

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
C = Change
D = Delete

Amendment Number

INCUMBENT CODE

3

2. COUNTRY/ENTITY
Centrally Funded

3. PROJECT NUMBER
938-0211

4. BUREAU/OFFICE

5. PROJECT TITLE (maximum 30 characters)

AID/FVA/PVC

11

Accion International/AITEC

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
03 31 86

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 83 B. Quarter 2 C. Final FY 86

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total			200			650
(Grant)	()	()	(200)	()	()	(650)
(Loan)	()	()	()	()	()	()
Other U.S. 1.						450
U.S. 2.						
Host Country						
Other Donor(s)						
TOTALS			200			650

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ST	270	920		0		200		650	
(2)									
(3)									
(4)									
TOTALS				0		200		650	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

110 030

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code PVOU
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To implement and expand a technical assistance program to strengthen the capabilities of indigenous agencies to provide direct assistance projects to small, micro-enterprises and solidarity groups in urban and rural areas in selected LA countries.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
Final 8 6

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

This is a new project.

[Signature]

17. APPROVED BY

Signature
FVA/PVC, I. Austin Heyman
Title
Deputy Director

Date Signed
MM DD YY
03 21 83

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

21 MAR 1983

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, FVA

FROM: FVA/PVC, I. Austin Heyman (Acting Director)

Problem: Your approval is requested of a three-year Matching Grant of \$650,000 to Accion International/AITEC with FY 83 funding of \$200,000.

I. SUMMARY OF PROPOSED PROGRAM

AITEC has requested a second Matching Grant (MG), with a goal to improve the living standard and quality of the poor by increasing income and employment capabilities of small scale urban and rural enterprises. AITEC proposes to program \$1,767,625 over the three-year period (FY 83-86), in seven Latin American countries. Of this total program, \$860,000 is requested from AID, with the balance to be derived from private US and Latin America sources. After review, we recommend a smaller grant of \$650,000 at an annual level of \$200,000 for the first and second years, and \$250,000 for the third, to operate in five countries.

AITEC proposes to continue its technical assistance program to strengthen the capabilities of indigenous private and public agencies which in turn implement direct assistance projects to small and micro-enterprises, including solidarity groups. The program has four parts: (1) expansion of existing AITEC-assisted activities to secondary cities or new areas in Peru, Costa Rica, and Dominican Republic; (2) expansion of micro-businesses and small-farm programs to two new countries from among Haiti, Jamaica, Guatemala, Panama, Honduras, Ecuador and Bolivia; (3) implementation of a comprehensive evaluation system to measure the impact and efficiency of program expansion, and (4) use of a credit guarantee fund to encourage local commercial loan monies to be applied to the credit program in selected MG countries.

II. BACKGROUND

A. Organization

Accion International/AITEC is a private, non-profit corporation founded in 1961 by Latin American and U.S. businessmen. During its 20-year history it has successfully carried out development projects in most Spanish-speaking countries of the Americas, as well as in Brazil, several islands of the Caribbean, and the United States. Its policies are established by a Board of Directors located in the United States. An Advisory Council composed of leading public and private sector leaders in the countries of AITEC operations also provide guidance and assistance to the organization. The core staff includes an

Executive Director, four Associate Directors, and eleven Senior Field Directors.

Financial support for ACCION International/AITEC comes from a diverse base. For 1980, 1981, and 1982, support was \$1,025,000, \$1,183,000, and \$1,138,000, respectively. Numerous private donors in the United States, both corporate and foundation, support the organization's activities. During 1980-1982, private support has increased from 44% to 47%. In addition, AITEC receives support from government donors such as USAID, the Inter-American Development Bank and the Overseas Private Investment Corporation. Financial operations are centralized in the Cambridge, Massachusetts home office.

B. General Program Goal and Approach

ACCION International/AITEC program goal is the creation of new opportunities for employment and economic well-being among the low-income urban and rural population of the Americas. To accomplish this goal in the urban areas, efforts focus on assistance to small-scale economic activities. Credit, management and organizational assistance and training are provided to micro-businesses and to the smallest types of informal economic units such as the street vendor and hawker. In the rural areas, AITEC promotes the diversification and commercialization of small-scale agriculture. Typically, management and marketing assistance, credit, and organizational know-how are provided to small farmers to increase productivity, improve incomes, and generate additional on-farm employment.

AITEC believes it can best achieve its goal by working with and strengthening those local indigenous public and private institutions dedicated to serving the urban and rural poor. These institutions are strengthened through both short- and long-term help. Assistance typically revolves around the implementation of a program and in the process local staff is trained, the operational and evaluation systems designed and institutionalized, and an increase in financial capacity is achieved. Second, AITEC periodically organizes seminars inviting indigenous institutions to visit ongoing AITEC-assisted work projects and to discuss the critical issues raised. Third, AITEC attempts to disseminate as widely as possible information on the rural and urban informal economic sector. Finally, AITEC actively promotes the interest of local agencies with potential international donors and private sector donors.

