
PERU

Caja Rural and Community-Based Enterprise Development Project

Cooperative Agreement No. 527-0349-A-00-3338

Quarterly Report

Submitted to:

Rural Development Office
USAID/Peru

Submitted by:

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May, 1994

**Agricultural Cooperative Development International (ACDI)
Peru: Caja Rural Project: Olmos, Motupe, Jequetepeque
Cooperative Agreement # 527-0349-A-00-3338-00**

Quarterly Report: January - March, 1994

During the first quarter of 1994, ACDI sent Dan Chaij at ACDI expense, and consultants Federico Herrero and Jon Greeneisen to Peru. A start-up representative, Oscar Rizo-Patrón, was also hired in Lima to represent ACDI until the chief of party can be installed in Peru. Chief of party candidate, Jorge Noda, traveled to Peru to meet with representatives of the Caja, USAID, and the government of Peru. Negotiations to obtain country clearance and salary approval were initiated with USAID/Peru.

The consultants identified the business factors essential for the Caja to become a sound financial institution. The essential factors, laid out in Appendix E of the attached report, include a capital base approaching \$2 million, cost effective access to funds, market rates of interest, professional management, and the marriage of a private sector approach to banking with appropriate support from both the community and the government.

The consultants, the start-up representative, and Mr. Chaij worked with the Superintendency of Banks to move forward the Caja's request for authorization to organize. A letter explaining technical support planned for the O-M-J Caja was submitted to the Superintendency (Appendix A), and technical assistance was provided to Caja organizers, who presented additional information in response to a request by the Superintendency.

A draft cooperation agreement between ACDI and the Caja was prepared and given to the organizing committee for its review and comment. The consultants also prepared a letter of understanding between ACDI and the Caja which recognizes the intent of the two organizations to work together. (Appendices B and C)

Meetings were held in Motupe and Jequetepeque to promote participation in the Caja and to discuss the importance of obtaining the initial capital for the license to operate.

An draft agreement between the Ministry of Finance and COFIDE was prepared (Appendix D), providing for the use of PL 480 funds to help capitalize the Chiclayo Caja. USAID, MEF, and COFIDE officials agreed in principle with the use of the funds, but further negotiations are necessary to come to an agreement.

In meetings with the Minister of Agriculture and his advisor, Juan Vega, a national caja guarantee fund was discussed, in addition to the need for an apex organization to provide financial services to the local banks, coordinate policies, and represent the cajas' interests.

The concept of a caja network was described in a paper, which was discussed by USAID officials and presented to the USAID Mission Director. A report describing how a Caja Rural fund, a national system of cajas, and establishment of the O-M-J Caja would be related

and function was also compiled (Appendices G and H).

The strategic plan developed by the December consultants was updated, and the final work plan was completed during Quarter 1 and submitted to the USAID mission in February. Scopes of work for the project's local hires (banking consultant and credit advisor) were also developed.

TechnoServe worked towards establishing groups in the Motupe valley and beginning technical assistance activities in Jequetepeque. The status and specific needs of seven groups in the Jequetepeque and Motupe valleys were analyzed, focusing on the existing conditions and required actions for the development of agro-export crops and commercial networks in the valleys.

For more detailed information regarding ACDI and TechnoServe activities, please see the enclosed reports.

In the coming quarter, emphasis will be placed on gaining authorization for and placing the Project's Chief of Party in Peru; mobilizing the required capital in the O-M-J valleys; gaining authorization for the Caja to organize from the Superintendency of Banks; and negotiating an agreement with MEF that establishes an effective framework for the \$3 million in PL-480 funds designated for support to the Caja.

CAJA RURAL AND ENTERPRISE DEVELOPMENT PROJECT IN PERU

Consultancy Report

January, 1994

**Prepared by:
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**Prepared for:
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TABLE OF CONTENTS

- I. List of Acronyms
- II. Background
- III. Scope of Work
- IV. Issues and Actions
- V. Conclusion
- VI. Appendices
 - A. ACDI letter to the Superintendencia (Spanish)
 - B. Draft ACDI-Caja Cooperation Agreement
 - C. ACDI-Caja Letter of Understanding (English and Spanish)
 - D. Draft Agreement between COFIDE and MEF (Spanish)
 - E. Requirements for a Caja Rural to Be Successful
 - F. Ministry of Agriculture's Development of Cajas Rurales (notes)
 - G. National System of Cajas Rurales - A Strategy for Peru
 - H. Fund for Development of a Caja Rural System (Spanish)
 - I. Scope of Work for Temporary ACDI Staff Member
 - J. Position Descriptions: Banking Consultant and Credit Adviser
 - K. Memorandum: Staffing the ACDI Caja Rural Project
 - L. Project Strategic Plan with an Update

I. LIST OF ACRONYMS

ACDI	Agricultural Cooperative Development International
COFIDE	Corporacion Financiera de Desarrolla
MOA	Ministry of Agriculture
MEF	Ministry of Finance
O-M-J Caja	Olmos, Motupe, Jaquetepeque Caja Rural (same as the Chiclayo Caja)
SBS	Superintendencia de Banca y Seguros
USAID	U.S. Agency for International Development

II. BACKGROUND

Agricultural Cooperative Development International (ACDI) and TechnoServe entered into a contract with the Agency for International Development in 1993 to carry out a Caja Rural and Enterprise Development Project in Peru. The general objective is to nurture development of a number of successful agricultural enterprises and establish a rural bank as a financing vehicle. ACDI's part of the project is to guide development of the community bank--a caja rural--which would be a model for other similar banks.

