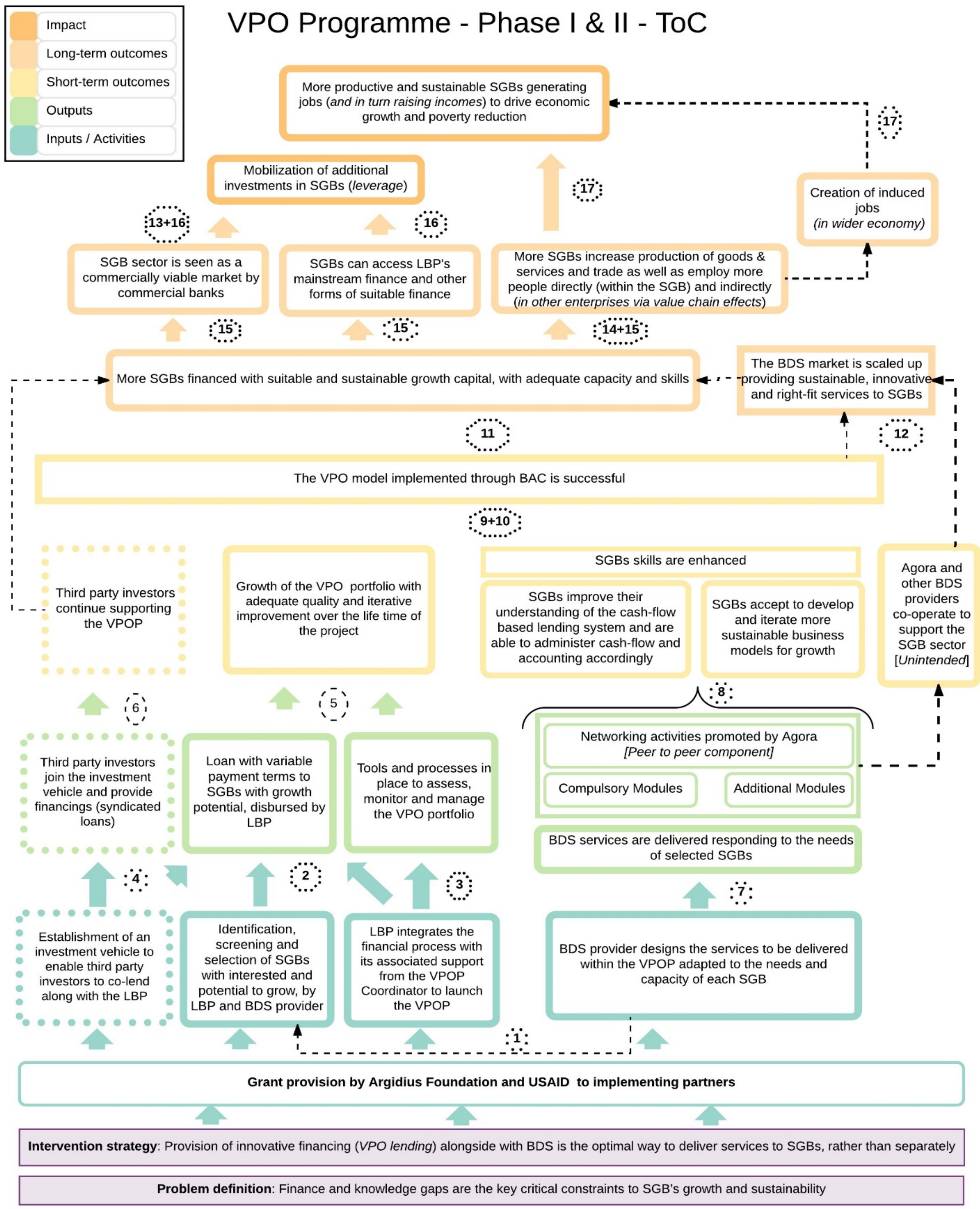
VPO Financial Product modifications:

- Introduce a credit repayment grace period (three months) for SGBs that will be: i) acquiring and importing equipment to Nicaragua or/and ii) refurbishing production plant for new equipment with VPOP support;
- Continue easing the asset pledge to capable SGBs;
- Design and apply a credit scorecard that reflects the profile of the VPOP target market;
- Support beneficiary SGBs (in-progress or HV) with working capital financing that are performing above the average in terms of: i) loan repayment and; ii) effectively absorbing the capacity building from the EGS;
- Increase flexibility and allow to go beyond the maximum amount of 25% of sales as a loan amount when the potential borrower is a consolidated SGB with efficient processes and procedures in place, has a sound investment plan and is financially sound.

