

ACTION MEMORANDUM FOR THE DIRECTOR

July 29, 1987

THROUGH: Paul E. White, Deputy Director *PEW*  
FROM: Christina H. Schoux, Chief, PDSO *CSchoux*  
SUBJECT: Microbusiness Promotion Project, 520-0377: Request for Project Approval and Authorization

PROBLEM

Your approval is requested for an Operational Program Grant (OPG) of \$500,000 under Section 106 of the Foreign Assistance Act of 1961, as amended, to Acción Internacional/AITEC for the Microbusiness Promotion Project.

DISCUSSION

A. Project Purpose and Description

Acción Internacional/AITEC proposes to undertake a program over a three-year period that will increase incomes of the urban poor through technical assistance, training and credit to microentrepreneurs.

1. Overview - AID will provide funds for technical assistance, training and credit for microenterprises in urban and periurban areas as so that microenterprises will be able to: 1) generate new employment opportunities and upgrade existing employment opportunities; 2) generate additional income for their operations, and, 3) improve their efficiency and profitability through better management practices.

2. Target Area - The project will be initiated in Guatemala City, Quetzaltenango and their environs. Based on an impact evaluation carried out after the first eighteen months, the project will be expanded to ten other urban and rural towns.

3. Target group - Microenterpreneurs in industries and service sectors who meet the following criteria: a) legal minimum age; b) permanent business sites; c) at least one year in operation; d) willingness to receive technical assistance; f) business growth potential based on small additional capital injections; g) sound character reference; h) no access to the formal credit system; i) less than 10 salaried workers; and, j) low income family.

4. Credit Lending Policy - Individual and group lending approaches will be used. Individual loans will range from \$40 to \$2,500 and group credit from \$20 to \$800 per member. The latter approach will be used in lending to groups of up to eight members who by themselves could not qualify

for individual loans. Both approaches use phased loans. Participants will receive ~~larger loans progressively~~, according to their credit record.

5. Technical Assistance and Training - Participating microentrepreneurs will receive specifically tailored technical assistance as a complement to their loan. This will be reinforced by group training sessions in basic business skills.

#### B. The Executing Agency

Acción International/AITEC is a registered U.S. Private Voluntary Organization (PVO). It maintains a branch office in Guatemala City which will oversee implementation of the project. The parent organization is audited on a regular basis. The local Acción office, once it is fully staffed to manage the project and within six months of execution of the OPG, will be subject to a financial and compliance review financed by USAID.

Two local PVOs, the Technical Foundation (FUNTEC) and the Development Foundation (FUNDAP), will help channel Acción/AITEC assistance to the beneficiaries. Concomitantly, Acción/AITEC will strengthen these institutions' capacity to deliver credit, training and technical assistance; and to support FUNTEC and FUNDAP's activities in promotion, policy and administration on loan delivery and collections and the transfer of technology and managerial know-how to Microenterprises.

#### C. Conformity with GOG/USAID Strategy

GOG policy calls for eliminating constraints faced by microentrepreneurs and facilitating their access to needed resources. The Government has designed an ambitious multimillion dollar program to provide such assistance from its own resources and those of other donors. AID's private sector program will complement these efforts.

This project supports AID's overall strategy of returning the country to sustained real economic growth and significantly improving the participation of the poor in the benefits of growth. It contributes directly to the Mission's objective of strengthening the private sector and the NBCCA recommendation to develop AID programs which nurture small businesses, including microbusinesses.

#### D. Beneficiaries

Beneficiaries will include 10,500 microentrepreneurs residing in urban and suburban areas, with emphasis on providing female entrepreneurs with access to project-funded services.

#### E. Financial Requirements

The total cost of the project is approximately \$2,695,000 over a three-year period. Of these funds, an estimated \$500,000 will be provided by

USAID, \$1.9 m. from ESF local currency generations under a separate agreement between the Mission and Accion/AITEC, and \$295,000 will be provided from Accion/AITEC's own resources. It is proposed that the \$500,000 contribution from AID be obligated in two tranches during FY87, in July and August, respectively, with the following planned uses of funds:

|                         |            |
|-------------------------|------------|
| Technical assistance    | \$ 236,523 |
| Equipment               | 170,965    |
| Administrative Expenses | 92,512     |
| Total:                  | \$ 500,000 |

F. Waivers

None are required.

3. A budget allowance has been received to adequately cover the first obligation of \$200,000. A Congressional Notification was submitted to the Hill on July 10, 1987 (State Cable 226999). The CN waiting period expired on July 24.

H. Recommendations

That you approve the Project described above pursuant to the Authority provided to you by Delegation of Authority No. 753 (authority to approve project up to \$20 million) by signing below, and that you sign the attached Project Authorization to authorize the project.

Approved

[Signature]  
Anthony J. Cauterucci  
Director

[Signature]  
Date

Disapproved

\_\_\_\_\_  
Anthony J. Cauterucci  
Director

\_\_\_\_\_  
Date

Attachment: Project Authorization

Drafted by: DPDSO/RSteelman

Cleared by:

OFSP:FManteiga [Signature]

Date:

PDSO:CHSchoux [Signature]

Date: July 30, 1987

PRM:TKellermann [Signature]

Date: 7-30-87

CONT:JHill [Signature]

Date: 8/4/87

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PROJECT AUTHORIZATION

Name of Country/Entity : Guatemala/Acción Internacional

Name of Project : Micro-Business Promotion

Number of Project : 520-0377

1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Micro-Business Promotion Project for ACCION International (AITEC) involving planned obligations of not to exceed \$500,000 in grant funds over a three year period from date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project. The planned life of the project is three years and five months from the date of initial obligation.
  
2. The project consists of assisting AITEC in a program to increase the incomes of the urban poor through technical assistance, training, and credit to microentrepreneurs.
  
3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the project shall have their source and origin in the United States (AID Geographic Code 000), the cooperating country, or other countries included in the Central America Common Market (CACM), except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the U.S., the cooperating country, or other countries included in the CACM as their place of nationality, except as A.I.D. may otherwise agree in writing.

Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the U.S., the cooperating country, or other countries included in the CACM.

Approved:

  
Anthony J. Cauterucci  
Director

8/5/87  
Date

Disapproved:

\_\_\_\_\_  
Anthony J. Cauterucci  
Director

\_\_\_\_\_  
Date

Drafted by: MRiedy, Acting LLA

Cleared by:

C/PSPO: FManteiga

PRM: RBurke

PDSO: CHSchoux

CONT: JHill

DD: PEwhite

Date: 7/29/87

Date: 07-30-87

Date: July 30, 1987

Date: 8/4/87

Date: 8/11/87