Agriculture and the rural economy in Peru has been provided financial services in recent years through two failed government programs--Banco Agrario and Fondeagros. As a result, today rural communities have no banks or other financial institutions to serve their needs. The lack of credit for farmers and agribusinesses is contributing to the decline of agricultural productivity.

The concept of a caja rural is to establish a private, rural bank owned and controlled by individuals and businesses in the local community. The bank would provide credit and other financial services specially tailored to the needs of the rural people.

A recent Peruvian law permits establishment of cajas rurales for this purpose. When an organizing committee submits a reasonable business plan for a new bank the Superintendencia de Banca y Seguros will issue a license to organize. When a minimum of \$250,000 in share capital has been invested a license will be issued to operate. Only one caja rural currently is operating but the Ministry of Agriculture has assigned several staff members to work with and assist local groups of rural leaders who wish to create cajas rurales for their communities.

ACDI and TechnoServe have selected the Olmos, Motupe, Jaquetepeque region around the town of Chiclayo in Northern Peru for the project. An organizing committee for the caja has been formed and was anxious to submit to the government its request for formal authorization to organize. The project plan is for ACDI to provide technical advisers to guide and assist the organizing committee in establishing a viable rural bank. These advisers must be recruited and employed for the project.

To facilitate creation of a strong bank with adequate resources to make a significant contribution to the local economy approximately \$3 million in P.L. 480 funds in the Ministry of Finance have been designated to support the Chiclayo caja. The funds will be transferred to COFIDE which will act as the disbursing agent. Arrangements must be made between the Ministry of Finance, COFIDE, and the Chiclayo caja rural to employ these funds.

The two consultants were sent to Peru the last two weeks of January, 1994, to help implement the project and facilitate start up of the caja rural in Chiclayo.

III. SCOPE OF WORK

The consultants were given five tasks in advising and assisting Mr. Daniel Chaij, ACDI Vice President for Latin America, as he worked to launch the project:

1. Negotiate Agreements. Develop and amend key agreements to be signed between ACDI and the caja rural concerning the working relationship between the two organizations, and between COFIDE, MEF and the caja rural on transfer and use of the P.L. 480 funds to provide for the caja's capitalization and as a guarantee fund. Move these negotiations forward toward final agreement.

2. Project Staffing. Make recommendations on staffing the project and identify any strong candidates for positions on the ACDI team including an interim ACDI representative to follow up on actions and serve as a link between key parties.

3. Caja Relations. Help obtain for the caja organizational authorization from the Superintendency, map steps necessary for obtaining operational authorization, and stimulate mobilization of local resources. Make contact with the caja organizing committee to reinforce the concept of a user-owned community bank and the significant difference from past rural credit institutions. Make changes to update and strengthen the Project Strategic Plan.

4. National Strategy. Outline and present to USAID and the Ministry of Agriculture a strategy for a national system of cajas rurales in Peru and incorporate the concept into project plans.

5. Report. Prepare a report that includes recommended agreements, staffing recommendations, strategies and related materials to facilitate start up of the project.

IV. ISSUES AND ACTIONS

During the two weeks, the consultants met with individuals, prepared materials, reached conclusions and made recommendations. The following is a report of these activities.

1. Authorization for the Caja Rural to Organize. Mr. Herrero had drafted in December the the 46-page application document to be submitted to the Superintendencia requesting authority for the committee in Chiclayo to organize. During this consultancy, he met with the committee, revised several pages of the document and helped deliver the application to the Superintendencia. The authorization is expected to be received within a week or two.

To support the Chiclayo application, Mr. Herrero prepared a letter from ACDI explaining the technical support that is planned for the O-M-J caja. This letter (Appendix A) was signed by Mr. Daniel A. Chaij and delivered to the Superintendencia.

2. ACDI-Caja Cooperation Agreement. The consultants redrafted an agreement between ACDI and the Chiclayo caja that describes the technical assistance to be provided and how the two organizations will cooperate in the project. The draft agreement (Appendix B) was given to the organizing committee for its review and comment.

The consultants also prepared a letter of understanding between ACDI and the caja that communicates the intent of the two organizations to work together. The letter (Appendix C) indicates that the cooperation agreement will be signed when the organizing committee has raised half of the minimum capital required for authorization to operate.

3. COFIDE-MEF Agreement. Mr. Herrero drafted a crucial agreement between the Ministry of Finance and COFIDE providing for the transfer and use of the \$3 million in P.L. 480 funds. The agreement (Appendix D) would specify that up to half of the funds could be used to help capitalize the Chiclayo caja on a matching basis--\$3 from COFIDE for every \$1 invested by local shareholders. The balance of the fund would be used as a liquidity backup for the caja. The caja could call on the fund for short-term liquidity needs (such as overnight) to respond to withdrawals from savings accounts or redemption of shares.