C. Previous PVC Support to AITEC

AITEC received \$530,000 in its first matching grant for the years 1979-82 which was later extended to March, 1983. During

these years, AITEC was able to successfully transfer its earlier development assistance experience (1970's) in Brazil, Colombia and Costa Rica to the new MG countries of Mexico, Dominican Republic and Peru. During this phase, numerous indigenous public and private institutions throughout LA were made aware of AITEC's experiences through field seminars, and direct technical assistance.

D. Evaluation of AITEC

AITEC's annual reports of its program activities during the first MG provide thorough descriptive and evaluative information about its work. Successes of the micro-business activities during the first MG are many. In Mexico, AITEC assisted the local PVO, ADMIC, to be awarded a \$300,000 loan from the IDB through a local bank; almost one hundred loans were approved to micro-enterprises amounting to \$140,000 with no delinquencies on loan repayments, and 1,500 businesses were given assistance using AITEC's methodologies. Similarly, the AITEC-assisted program in the Dominican Republic of credit and management services was successful in reaching micro-enterprise and the smallest entrepreneurs of the informal sector, the street vendors and hawkers. In this country, \$339,000 was loaned to micro-enterprises and \$196,000 to solidarity group members, with funds received from international donors. In Peru, the most recent MG country, AITEC was able to assist a local PVO group to be awarded a loan of \$500,000 from the IDB for helping micro-businesses. These accomplishments have increased the demand for AITEC's assistance throughout Latin America.

In 1981, the responsible program grant officer visited AITEC's program in Mexico and the Dominican Republic. The activities were working quite well, as reported. In 1982, the grant officer was able to attend an AITEC sponsored workshop of key people involved in small-enterprise activities in Latin America. The kinds of training extended by AITEC were analyzed and evaluated very favorably and found appropriate by the conferees and AID officials who attended.

In 1982, PVC contracted the services of a consultant (Judith Tendler) to carry out an ex post facto evaluation of AITEC's earlier work with UNO, a Brazilian PVO which extends credit to small businesses in Northeast Brazil. The report found that the approach used in helping small businesses was generally successful but needs to be modified to some degree in future operations. AITEC has considered the report's recommendations and will apply some of the points made therein under the new MG program.

III. APPROPRIATENESS OF THE PROGRAM

Based on the above, the Matching Grant Review Committee has found AITEC's program as one that contributes to income generation as well as institution building of developing countries. Indeed, AITEC's proposed proposal is comprehensive and focused on deliverable technical assistance to the expansion and improvement of the business sector. In addition to the Committee's review of AITEC's program, appropriate USAIDs were contacted (Section VI) and the response from the missions indicate positive support for AITEC's program.

IV. ISSUES

A. Non-AID Countries

AITEC proposed to expand its program in two non-AID countries, Mexico and Brazil. While the rationale for including these countries is well presented in the proposal, PVC determined that, based on current AID policy, neither country could be included in this program. We also did not find AITEC's submission of additional rationale sufficiently persuasive to justify an exception. PVC concludes that AITEC can carry out a good development program in the five AID countries approved and that the elimination of Mexico and Brazil will not affect the overall thrust of the MG program. However, it is a fact that not counting the considerable amounts of local and U.S. private support designated for Mexico and Brazil has lowered AITEC's overall match level. This reduction has been reflected by AITEC in its revised MG program activities. AITEC will not pull out of Mexico entirely as a result of the country being deleted from the MG. The program will continue at a lower level using U.S. and local private funds. On the other hand, AITEC will not re-introduce its program in Brazil as it proposed to do with MG funds. PVC has encouraged AITEC to seek funds for these two countries from its contributors in view of the fact that their program activities are well known nationally and internationally as a successful model in small-enterprise development.

B. Loan Guarantee Fund

In order to attract local and U.S. funds from banking institutions, AITEC proposes to establish a Loan Guarantee Fund (LGF) in about four countries with private and MG funds as part of its program to provide access to credit for micro-entrepreneurs in rural and urban areas. The fund would be used as a reserve, backing the issuance of guarantees to local banks to facilitate lending to entrepreneurs. AITEC describes the value and role of this credit instrument in development in its proposal (pp. 43-49). The proposal states that "any interest earned from the monies deposited in the fund would be reinvested to maintain its value." The issue is whether the interest earned on the funds derived from the MG may be so used.

PVC sought guidance from the Office of the General Counsel (Appendix A). GC's main concern was to clarify whether the interest earned by a grantee on funds advanced by the U.S. Government must be returned to the U.S. Treasury. Two points to consider are whether the grantee is using the advanced funds for investment purposes, or whether the funds (in this case, the MG funds) are being used to accomplish a stated purpose, and therefore would not require the grantee to return the interest earned. After discussion with GC, PVC concludes that the grant purpose is accomplished at the point when the MG funds are needed by AITEC in order to deposit them in the Loan Guarantee Fund to assure the guarantees. Thus, capitalization of the fund prior to the issuance of guarantees is not intended for investment purposes; rather, it is necessary and essential to carry out the LGF program operation, and the interest earned on using MG funds in the LGF would not revert to the U.S. Treasury. We will insure that the grant agreement is reviewed by GC regarding this issue.