Provision of EGS services modifications:

- Formalise **the provision of EGS with the beneficiary SGB from a MoU to Service Level Agreement (SLA).** The MoU currently signed is insufficient and does not define the relationship, rights and obligations of each party. Instead a Service Level Agreement can be signed with borrowers after the diagnostic is performed. This SLA should contain details of the agreed EGS provision in terms of hours and type of services. Additional services requested should be negotiated with Agora at extra cost;
- **For early stage or in progress SGBs, before they can start the loan application process and benefit from financing,** they should provide Agora with a business plan. Agora to design and provide applicant SGBs with a simple template that SGBs can fill in with limited support. VPOP to decide on how this should be funded;
- Update the pre-credit report that goes to the credit committee by adding more quantitative analysis on growth expectations by applicant SGBs;
- VPO partners should adapt EGS **delivery offer to SGBs based on the stage of their development and absorption capacity** (early stage, in progress or HV). VPOP should offer to the SGBs tailor-made EGS package (with a fixed number of hours – that ensure the financial viability of the service for Agora) where SGBs will have access to compulsory modules, but then other EGS will be agreed with Agora based on results on the training needs assessment and SGB interests. Mentoring services should be included in the package, as these are important for SGBs to achieve its full growth potential.

Annex 1: Theory of Change Diagram



Assumptions

17 Job creation leads to economic development.

16 Both banks and investors continue making positive financial and social returns. There is demonstration effect in the market.

15 Increased growth and financial sustainability of SGBs.

14 SGBs growth leads to creation of more decent jobs.

13 Investor confidence increases.

12 The BDS support has a catalytic effect, deepening the BDS market system.

11 The VPO programme is successfully scaled up expanding to other Central and South American countries with the right selected partners – i.e. through the BAC network and/or other interested banks. Donors continue supporting the programme.

10 Additionality of provision of BDS alongside loans with variable payments & syndication leads to SGBs improving resource allocation and success rate.

9 The pilot uptakes internal learning as well as learning from other stakeholders and improves the delivery model.

8 Selected SGBs improve their business practices (and can administer cash-flows effectively) and lay out the foundations to grow in a near future in a sustainable way.

7 BDS provider understands the SGB's market & gaps within and is thus able to design and deliver appropriate and high quality BDS, packaged in a way that supports SGBs growth.

6 Third party investors receive an adequate return from their investment into the VPOP.

5 LBP is incentivized to increase the VPO portfolio as it can manage the risk of this segment more effectively (i.e. risk sharing with third party investors and reduce risk profile of SGBs).

4 Investors see the VPOP as an attractive investment opportunity.

3 LBP has the commitment and capacity to implement the VPOP with support from Agora.

2 There is awareness in the target market of the VPOP and in turn there is demand for innovative SGB finance.

1 The right partnership structure (with the correct balancing of activities) is put in place to enable the effective delivery of the program outputs.

Annex 2 The Narrative

As part of this theory-based design of the evaluation, a ToC for Phase I and II of the VPOP has been developed in collaboration with Enclude. The ToC sets out the expected causal pathways between VPOP activities and its ultimate goal - from understanding the problem, the programme aims at addressing its causes and consequences, to interventions and short-term outputs, through to longer-term outcomes and impacts. The resulting ToC is a representation of this roadmap, and not of the status of progress to date or results achieved.

As per the focus of the evaluation, the ToC focuses mostly on understanding and unpacking the effects (and associated change process) on SGBs of the package offered through the programme (*Loan plus EGS*). Given the circumstances in which Phase I has developed in Nicaragua, outcome pathway for third party investors has been explored in more limited way.

This Section presents an accompanying narrative to the ToC conceptual diagram (see Annex 1), from inputs to outputs, short term outcomes, long term outcomes and impact. Also described in each sub-Section are the critical assumptions that need to hold in order for the change process to occur.

Inputs to Outputs

Critical assumptions:

- ✓ The right partnership structure (with the correct balancing of activities) is put in place to enable the effective delivery of the programme outputs.
- ✓ There is awareness in the target market of the VPOP and in turn there is demand for innovative SGB finance.
- ✓ LBP has the commitment and capacity to implement the VPOP with support from Agora and Enclude.
- ✓ Investors see the VPOP as an attractive investment opportunity.
- ✓ EGS providers understand the SGB market & gaps within and is thus able to design and deliver appropriate and high quality EGS, packaged in a way that supports SGBs growth.

Grant provision by AF and USAID-PACE to Enclude (main implementing partner) sets in motion four main inputs/activities, which in turn are associated to a chain of intended outputs:

(i) BAC adapts and integrates the VPO financial product with support from Enclude (VPOP Manager). That activity is associated to the effect of making available a series of tools and processes to develop, assess, monitor and manage the VPO portfolio;

(ii) Identification, screening and selection of SGBs with interest and potential to grow by Agora (EGSprovider) and BAC. This action is intended to launch the offering of loans with variable payment terms to SGBs with growth potential, disbursed by BAC;

(iii) Agora designs the EGS to be delivered as part of the VPOP. This action is the trigger of a series of EGS services arranged by modules, which are delivered responding to the needs of the selected SGBs. At present there are five mandatory modules: Cash flow; Accounting; Marketing; Sales, and Growth strategy and performance indicators, and they are supplemented by voluntary models;