USAID, MEF, and COFIDE officials agreed in principle with this use of the funds and were happy to receive Mr. Herrero's draft agreement. Peruvian law, however, prohibits COFIDE from holding shares (having an equity interest) in any business or organization. An alternative arrangement will be needed and the possible formation of a separate trust was discussed. Such a trust could be transferred at a later date to any apex organization that might be formed for a national caja rural system. These issues will require persistent follow-up for satisfactory resolution.

4. Needs for the Caja to be Viable. The consultants have serious concerns about possibilities for the O-M-J caja rural to grow into a viable, self-sustaining rural bank. Sensitivity analyses by prior consultants in December, 1993, based on assumptions at that time, indicated the bank might continue in business only up to three years. An important task in this consultancy, therefore, was to identify the business factors essential for the caja to have a chance to become a sound financial institution. These business needs were emphasized in meetings with the Chiclayo organizers and with government officials.

The caja rural needs adequate capital (the minimum of \$250,000 is woefully inadequate), reliable sources of funds, a healthy interest rate spread and a low loan default rate. In addition it must have strong support from both the local community (shareholders and customers) and from the government. Finally, the bank must have a very experienced, shrewd manager. Mr. Greeneisen laid out this essential business blueprint in a paper on "Requirements for a Caja Rural to be Successful" (Appendix E).

5. Plan for a National System. The consultants also concluded that for long-term viability of the caja rural in Chiclayo (or any other caja in Peru) it must have the benefit of a national caja network and an apex financial institution. This concept was described and discussed in meetings with the USAID Mission, Chiclayo organizers, MOA, MEF, COFIDE, and the Superintendencia.

The Ministry of Agriculture has helped one caja rural get started and is working with organizing groups in eight other communities. The MOA caja rural office is headed by Mr. Juan Vega who is trying to establish a national caja guarantee fund from tax revenues generated by taxes on agricultural imports. He recognizes the need for an apex organization to provide financial services to the local banks, coordinate policies, and represent the cajas' interests. The consultants met with Mr. Vega (see Appendix F) who expressed interest in working closely with the ACDI team.

Mr. Greeneisen described the concept of a caja network in a paper--"National System of Cajas Rurales--A Strategy for Peru" (Appendix G)--which was discussed with USAID officials and which Mr. Chaij presented to the USAID Mission Director. Mr. Herrero also described how a cajas rurales fund, a national system of cajas, and establishment of the O-M-J caja would be related and function in a paper entitled "Fondo Para el Desarrollo de un Sistema de Credit (Appendix H).

6. ACDI Staffing. It was quickly apparent to the consultants that it is essential for ACDI to have an individual stationed in Lima to follow up on these many issues in order to get the project under way. With the concurrence of ACDI/Washington, the consultants considered candidates and recommended short-term employment of Mr. Oscar Rizo-Patron who was subsequently hired by Mr. Chaij. A scope of work (Appendix I) was written for Mr. Rizo-Patron and he attended many of the meetings with the consultants.

The consultants concluded that the two basic tasks in facilitating start up of the Chiclayo caja are (1) to organize and manage the new bank and (2) to establish a sound credit operation. For this reason, it is recommended that the two Peruvian ACDI advisers in Chiclayo consist of a Banking Consultant and a Credit Adviser. Position descriptions (Appendix J) were prepared and provided to Messrs. Chaij and Rizo-Patron to help in recruiting.

Also, it is the view of the consultants that because of so many decisions being made in Lima that will have major impact on the Chiclayo caja (availability of COFIDE funds for capitalization, interest rates charged on lines of credit, taxation, regulation and examination by the Superintendencia, etc.) the Chief of Party would best be located in Lima. This will enable the project to participate in developing a national caja system and an apex organization which also will be vital to the long-term existence of the caja in Chiclayo. This recommendation was made to Mr. Chaij by memorandum (Appendix K).

7. Project Strategic Plan. The consultants reviewed the strategic plan for the ACDI Caja Rural Project and concluded the plan is sound and appropriate with the addition of plans for a tie-in with development of a national caja system. Minor changes in the plan (Appendix L) were made to delete references to acquisition of the local loan portfolio of Fondeagros and to emphasize that loans from the caja will be fully collateralized. A brief strategic plan update was prepared and discussed with the USAID Mission at the end of the consultancy.

V. CONCLUSION

Peruvian agriculture--its producers, agricultural businesses and rural enterprises--badly needs financing and financial services. Establishment of rural banks--cajas rurales--will make a significant contribution to development of the country's agricultural industry and, at the same time, strengthen the rural economy. The law authorizing formation of cajas rurales provides a significant opportunity in Peru to create a strong rural banking system. But it will require a strong commitment from the government, vigorous participation by rural leaders and sound advice and guidance from ACDI. It needs to happen and it can.



APPENDIX A

Agricultural Cooperative Development International

50 F Street, N.W. • Suite 900 • Washington, D.C. 20001 • Telephone: (202) 638-4661 • Fax: (202) 626-8726

Lima, Enero 27 de 1994

Señor
Luis Cortavarría Checkley
Superintendente de Banca y Seguros
Lima

Estimado Señor:

Nos es grato dirigirnos a Ud. para hacer de su conocimiento que, tal como consta en la carta de Entendimiento cuya copia adjuntamos y el Convenio suscrito con AID, ACIDI ha comprometido su colaboración para la Caja Rural de Ahorro y Crédito Cruz del Chalpón de Motupe en los términos que en dicha carta se precisan.