Losses incurred in loans under the guarantees in the LGF will be satisfied from the revolving loan funds in this account. No distinction will be made as to whether AITEC or MG funds would be charged should defaults occur during life of project.

V. USAID COMMENTS

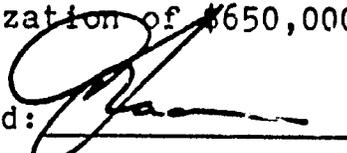
Comments on AITEC's proposed program were sought from 10 missions. These included AITEC's three on-going MG countries plus the list of possible new ones. Questions were asked concerning AITEC's track record, and use of the proposed guarantee fund. The cable also contained country specific information for each mission.

To date, eight missions have responded. All eight missions extend positive support to AITEC's proposed program. Several missions state that AITEC's program could enhance and complement on-going and future activities in small enterprise development in urban and rural areas. One mission (San Jose) suggests that AITEC consolidate rather than expand into new activities, and suggests more emphasis on marketing. Another mission (Kingston) is interested in expanding micro-business activities. USAID/Quito suggests that AITEC's program could provide the mission and the government of Ecuador with a model basis for a similar but larger program in future. Three missions (Lima, La Paz, Tegucigalpa) comment on the use of the loan guarantee fund. This credit mechanism is described as useful to excellent by two of the missions. USAID/Tegucigalpa states that it does not believe that Honduras is a desirable site for using the loan guarantee fund. It would like to discuss the issue with AITEC. All in all, there is strong

support for AITEC proposed program.

VI. RECOMMENDATION

That you approve the proposed grant to Accion International/AITEC, with LOP authorization of \$650,000, and FY 83 funding of \$200,000.

Approved: 

Disapproved: _____

Date: APR 26 1983

Appendices:

- A. General Counsel's Office Memo on Loan Guarantee Fund
- B. Accion International/AITEC Proposal

Clearances:

- FVA/PVC, S. Bergen (draft) Date: 3/18/83
- FVA/PPE, L. Stamberg LS Date: 3/21/83
- LAC/DP, F. Zumwalt (draft) Date: 3/11/83
- GC/LAC, S. Whitman SC Date: 3/23/83

Subject to GC review of agreement. Review subject to return of question

Draft: FVA/PVC, G. Beloz:yf:235-1684:3/2/83:3/18/83

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January 6, 1983

JAN 12 1983

MEMORANDUM TO: FVA/PVC, George Beloz
 FROM : GC/CCM, ^{Steve Whitman} Steve Whitman
 SUBJECT : Accion Internacional/AITEC Matching Grant Proposal

I have reviewed the memorandum dated December 6, 1982 from Bruce Bouchard to you on the subject matter and I have also reviewed the guarantee fund portion of the AITEC Matching Grant proposal.

I have the following comments:

Interest Earned on Grant Funds

The proposal states that AITEC plans to set up a fund, half of whose funds would come from an AID grant. The fund would be used as a reserve backing the issuance of guarantees to local banks in Costa Rica, Mexico, Peru and one other country to facilitate lending to entrepreneurs in those countries. The proposal states that "any interest earned from monies deposited in the fund would be reinvested to maintain its value." An issue is whether the interest earned on the funds derived from the AID grant may be so used.

As stated in Principles of Federal Appropriations Law, Office of the General Counsel, General Accounting Office at 13-38:

"The Comptroller General has consistently held that, except as otherwise provided by law, interest earned by a grantee on funds advanced by the United States under any assistance agreement belongs to the United States rather than to the grantee. All such interest is required to be accounted for as funds of the United States, and must be deposited in the Treasury as miscellaneous receipts under 31 USC §484" The rationale for this rule is that "funds are paid out to a grantee to accomplish the grant purposes, not for the grantee to invest the money and earn interest at the expense of the Treasury" Id. However, "once grant funds are applied by the grantee to the accomplishment of the purpose of the grant, the rule no longer applies," Id. at 13-38 and 13-39, and interest, if any, earned on the funds need not be paid back to the Treasury.

It is evident that a determination of when the grant funds are applied by the grantee to the accomplishment of the purpose of the grant is crucial in determining whether interest earned must revert to the Treasury. I have found no hard and fast rule applicable to the making of such a determination. In the situation under discussion, it strikes me as reasonable to assume that the

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grant purpose would be accomplished at the point when the AID funds were needed to be deposited into the fund to back the guarantees. It is unlikely that the grant purpose would be accomplished by depositing money into the fund unless it could be clearly demonstrated that capitalization of the fund prior to the issuance of guarantees was not merely desirable but essential to the successful operation of the guarantee program. In such a case, the grant purpose would be to establish the guarantee fund, and disbursement to the guarantee fund would be disbursement for the grant purpose and not an advance. I suggest that if you decide to move forward with this grant that the draft grant agreement be reviewed by GC.

Losses Incurred During the Program

The AITEC Matching Grant Proposal states that any losses incurred under the Guarantee Fund "would be shared equally by AITEC and USAID." It is unclear to me what this means. Do you not want losses incurred in loans under guarantees issued under the Guarantee Fund to be satisfied with money in the Guarantee Fund?

Clearance: GC/CP, JMiller (draft) _____
GC/CCM, KFries YES