(iv) An investment vehicle is established to enable third party investors to co-lend along with Banco de América Central - Credomatic (BAC) - the LBP). It is then expected that third party investors join the investment vehicle and provide financing (syndicated loans) to the programme. *However for various reasons, third party investment was cancelled for the pilot phase (See Section 4 for details).*

Outputs to Short Term Outcomes

Critical assumptions[60]:

- ✓ Third party investors receive an adequate return from their investment into the VPOP.
- ✓ LBP is incentivized to increase the VPO portfolio as it can manage the risk of this segment more effectively (i.e. risk sharing with third party investors and reduce risk profile of SGBs).
- ✓ Selected SGBs improve their business practices (and can administer cash-flows effectively) and lay out the foundations to grow in a near future in a sustainable way.
- ✓ The pilot uptakes internal learning as well as learning from other stakeholders and improves the delivery model.

Once the outputs above mentioned are delivered by the VPOP, five short term outcomes are expected to happen:

(v) The VPO portfolio grows with adequate quality with iterative improvement of the financial product (and its associated processes and systems) over the lifetime of the project;

(vi) SGBs understand the cash-flow based lending system and are able to administer cash-flow and accounting accordingly;

(vii) SGBs accept to develop and iterate more sustainable business models for growth;

(viii) As a result of (ii) and (iii) SGBs skills and knowledge are enhanced so they can implement their investment plans in a more effective manner towards achieving growth; and

(ix) Third party investors continue supporting the VPOP as they continue to see the programme as an attractive investment opportunity.

Short Term to Long Term Outcomes

Critical assumptions:

- ✓ The VPOP is successfully scaled up expanding to other Central and South American countries with the right selected partners. Donors continue supporting the programme.
- ✓ The EGS support has a catalytic effect, deepening the EGS market system.
- ✓ SGBs growth leads to creation of more decent jobs.
- ✓ Increased revenue growth and financial sustainability of SGBs.

At this stage, the VPOP implemented through BAC has been successful and the VPOP scales up expanding to other Central and South American countries with the right selected financing and EGS partners. As a consequence a sequence of several long term outcomes are expected to unfold:

(x) The EGS market is scaled up providing sustainable, innovative and right-fit services to SGBs; and in turn

(xi) More SGBs are financed with suitable and sustainable growth capital through the VPOP, acquiring adequate capacity and skills.

From that, two further long-term outcomes should originate:

(xii) The SGB sector is seen as a commercially viable market by banks (and to a lesser extent investors); and

(xiii) SGBs graduate from VPO financing and can access LBP's mainstream commercial finance and other forms of suitable finance.

As a result, more SGBs accessing financing enhance their operational and financial performance by increasing their production of goods and services and trade as well as employ more people directly (within the SGB), indirectly (in other enterprises via value chain effects) as well as inducing jobs in the wider economy.

[60] The order of these critical assumptions does not necessarily mean chronological/sequential order.

Long term Outcomes to Impacts

Critical assumptions:

- ✓ Investor confidence increases.
- ✓ Both banks and investors continue making positive financial and social returns. There is demonstration effect in the market.
- ✓ Job creation leads to economic development.

As the SGB sector becomes a commercially viable and attractive sector to banks and investors, new financing players enter the market, resulting in further mobilization of investments channelled to the sector (leverage). At the same time, SGBs increasingly access mainstream commercial banking finance –as they graduate from the VPOP - increasing demand for financing. As a result of more SGBs accessing adequate finance, SGBs become more productive and sustainable, generating jobs (and in turn raising incomes) to drive economic growth and poverty reduction.

Annex 3 The Evidence base

The table below assigns a RAG (red, amber or green) rating the strength of the evidence base found for each key assumption of the ToC.

Table 1: ToC Assumptions and Strength of Evidence

#	Assumption	Level of Evidence
1	The right partnership structure (with the correct balancing of activities) is put in place to enable the effective delivery of the programme outputs.	GREEN
2	There is awareness in the target market of the VPOP and this, in turn, generates demand for innovative SGB finance.	GREEN
3	LBP has the commitment and capacity to implement the VPOP with support from Agora.	GREEN
4	Investors see the VPOP as an attractive investment opportunity.	AMBER
5	LBP is incentivised to increase the VPO portfolio as it can manage the risk of this segment more effectively (i.e. risk sharing with third-party investors and reduce risk profile of SGBs).	GREEN
6	Third-party investors receive an adequate return from their investment into the VPOP.	RED/AMBER
7	EGS provider understands the SGB's market and gaps within, and is thus able to design and deliver appropriate and high quality EGS, packaged in a way that supports SGBs growth.	GREEN
8	Selected SGBs improve their business practices, can administer cash-flows effectively and lay out the foundations to grow in a near future in a sustainable way.	GREEN
9	The pilot uptakes internal learning as well as learning from other stakeholders and improves the delivery model.	GREEN
10	Additionality of provision of EGS alongside loans with variable payments and syndication leads to SGBs improving resource allocation and success rate.	GREEN
11	The VPOP is successfully scaled up expanding to other Central and South American countries with the right selected partners, i.e. through the BAC network and/or other interested banks. Donors continue supporting the programme.	AMBER
12	The EGS support has a catalytic effect, deepening the EGS market system.	AMBER
13	Investor confidence increases.	RED/ AMBER
14	SGBs growth leads to creation of more decent jobs.	AMBER/GREEN
15	Increased growth and financial sustainability of SGBs.	AMBER/GREEN
16	Both banks and investors continue making positive financial and social returns. There is demonstration effect in the market.	AMBER
17	Job creation leads to economic development.	AMBER