Es importante mencionar que nuestra participación para el desarrollo de la Caja Rural Cruz de Chalpón se proyecta a conformar en base a esta experiencia piloto, un Sistema Nacional de Crédito Rural integrado por las Cajas Rurales regionales que se vayan constituyendo en todo el país.

También es importante indicar que para este proyecto ya se ha logrado el acuerdo del Ministerio de Economía y de la AID para asignar US\$ 3'000,000, del programa PL-480 como fondos que se utilizarán para fortalecer el despegue de operaciones de las cajas rurales, y en primera instancia para la Caja Cruz de Chalpón, sobre el cual COFIDE otorgará créditos hasta por US\$ 8'000,000. para préstamos para el desarrollo agroindustrial de la zona de influencia de la Caja.

Aprovechamos la oportunidad, para acreditar ante Uds. al Ing. Oscar Rizo Patrón Velarde como nuestro representante en Perú para todas las gestiones de seguimiento de la puesta en marcha de este proyecto.

Agradecemos su gentil atención, ratificándoles nuestro interés en brindarles nuestra colaboración en aquellos aspectos que, sobre este tema, Uds. consideren conveniente.

Atentamente,

DANIEL A. CHAIJ
Vicepresidente para la
América Latina y el Caribe

COOPERATION AGREEMENT (draft:1/25/94)

Paragraph I.

This agreement between Agricultural Cooperative Development International (ACDI), Washington, D.C., U.S.A, and the Caja Rural de Ahoro y Credito Cruz de Chalpon S.A. (the Caja), Chiclayo, Peru, specifies how the two organizations will work together to establish a strong caja rural to serve the financial needs of farmers, agricultural enterprises, rural people and others in the Motupe-Olmos-Jequetepeque region of Peru. This agreement will continue in effect for three years unless amended or terminated upon the full agreement of both parties.

Paragraph II.

ACDI and the Caja will jointly prepare a semi-annual work plan every six months on steps to be taken to establish banking operations and financial services. This plan will be the basis for cooperation between the two organizations and will identify the technical assistance to be provided to the Caja by ACDI. The plan will include such activities as administrative development of the bank, financial management, arrangements for sources of funds, credit services, business development, training, and other steps considered priorities in building a strong institution.

Paragraph III.

The Caja will provide ACDI access to all information, records and documents related to start up and operation of the bank. The

Caja also will provide ACDI access to all meetings and records of meetings including meetings of the board of directors. The ACDI team is authorized to use any information about the Caja in reporting to US/AID, ACDI Headquarters or other international supporting organizations. However, ACDI will use the information for reports to agencies of the Peruvian government, other banks in Peru, or other Peruvian organizations and individuals ONLY with the prior approval of the Caja.

Paragraph IV.

ACDI will assign technical advisers to work with the Caja in developing a viable, self-sustaining bank, including technical assistance in such areas as organizational development, staff training, human resource management, financial management, credit granting, customer services, shareholder relations, etc. During the duration of this agreement ACDI also will select external auditors to perform annual financial examinations in accordance with standard banking practices.

Paragraph V.

Materials developed by ACDI or jointly by ACDI and the Caja will be available for use by other Cajas in Peru.

Paragraph VI.

At the end of each year, ACDI will evaluate progress toward establishing a viable banking business and present a report with recommendations to the Caja board of directors. This annual

assessment and report will include, but not be limited to, the following topics and/or issues:

A. Progress of the Caja management in developing the Caja into a viable, self-sustaining bank serving financial needs of the rural community.

B. How well the Caja is serving farmers, agricultural enterprises, non-agricultural enterprises, and other community businesses including those involved in production, processing or marketing for export and those receiving technical assistance from TechnoServe.

C. The Caja is developing sound bank policies and practices in such areas as:

1. Operating systems to assure sound management of the financial elements of the bank--capital formation, acquisition and use of lines of credit, asset/liability management, management information system, etc.

2. Interest rate spreads above the average cost of funds sufficient to cover operating expenses, increase capital, and return a reasonable dividend to shareholders.

3. Sound credit practices including financial analysis, collateralization and loan monitoring.

4. Active loan portfolio management in such ways as loan restructuring, realization of guarantees, recovering collateral and other measures to keep the bank's cost of loan defaults to the lowest possible amount in order to protect the Caja's capital.

5. Aggressive new business development.

6. Attracting deposits to acquire low-cost funds and providing fee-based services priced to be profitable to the Caja.

7. Increasing community participation in the Caja by adding member/shareholders.

8. Actively selling shares as a means to build capital as a basis for increased lending capacity.

Paragraph VII.

The Caja will provide office space and utilities (but not telephone) for the ACDI team. If ACDI shares any other facilities, equipment or personnel with the Caja, ACDI will reimburse the Caja for the cost of such services it receives.

SIGNED AND AGREED TO ON THIS DATE: _____.