Assumption 1: The right partnership structure (with the correct balancing of activities) is put in place to enable the effective delivery of the programme outputs.

Evidence - GREEN:

- ✓ Literature review suggests that actors experiment and innovate in tailored offerings that combine financing with EGS. For instance, impact investors are offering finance alongside pre-investment support. 'Programmes and facilities' offer now a diverse integration of actors and approaches, including financing and EGS, testing new models that are likely to blend existing approaches.[61] This is consistent with World Bank reports,[62] press releases by the Embassy of the USA in Nicaragua,[63] and USAID.[64] This is further supported by the fact that media reports in Nicaragua during the period 2014 (pre-VPOP) to date (October 2017) have often contained information about improvements in key institutional aspects to the thriving of the right partnerships for the VPOP.[65]
- ✓ This assumption is further supported by our findings in the field visit to Nicaragua: Agora and BAC have been cooperating and collaborating throughout the implementation of the VPO pilot in Nicaragua. From our interviews with participant SGBs and local experts in the ecosystem of SMEs, there is a consistent strong perception of the efficacy of the VPOP's structure and the suitability of the partnership developed by BAC and Agora.

Assumption 2: There is awareness in the target market of the VPOP in Nicaragua and this, in turn, generates demand for innovative SGB finance.

Evidence – -GREEN

- ✓ Initial interviews with Argidius, Enclude and Agora prior to our field visit; reports submitted by Enclude in 2015, 2016 and 2017; and preliminary data reported by Agora regarding engagement of SGBs in the VPOP suggest that there is demand for such services. This is consistent with our review of literature in relation to the Latin American and Caribbean region, including Nicaragua (Bianco et al, 2014[66] and World Bank, 2017[67]). Also, the offering of a blend of finance and non-financial support for SMEs is increasing in Latin America, Sub-Saharan Africa and South Asia suggesting that there is demand for such services.[68]

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[61] Menden, A., Schramm, C., Pirzer, C., Ballan, S., Ashley, C., Sinha, L. and Salter, A. (2017). *More than money: Mapping the landscape of advisory support for inclusive business*. Ashley Insight, and Endeva 87., pp. 8, 55 and 56.

[62] World Bank. 2016. *Nicaragua - Micro, Small and Medium Enterprise Development Project*. Washington, D.C. : World Bank Group. (http://documents.worldbank.org/curated/en/576451468186847775/Nicaragua-Micro-Small-And-Medium-Enterprise-Development-Project).

[63] *Leadership Workshop with Participants of the Variable Payment Obligation Program (VPO) in Global Entrepreneurship Week*. 14.11.2016. Embassy of the USA in Nicaragua. (https://ni.usembassy.gov/leadership-workshop-participants-variable-payment-obligation-program-vpo-global-entrepreneurship-week/).

[64] *Partnering to Accelerate Entrepreneurship: Catalyzing investment in Latin America*. USAID. (https://www.usaid.gov/sites/default/files/documents/15396/2017_PACE_Enclude_final.pdf).

[65] For example, *World Bank calls for more credit for Nicaraguan SMEs*. La Prensa. Nicaragua. 09.08.2017 (https://www.laprensa.com.ni/2017/08/09/economia/2276953-banco-mundial-aboga-mas-credito-las-pymes-nicaragua). Also: *Banking sector is opening up to SMEs in Nicaragua*. El Nuevo Diario. Nicaragua. 30.10.2014. (http://www.elnuevodiario.com.ni/economia/333528-banca-se-esta-abriendo-pymes/). And: *Financing for SMEs in Nicaragua*. Central America Data. Business Information. Selected notes from 2011 to 2016. (https://www.centralamericadata.com/es/search?q1=content_es_le:%22Financiamiento+Pymes%22&q2=mattersInCountry_es_le:%22Nicaragua%22).

[66] Bianco, M. E., Chambers, T., García, P., Lombe, M. and Sarria, N. (2014). *The Problem of Underinvestment in Women-Led Small and Growing Businesses in Latin America and the Caribbean: ´The Most Missing of the Missing Middle (M4)'*.

[67] Alibhai, Salman; Bell, Simon; Conner, Gillette. 2017. *What's Happening in the Missing Middle? : Lessons from Financing SMEs*. World Bank, Washington, DC. © World Bank. (https://openknowledge.worldbank.org/handle/10986/26324) License: CC BY 3.0 IGO.

[68] Ibid

- ✓ There is awareness of the target market of the Programme in Nicaragua but mostly driven by two factors: i) Agora has been very active in raising awareness of the Programme through networks and associations in Nicaragua where potential SGBs are engaged while leveraging on other EGS providers; ii) the target market in Nicaragua is small and is relatively easy to be identified.
- ✓ Further supporting the above, we found evidence of word to mouth dissemination by SGBs successfully participating in the VPOP, about the existence and the benefits of the VPOP. While such dissemination is still incipient, it is one of the most effective ways to raise awareness in the VPOP target market. Similarly, insights into current SGBs needs (of finance and technical assistance) emerging from our focus groups and interviews with key stakeholders in Nicaragua confirm the appetite and demand for VPOP services in the SGB market. Notice that given the particularities of Nicaragua's SGBs, there is a market niche for smaller but established companies with an appetite to grow, which could well fit into the intended VPOP's profile and achieve significant revenue growth within relative short time if they would join the VPOP. This is supported by the views from stakeholders such as One Stop Search, and women's associations such as REN, and CPMEN.

Assumption 3: LBP has the commitment and capacity to implement the VPOP with support from Agora.

Evidence –GREEN:

- ✓ *Ex-ante*: As reported in the media and by other key actors, such as the Embassy of the USA in Nicaragua, BAC has shown commitment to offer the VPO loans as part of its mainstream services for SMEs in Nicaragua. The VPO loan is now publicly advertised on its website.[69] That is consistent with the information obtained in preliminary interviews with Argidius, Enclude and Agora; reports submitted by Enclude in 2015, 2016 and 2017; and preliminary data reported by Agora regarding engagement of SGBs in the VPOP.
- ✓ During the field visits, it has been clear that BAC has increased its commitment to the programme: i) they have established portfolio growth targets for the product; ii) 1 loan officer and other BAC staff across their eight branches (that can provide debt financing) are in the process of been trained specifically for the VPOP with the direct support from Agora; ii) the product is been advertised on BAC's website, and in both media (local newspapers on the pages dedicated to SMEs) and social media; iv) the corporate responsibility department of the bank is engaged with the programme as it fits with its strategic pillars, and is including VPOP borrowers into its capacity-building and financial-education activities.

Assumption 4: Investors see the VPOP as an attractive investment opportunity.

Evidence – AMBER:

- ✓ Assumption confirmed during preliminary interviews with Argidius, Enclude, Agora, and Mayer Brown; reports submitted by Enclude in 2015, 2016 and 2017.
- ✓ Field work interviews with BAC Credit Director and Enclude indicate that, following the pilot in Nicaragua, BAC as well as potential, already identified investors are expressing their interest in the VPOP: i) BAC is willing to continue funding the product above the US$ 1m per year, provided that it continues to be profitable; ii) MIF has already committed US$ 3m in financing and US$ 250,000 for technical assistance; and iii) Potential investors and Enclude are starting to negotiate their participation in the replication of the VPOP in other Central American countries.

[69] Ibid

Assumption 5: LBP is incentivised to increase the VPO portfolio as it can manage the risk of this segment more effectively (i.e. risk sharing with third-party investors and reduce risk profile of SGBs).

Evidence – GREEN:

- ✓ Assumption confirmed during preliminary interviews with Argidius, Enclude, Agora, and Mayer Brown; reports submitted by Enclude in 2015, 2016 and 2017; and preliminary data reported by Agora regarding engagement of SGBs in the VPOP.
- ✓ Based on interviews with BAC, it is clear that BAC has corroborated enough economic incentives as well as possible others (e.g. marketing strategy and reputational), to increase their VPOP portfolio. So far, the implementation of the pilot in Nicaragua has provided BAC with the time and experiences to build upon, enabling them to further reduce the financial risks associated to the target market.

Assumption 6: Third party investors receive an adequate return from their investment into the VPOP.

Evidence – RED/AMBER

- ✓ Preliminary interviews with Argidius, Enclude; Agora reports submitted by Enclude in 2015, 2016 and 2017; and preliminary data reported by Agora regarding engagement of SGBs in the VPOP.
- ✓ Too early to observe changes that can be safely attributed to the VPOP – as no investor has yet joined the programme.

Assumption 7: The EGS provider understands the SGB's market and gaps within, and is thus able to design and deliver appropriate and high quality EGS, packaged in a way that supports SGBs growth.