For ACDI: _____, _____.
(name) (title)

For the Caja: _____, _____.
(name) (title)

16

APPENDIX C

ACDI-CAJA LETTER OF UNDERSTANDING (1/26/94)

This letter documents that Agricultural Cooperative Development International (ACDI) and the Organizing Committee of Caja Rural de Ahoro y Credito Cruz de Chalpon S.A. agree to work together to establish a viable financial institution to serve the banking and credit needs of agricultural producers and rural enterprises in the Olmos-Motupe-Jequetepeque region.

The Organizing Committee will form a small directorate with full powers to obtain the authorization to begin operations, issue shares to raise capital, hire management and otherwise receive and expend funds to initiate banking operations.

ACDI will provide technical support to the Organizing Committee, to the Directorate and to Caja employees in accomplishing the necessary steps to start up the Caja. ACDI also is committed to provide technical advisers to assist the Caja during the first three years of its operations. The working relationship between the Caja and ACDI will be specified in a cooperation agreement between ACDI and the Caja board of directors. The agreement will be signed and long-term assistance will begin when the Caja has accumulated half of the capital required for authorization to begin operations.

The Organizing Committee and ACDI are committed to close cooperation and mutual support in expediting successful establishment of a strong Caja Rural.

Signed on this Date: _____

For the Organizing Committee: _____

For ACDI: _____

CARTA DE ENTENDIMIENTO

Esta carta documenta que el Desarrollo Internacional de Cooperativas Agrícolas (ACDI) y el Comité Organizador de la Caja Rural de Ahorro y Crédito Cruz del Chalpón S.A. acuerdan trabajar conjuntamente en el establecimiento de una institución financiera viable que le brinde los servicios bancarios y crediticios a los productores agropecuarios y las empresas rurales en la región de Olmos-Motupe-Jequetepeque.

El Comité Organizador formará un sub-comité con plenos poderes para obtener la autorización de organización, vender acciones y obtener la suscripción de capital, y recibir y desembolsar fondos conducentes al inicio de operaciones bancarias.

ACDI proveerá apoyo técnico al Comité Organizador, al Consejo Directivo cuando este se constituya, y al personal de la Caja con el fin de dar los pasos necesarios para comenzar operaciones. ACDI también se compromete a destacar asesores técnicos que asistan a la Caja durante los primeros tres años de operaciones. La relación de trabajo entre ACDI y la Caja quedará estipulada en un convenio de cooperación a firmarse entre el Consejo Directivo de la Caja y ACDI. Este acuerdo se firmará y la cooperación a largo plazo comenzará tan pronto la Caja tenga un capital pagado de \$500,000 Nuevos Soles requerido para comenzar operaciones.

El Comité Organizador y ACDI se comprometen a mantener una estrecha relación y apoyo mutuo para impulsar el establecimiento exitoso de una Caja Rural fuerte.

Firmada el 26 de enero de 1994

Cesar Orozco
Presidente
Comité Organizador
Caja Rural de Ahorro y Crédito
Cruz del Chalpón S.A.

Daniel A. Chaij
Vicepresidente de ACDI
para la América Latina y
el Caribe

FONDO PARA EL DESARROLLO DE UN SISTEMA
DE CREDITO RURAL

CONTRATO DE TRANSFERENCIA DE RECURSOS MEF - COFIDE

Conste por el presente documento el Contrato de transferencia de recursos que celebran de una parte la Unidad Especial AID, ente dependiente del Ministerio de Economía y Finanzas, representada por su Jefe, el señor David Lescano Arredondo, identificado con L.E. No.08829468, RUC. No. , con domicilio en Jr. Lampa 277 Lima (en lo sucesivo denominado LA UNIDAD AID) y de la otra parte, la Corporación Financiera de Desarrolla S.A. - COFIDE, con RUC No. 10011639, con domicilio en Camino Real 390 San Isidro, representada por su Gerente General, el Ing. Mauro Chávez Sandoval, identificado con L.E. No. 09141342 y RUC. No. según poderes inscritos en el asiento 125 de la ficha 1108 del Libro de Sociedades del Registro Mercantil de Lima (en lo sucesivo denominado COFIDE), a fin de señalar las condiciones en las cuales, LA UNIDAD AID efectuará a una transferencia de recursos condicionada de acuerdo a los siguientes términos :

ARTICULO I : ANTECEDENTE

- 1.1. Mediante Resolución Suprema No. 080-92-EF/75 se aprueba el convenio de Donación por US \$ 25 millones, suscrito el 09 de Julio de 1992 entre el Gobierno de Estados Unidos de América y el Gobierno de la República del Perú, a través de la Agencia para el Desarrollo Internacional (AID), dentro del marco de las condiciones establecidas en el convenio formulado.
- 1.2. Mediante Resolución Ministerial No. 292-92-EF/75, se designa al Director de Proyectos de la Dirección General de Crédito Público Jefe responsable del Sub Programa de Cooperación Técnica Internacional, para el manejo de los Convenios de Donación suscritos con la AID, y establece dentro de la Dirección de Proyectos una Unidad Especial encargada del manejo económico - administrativo de los recursos provenientes de dichos Convenios (Unidad AID/MEF)
- 1.3. COFIDE es una empresa estatal de derecho privado. Su función principal como Banco de Desarrollo de Segundo Piso es contribuir al desarrollo de la inversión y la producción nacional mediante la captación de recursos financieros para asignarlos, junto con sus propios recursos, a través del sistema de intermediación financiera a la promoción de

proyectos de inversión, desarrollo de nuevas empresas y apoyo a las empresas en funcionamiento.