Evidence – GREEN:

- ✓ EGS with accelerating function is associated to beneficial effects to early stage businesses.[70] Given the socio-economic and contextual complexity of the MSME segment, the overall performance of the EGS providers depend on their understanding of the on-field challenges. And their level of resource commitment in understanding dynamic macro-environment challenges (e.g. thoughtful mapping of strategic actions of value offering, creation, delivery, and capture).[71]
- ✓ Preliminary interviews with Argidius, Enclude and Agora; reports submitted by Enclude in 2015, 2016 and 2017; and preliminary data reported by Agora regarding engagement of SGBs in the VPOP.
- ✓ During fieldwork we could observe and corroborate a high level of understanding by Agora regarding the SGB's market in Nicaragua, and key gaps within their ecosystem. This is reflected in the proactive development of supplementary modules and hand-holding support (mentoring/coaching) provided by Agora to the participant SGBs, facilitating their growth.

Assumption 8: Selected SGBs improve their business practices, can administer cash-flows effectively, and lay out the foundations to grow in a near future in a sustainable way.

Evidence – GREEN:

- ✓ It takes more than money to bring inclusive businesses to scale. Success at scale is slow and scarce for inclusive businesses due to the unconventional markets and complex business environment in which they operate. A good idea needs sometimes more than some financing and several years of effort. Low-income markets are hard to secure or require transaction costs that cannot be supported. Business models that can scale need multiple iterations, talent is hard to secure and retain, and policy and regulation can

[70] Fehder, Daniel C. and Hochberg, Yael V., *Accelerators and the Regional Supply of Venture Capital Investment* (posted on 19 September 2014). Available at SSRN. 2518668. (http://dx.doi.org/10.2139/ssrn.2518668)

[71] Goyal, S., Sergi, B.S. and Kapoor, A. (2017). *Evaluating the BDS Providers and MSMEs: Challenges and Strategic Actions*. The European Journal of Development Research 29(4): 725-744.

constrain innovation growth. To support inclusive businesses navigate their route to scale, money is not enough. A growing number of non-financial, advisory support providers help speed or secure their path to sustainability and scale.[72]

- ✓ Our fieldwork provided us with examples supporting a positive change experienced by the SGBs in the VPOP towards an improved understanding of their own businesses, and the advantages of learning and integrating business practices and cash-flow management that are transforming those companies into organisations capable of progression in their business ambition.

Assumption 9: The pilot uptakes internal learning as well as learning from other stakeholders and improves the delivery model.

Evidence – GREEN:

- ✓ Reports such as those of the Word Bank regarding MSMEs in Nicaragua[73,] compile a series of key lessons learned in the field by similar interventions. We do not see evidence suggesting that the VPOP will not uptake the relevant learnings resulting from the implementation of Phase I.
- ✓ Fieldwork observations and discussions allowed us to witness constructive interaction between Agora, BAC, Enclude, and other stakeholders, e.g. the SGBs and other EGS providers as well as gremial organisations. Also, internal actions by Agora and BAC, which have been taking place during the past years around the VPOP, showcase that learning has been taking place. On the whole, those activities have translated in a growing knowledge about the programme as well as about what works well and what does not work in the implementation of the VPOP in Nicaragua. A series of actions derived from lessons learned are redefining the policies, processes and best practices that the implementing partners are using or are devising to increase efficiency around the VPOP in the following stages.

Assumption 10: Additionality of provision of EGS alongside loans with variable payments and syndication leads to SGBs improving resource allocation and success rate.

Evidence – GREEN:

- ✓ Access to financing remains a major constraint for firms in Nicaragua. The combination of guarantee requirements, costs and a conservative banking sector limit access severely by MSMEs. Unique lending methodologies *ad hoc* to the needs of MSMEs have not been understood by commercial banks. Bank finance provided less than 20% of their finance needs.[74]
- ✓ Consequently, SMEs' growth and increases in productivity improve when lack of access to finance, business training and literacy programmes are addressed. [75]
- ✓ Consistently, the informants that we met during our fieldwork in Nicaragua are of the opinion that the VPOP provides valuable resources, which are not available in Nicaragua in an integral fashion. SGBs in the programme think that they could not have obtained those EGS and access to finance (above US$ 10,000 and without strong collateral) without the VPOP, at least not at the time when they had the sense of urgency for that support. The VPOP enables SGBs to gain access to bank financing without mortgage-based collateral, with an affordable interest rate, and with capacity-building resources suited to their

[72] Menden, A., Schramm, C., Pirzer, C., Ballan, S., Ashley, C., Sinha, L. and Salter, A. (2017). More than money: Mapping the landscape of advisory support for inclusive business, Ashley Insight, and Endeva 87..
[73] World Bank. 2016. *Nicaragua - Micro, Small and Medium Enterprise Development Project*. Washington, D.C. : World Bank Group.(http://documents.worldbank.org/curated/en/576451468186847775/Nicaragua-Micro-Small-And-Medium-Enterprise-Development-Project)
[74] Ibid
[75] Ayyagari, M., Demirguc-Kunt, A. and Maksimovic, V. (2011). *Small vs. Young Firms across the World*. World Bank. Policy Research Working Papers. WPS5631.

needs – all driven and supported by Agora, which is a trusted partner among SGBs, and to a lesser extent by the bank.

Assumption 11: The VPOP is successfully scaled up expanding to other Central and South American countries with the right selected partners, i.e. through the BAC network and/or other interested banks. Donors continue supporting the programme.

Evidence – AMBER:

- ✓ 'BAC-Nicaragua plays a vital role as the local bank partner for the current pilot stage of the programme, which will make over 30 loans totalling more than $1,000,000. After the pilot, the programme will expand to other countries in the region, with BAC as the local bank partner in the countries where it operates.'[76]
- ✓ 'Next up: Replicating the pilot in other countries in Latin America through BAC's network of local commercial banks. A third phase of the project may be an online platform for companies in the programme to allow for easy deal access to third-party investors.'[77]
- ✓ We have learned that Argidius Foundation, USAID/PACE (not beyond Phase II) and the MIF/Inter-American Development Bank, remain firm in their commitment to co-finance the VPOP in its scaling-up stage. Furthermore, considering the lessons learned by key partners during the implementation of the pilot in Nicaragua, it seems plausible - although the claim must be treated with caution - that the VPOP will be successfully scaled up to other countries in the target geographies.

Assumption 12: The EGS support has a catalytic effect, deepening the EGS market system.

Evidence – AMBER:

- ✓ '…it has been observed that challenges faced by the EGS (like their dynamic operating environment, the diverse needs of the MSMEs, and the limited paying capacity of the MSMEs) have limited the strategic actions available to EGSs during value offering, creation, and delivery. The focus on providing customised solutions as well as a collaborative network is critical to manage these challenges. However, there is a need for further field-based research in this direction.'[78]
- ✓ There is cooperation and collaboration among EGS providers in Nicaragua. Virtually, all of them have a presence of relevance in the area of Central America. Moreover, the opportunities for exchange (i.e. capacity building, networking events, as well as national and international visibility) have increased for SGBs in Nicaragua thanks to the proactive work of EGS providers in Nicaragua. Along with the improvements derived from technical assistance from EGS, altogether, the EGS has generated a catalytic effect, and ultimately deepened the ESG market system.

Assumption 13: Investor confidence increases.

Evidence – RED/AMBER:

- ✓ 'Alone, a commercial bank faces structural obstacles in financing SGBs... The presence of an SGB investor mitigates the risks and decreases the cost of financing for banks. The SGB investor serves as a catalyst in the financing of SGBs, enabling them to enter the realm of the banking system. This catalytic effect can

[76] Enclude press release. *Enclude Joins VPO Program Partners in Nicaragua for MOU Signing Ceremony*. 06.04.2016. (http://encludesolutions.com/enclude-joins-vpo-program-partners-in-nicaragua-for-mou-signing-ceremony/)

[77] Miller Center for Social Entrepreneurship. *Test in Nicaragua shifts lending for women-led businesses from collateral to cashflow*. 16.02.2016. (https://www.scu-social-entrepreneurship.org/press-room-1/2017/1/24/test-in-nicaragua-shifts-lending-for-women-led-businesses-from-collateral-to-cashflow).

[78] Goyal, S., Sergi, B.S. and Kapoor, A. (2017). *Evaluating the BDS Providers and MSMEs: Challenges and Strategic Actions*. The European Journal of Development Research 29(4): 725-744., p. 740; Karlan, D. and Valdivia, M. (2011). *Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions*. The Review of Economics and Statistics 93(2): 510-527.

also reach other actors, including foreign investors with no local presence such as international financial institutions.'[79]

- ✓ Too early to observe changes that can be safely attributed to the VPOP – as no investor has joined the programme yet.

Assumption 14: SGBs growth leads to creation of more decent jobs.

Evidence – AMBER/GREEN:

- ✓ Small firms are important contributors to job creation. They have lower productivity growth than large firms. However, growth and increases in productivity improve when lack of access to finance, business training and literacy programmes are addressed.[80] Evidence on the results of the provision of EGS is further supported by Zandiapour et al (2014),[81] USAID (2004)[82] and Forss (2009).[83]
- ✓ SME support programmes can have positive effect on the participating enterprises. Based on the cases of Chile, Colombia, Mexico and Peru, Lopez and Tan (2011)[84] report evidence of a positive impact in terms of labour productivity and wages.
- ✓ Based on information obtained during fieldwork from Agora and in interview with SGBs in the VPOP, seven out of the nine SGBs benefiting from the VPOP have generated direct employment. However, it is too early to observe more significant variations, and even more difficult to attribute those changes to the VPOP.

Assumption 15: Increased growth and financial sustainability of SGBs.