- 1.4. El 23 de Setiembre de 1993 la AID firmó un Convenio Cooperativo con la Agricultural Cooperative Development International (ACDI), para ejecutar el Programa de Desarrollo de una Caja Rural y Empresas Agrícolas de Base Comunal en los Valles de Olmos, Motupe y Jequetepeque. ACDI tendrá a su cargo todos los aspectos relacionados con la Caja Rural y TECHNOSERVE los aspectos referentes a la asistencia técnica para las empresas agrícolas. La participación de TECHNOSERVE se llevará a cabo como sub - contratista de ACDI. Este convenio se describe en el resumen anexo a este contrato, y enmarcará la utilización de la transferencia de recursos aquí descrita.

ARTICULO II : OBJETIVO

La unidad Especial AID del Ministerio de Economía y Finanzas, efectuará una donación a COFIDE de US \$.3'000,000, con el cargo al recurso de la Línea PL480 Título III a fin de que esta última la administre y la destine a la creación de un Fondo para el desarrollo de un sistema de crédito rural, basado en el concepto de Cajas Rurales comprendido en el Decreto Ley No. 25651.

ARTICULO III : FONDO PARA EL DESARROLLO DEL CREDITO RURAL

3.1. Objeto

El referido Fondo tiene como objetivo inmediato brindar el apoyo y respaldo financiero prioritariamente a la Caja Rural Olmos Motupe Jequetepeque, como plan piloto para el desarrollo del sistema, y del programa agro-exportador que se desarrollará en su área de influencia. Podrán asimismo atenderse otras cajas en la medida que la disponibilidad de recursos así lo permitan

3.2. Recursos

Los recursos del Fondo estarán constituidos por la donación de la Unidad AID/MEF a COFIDE por US \$. 3 millones.

3.3. PRODUCTOS FINANCIEROS DEL FONDO

Los recursos netos que genere el Fondo, después de descontado el costo administrativo de COFIDE, que no superará al 1 % del Fondo, y otras cargas impositivas, podrán ser destinados a sufragar los gastos que demande la conformación del sistema de acuerdo al plan de trabajo que sea acordado por ACDI y COFIDE, siempre que estos gastos no se apliquen a los propios de las Instituciones participantes.

ARTICULO IV : TRANSFERENCIAS

4.1. Monto y Período

La Unidad AID/MEF, como encargada de administrar los fondos de la donación provenientes de AID, efectuará a su vez la siguiente donación a COFIDE :

Unidad Monetaria : Dólares Americanos

Monto : \$. 3'000,000 (tres millones de dólares americanos)

Esta suma será desembolsada por la Unidad AID/MEF en una sola armada a la firma del convenio.

ARTICULO V : UTILIZACION DE LOS RECURSO

5.1. Los recursos del Fondo podrán ser aplicados en cualquiera de las siguientes finalidades a). Como fortalecimiento accionario de la caja; b). Como préstamos o línea de crédito a la caja rural; c). A la constitución de fondos de liquidez y de garantía para los ahorristas de la caja; d). A brindar un respaldo de garantía que permita la movilización de recursos de otras fuentes incluyendo los propios de COFIDE. Podrán asimismo e). Utilizarse en cualquier otra forma que beneficie directamente a la caja y la formación del sistema, según acuerden COFIDE y ACDI, sin que ello implique una pérdida en su valor mas allá que aquella que se origine en el riesgo que su uso implique.

5.2 Para la utilización de los recursos primará lo establecido en el Convenio de Donación suscrito con la AID, descrito en el numeral 1.1. del artículo I del presente Convenio.

ARTICULO VI : OBLIGACIONES DE LA UNIDAD AID/MEF Y COFIDE

6.1. De la Unidad AID/MEF

- m a) Realizar el desembolso a COFIDE de acuerdo a lo estipulado en el artículo IV del presente convenio.
- b) Sobre la base de los informes que le remite COFIDE, informar a la AID sobre cualquier observación que se encuentre en el desarrollo del proyecto.

6.2. De COFIDE

- a) Poner a disposición de la Caja Rural de Olmos - Motupe Jequetepeque de acuerdo a las líneas de crédito hasta por US \$. 8 millones a ser desembolsadas en un período de hasta tres años, para el fomento de los programas agro-exportadores.
- b) COFIDE deberá cuidar que se cumpla el reglamento del Fondo.
- c) Remitir a la AID y a la Unidad AID/MEF, informes técnicos trimestrales sobre el desarrollo del Programa Crediticio.

ARTICULO VII : CASOS DE INCUMPLIMIENTO

7.1. La donación revertirá parcial o totalmente a la Unidad AID/MEF por las causales siguientes :

- a) Si COFIDE utilizara los fondos transferidos a título del presente Convenio para fines distintos a los objetivos del mismo, descritos en el artículo III.
- b) Si COFIDE incumpliera cualquier obligación estipulada en este Convenio.