Evidence – AMBER/GREEN:

- ✓ SMEs' growth potential largely depends on both access to finance and technical assistance, among other factors.[85]
- ✓ Data collected during our fieldwork suggest an early overall improvement in the revenue and other key financial data baseline of the SGBs that are benefiting from the VPOP. In some cases, SGBs have leveraged on the technical assistance and financing provided by the programme and have improved business practices and their customer base, leading to an increased growth: this is the case for La Finca, Apicola Zeas, and Rosquillas Vilchez Tinoco. While in other cases (e.g. Mamá Gollita), they joined recently the VPOP and it is too early to observe an increase in their pre-VPOP growth. Their trend and past performance (based on what seems to be good and rational business decisions) suggest the plausibility of continued growth and consolidating financial sustainability thanks to the support from the VPOP. The same conclusion is less clear regarding other SGBs (e.g. Confecciones Fernanda and Rosquillería Jazmina), but in these cases, whether or not they increase their growth and reach financial sustainability may not be a direct consequence of the VPOP, as they also have other challenges.

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[79] Investisseurs & Partenaires (I&P). 2015. *Investing in Africa's Small and Growing Businesses*. (https://thegiin.org/knowledge/publication/investing-in-africas-small-and-growing-businesses).

[80] Ayyagari, M., Demirguc-Kunt, A. and Maksimovic, V. (2011). *Small vs. Young Firms across the World*. World Bank. Policy Research Working Papers. WPS5631.

[81] Zandniapour, L., Sebstad, J. and Snodgrass, D. (2004). *Review of impact assessments of selected enterprise development projects*. USAID/AMAP/DAI.

[82] U.S. Agency for International Development (2004). *Evaluation of the Enterprise Development Project*.

[83] Forss, K. (2009). *Synthesis of Evaluations on Support to Business Development*. Copenhagen, Evaluation Department (DANIDA): 64.

[84] Lopez-Acevedo, G.; Tan, Hong W. 2011. *Impact Evaluation of Small and Medium Enterprise Programs in Latin America and the Caribbean*. World Bank(https://openknowledge.worldbank.org/handle/10986/2298) License: CC BY 3.0

[85] Kongolo, M. (2010). *Job creation versus job shedding and the role of SMEs in economic development*. African_Journal of Business Management 4(11): 2288.

Assumption 16: Both banks and investors continue making positive financial and social returns. There is demonstration effect in the market.

Evidence – AMBER:

- ✓ 'Financial institutions are (usually) rational actors who understand their perspective, needs and what incentives they need to reach out to new markets (such as SMEs) and test new products.'[86]
- ✓ 'Access to lending remains a key priority: SMEs are inherently better suited for bank funding and asset-based lending due to their particular characteristics'. [87]
- ✓ From our field work we have learned that, at least, another local commercial bank has, albeit –informally, expressed interest to Agora in the VPO model as a way to tap the SME segment.

Assumption 17: Job creation leads to economic development.

Evidence – AMBER:

- ✓ Generally, MSMEs account for at least 90% of the businesses and employment (60 to 90%), representing therefore a key influence in a country's economic growth and competitiveness.[88] It is broadly assumed that small enterprise growth in development countries contributes to economic development, including poverty reduction and alleviation[89], through job creation.[90] The plausibility of a positive link between job creation and economic development associated to the growth of SMEs in developing countries in Latin America, Africa and Asia is supported by increasing empirical research.[91]
- ✓ Further support to this assumption is found in data specific to Nicaragua, which was cited by key informants we interviewed during fieldwork. For example, the 2015 *Survey of Sustainable Enterprises in Nicaragua*, co-published by the COSEP and the International Labour Organization.[92]

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[86] Alibhai, S.; Bell, S.; Conner, G. 2017. *What's Happening in the Missing Middle? : Lessons from Financing SMEs*. World Bank, Washington, DC. © World Bank. (https://openknowledge.worldbank.org/handle/10986/26324) License: CC BY 3.0 IGO., p. 14.

[87] Alibhai, et al. op cit, p. 14.

[88] Goyal, S., B. S. Sergi and A. Kapoor (2017). *Evaluating the BDS Providers and MSMEs: Challenges and Strategic Actions*. The European Journal of Development Research 29(4): 725-744.

[89] The positive correlation between SMEs growth with both job creation and economic growth is inconsistent between small enterprise growth and both job creation and poverty reduction Beck et al, 2005a, 2005b and 2007 and Ayyagari, M., T. Beck, T. and Demirguc-Kunt, A. (2007). *Small and Medium Enterprises Across the Globe*. Small Business Economics 29(4): 415-434.

[90] Argidius Foundation (2017). *Theory of Change Narrative*, p.18.

[91] Kongolo, 2010, op cit.

[92] Council Superior of Private Enterprise (COSEP) and International Labor Organization (ILO). 2015. *Survey of Sustainable Enterprises Nicaragua 2015: identification of obstacles for business development*. Geneva., pp. 23, 26-34. ISBN: 9789223302764 (http://www.cosep.org.ni/rokdownloads/main/cosep/encuesta_empresas_2015.pdf)