ARTICULO VIII : NOTIFICACIONES

Toda notificación o cualquier tipo de comunicación que tenga relación con el presente Convenio, deberá ser por escrito. Se considerará que la notificación será debidamente hecha cuando en el

12

caso de la Unidad AID/MEF se reciba en la Dirección de Proyectos de la Dirección General de Crédito Público del Ministerio de Economía y Finanzas, Jr. Lampa No. 277, Lima; y en el caso de COFIDE en Camino Real No. 390 San Isidro; o cualquier otra dirección que las partes acuerden posteriormente por escrito.

ARTICULO IX : REGLAMENTO DEL FONDO

10.1 El Fondo de será manejado de acuerdo a un Reglamento Específico que será preparado conjuntamente por ACDI y COFIDE en un plazo máximo de 60 días a partir de la fecha de entrada en vigencia del presente Convenio. El Reglamento estará sujeto a la aprobación de AID.

ARTICULO X : VIGENCIA DEL CONVENIO

- 10.1 Son requisitos para la entrada en vigencia del presente Convenio la presentación de los siguientes documentos :
- a) Copia del acuerdo de Directorio de COFIDE para la suscripción del presente Convenio de Operación.
 - b) Facsímil delas firmas de las personas autorizadas.
 - c) Opinión favorable de COFIDE y de la Asesoría Legal de la Dirección General de Crédito Público del Ministerio de Economía y Finanzas del Convenio suscrito.
- 10.2 El presente Convenio entrará en vigencia al momento de su suscripción, previo cumplimiento de los requisitos estipulados en el numeral precedente; firmándose en cuatro (4) ejemplares de igual validez.

ARTICULO XI : ESTIPULACIONES FINALES

11.1. El contenido del presente Convenio podrá ser modificado por mutuo acuerdo de las partes.

En Lima, a los días del mes

p. Corporación Financiera de
Desarrollo COFIDE S.A.
Ing. Mauro Chávez Sandoval

p. Ministerio de Economía
y Finanzas
Eco.David Lescano Arredondo

27

REQUIREMENTS FOR A CAJA RURAL TO BE SUCCESSFUL

To successfully establish a strong caja rural that can grow into a viable banking business, several conditions must exist.

A. A Sound Banking Equation.

Banking is a financial business that requires certain factors to be successful. The following elements are essential:

1. Adequate Capital. The amount of financial resources available to the bank--capital--is the foundation of the banking business. Inadequate capital means a weak bank. The amount of capital determines the scope and size of service that can be provided. It determines how much adversity the bank can withstand in difficult economic conditions.

The minimum capital required in Peru is equivalent to \$250,000. In order to make a significant contribution to the rural economy in the community, however, its ACIDI advisers have determined that minimum capital of \$2 million is needed. Of this capital roughly half is needed to generate earnings to cover operating expenses. The balance is needed to offset anticipated loan losses.

2. Sources of Funds. The business of banking is handling money. Reliable, plentiful sources of funds, therefore, are essential for the business. Most banks rely first on savings deposits of individuals and businesses in the community. It is expected that a new caja rural will require some time to develop the reputation of a safe, profitable place to place savings for safe keeping. But, over time, savings deposits must be a key source of funds.

In addition, the caja rural must establish lines of credit with financial institutions and banks. In the early months, it is anticipated that COFIDE will be the caja's primary source of borrowed funds. Other credit lines must be found with funds available at reasonable passive rates of interest.

Other ways of obtaining funds also must be found. For example, the caja must find another bank or institution that will buy loans and, in this way, refinance the caja's loan portfolio. Finding such a rediscount window will be crucial to the caja's long-term ability to finance businesses in the community.

3. Interest Rate Spread. If a caja is able to remain in business it must maintain an adequate margin between the average cost of funds (deposits, credit lines, etc.) and interest income on its loan portfolio. This interest rate spread must be sufficient to cover operating expenses (including loan losses), build capital, and return a reasonable dividend to shareholders. Most banks in Peru in 1994 are operating with a ten percent spread. Financial projections for a caja rural indicate it cannot remain in business with a spread of less than eight percent.

4. Loan Default Rate. The anticipated non-repayment of loans made by the caja is a major concern. Default rates on agricultural loans in some areas of Peru in recent years are reported as high as 50 percent or more. A caja will have only a short life if it has loan losses half that high. For a caja to have any hope for success it must only make loans it fully expects will be repaid and diligently pursue loan collections. When a loan is classified a loss, every effort must be made to recover the loan collateral to minimize the cost to the caja.

Financial analyses of possibilities for a caja rural to succeed indicate that, even with the resources described above, it will not continue in business with a loan default rate higher than ten percent.

B. A Private Community Bank.

Banking advisers who have studied the business environment in rural Peru conclude it will be essential for a new caja rural to be perceived as a private business owned by local people. It must not be considered another government grant or subsidized credit program. This will require a major shift in the community's perception of this new financial service. The location of the bank and its employees will play a major role establishing, or not establishing, this new image.

At the same time, the caja must be seen as a business owned and controlled by local people. It will be important for people in the community to take an interest in making the caja successful because if the bank fails the shareholders lose their investment. People must understand it is important to everyone for borrowers to repay their loans. If the caja manager and board of directors are successful the community will develop great pride in "their bank" because of the financial services it provides that meet their needs.

C. An Experienced Bank Manager.

The individual selected to be manager of the new caja rural will be the most important person in determining if the caja succeeds or fails. The caja manager will have responsibility to attract shareholders to build capital, find and negotiate credit lines, manage deposit accounts, invest excess cash so all funds are working for the bank at all times, and assure that the credit services are conducted to provide financing to the community but in ways that guarantee most loans will be repaid with interest. The manager must be respected and trusted in the community. He must be able to increase community participation in the bank and attract new customers.

D. Support from the Community.

The concept of a caja rural is a private rural bank owned and controlled by the people in the community. Through their ownership they can elect a board of directors to guide the bank manager in developing financial services specially tailored to meet their needs. For this to be successful, however, requires the support of agricultural producers, agribusinesses, rural enterprises, and many others. The rural bank will become a major institution in the community along with the school, church, government and major businesses.

The key indicator of community support will be revealed in the willingness of businesses and individuals to invest in shares in the bank. Through share purchases the community will create the capital base that is essential to establish the caja. Where possible, outside assistance should be sought to help build adequate capital to the levels discussed above. But the first requirement for capitalizing the caja is a responsibility of the community and the community's willingness to invest in the caja will be a true measure of community's support.

E. Support from the Government.

While the caja rural is a private institution it must receive support from the government in order to get started on a firm basis. Through policies, regulations and technical assistance, the government can create an environment conducive to the caja's success. The government can give constructive advice to the caja organizing committee, provide clear guidelines on steps to be taken to obtain licenses to organize and operate, provide or help find lines of credit at reasonable rates of interest, find sources of additional capital, and provide training for bank employees and directors.

This is not to suggest that the government control or operate the cajas rurales as government agencies. But if the government is committed to strengthening the agricultural productivity of the country and the economies of rural communities, it is in the best interest of both the government and rural people to have sound, constructive rural banks. The government, through its policies and actions, can make the difference between establishing strong rural banks or creating conditions for more bank failures.

With the combination of a positive business equation for banking, an experienced caja manager, the image of a community-owned bank, and support both from the local people and the government, strong rural banks can be established to serve rural areas of Peru for many years to come.

MINISTRY OF AGRICULTURE'S DEVELOPMENT OF CAJAS RURALES

NOTES: Meeting on January 24, 1994, with Juan Vega, project manager in the Ministry of Agriculture, responsible for developing caja rurales.

Camano Caja Rural: This, the first caja rural, began operating in December, 1993, in Camano. It has the minimum capital required for an operating license--\$250,000--which has been subscribed by about 500 shareholders. Three or four large investors provided most of the capital.

The caja is using a \$1 million line of credit from COFIDE which has been available at the rate of 10.5 percent on the first \$200,000. Now, however, COFIDE plans to increase the rate to 12 percent. Mr. Vega and the caja are trying to convince COFIDE not to increase the rate.

The caja has been making loans at 16 percent interest which is providing a very small spread. All loans have been made to farmers for rice, beans or cotton. Most loans are made through and with a rice mill which guarantees the loans with the farmer's rice crop. Borrowers are required to deposit funds in the caja.

The Camano Caja Rural also is taking deposits and giving interest rates of 3.5 percent on one month deposits and 4.5 percent on one-year deposits. The caja has collected about \$70,000.

The Camano manager was formerly manager of a mutual fund and has a strong financial background but little experience in agriculture. The Ministry participated in his selection from more than 70 applicants. He earns \$2,000 per month. The caja has eight employees including an operations manager and accountant.

Other Cajás: Mr. Vega and his staff are in contact with at eight groups trying to organize cajas including San Martin, Tumbes, Ica, Upper Lima, Cusco, Piura, Huanuco in addition to Chiclayo.

The Ministry will not assist a group until they have raised \$125,000--half of the minimum amount for a license. He said it is just as difficult to raise capital after the organizing authority is granted as before.

Mr. Vega is trying to establish a guarantee fund for cajas. His proposal is to acquire funds generated by Peru's tax on all agricultural imports which produces about \$80 million a year. This tax reportedly is scheduled to be discontinued in four years.

We understand that Mr. Vega and his assistant are on detail to the Ministry from the Superintendencia. The project will end in June, 1994, with some possibility of an extension.

NATIONAL SYSTEM OF CAJAS RURALES - A STRATEGY FOR PERU

A national system of private banks is needed to provide a full range of financial services, particularly reasonably priced credit, to agricultural producers, rural entrepreneurs and other enterprises in rural communities of Peru. This network of locally-owned community banks--cajas rurales--would finance modern inputs for increased agricultural production and contribute to a stronger rural economy.

Rural banks, similar to the concept of cajas rurales, have provided demand-based commercial credit (not government grants, not subsidized credit) which financed the agricultural success of France, Holland, Germany, Denmark, Japan and the U.S. With a national vision and strong support from government, a similar system of community banks can be established for agricultural enterprises and rural businesses of Peru.

Historically, commercial banks throughout the world have had little interest in financing agriculture. Most city bankers do not understand farming and have been unable to design banking services--credit in particular--that meet needs of agricultural producers. Because many farms are small, farmers' financing needs are small making it less profitable for commercial banks to provide service in rural areas. For these reasons the banking and financing needs of farmers have never been well served by commercial (city) banks.

In countries with a productive, dynamic agricultural industry, rural people have taken their financing needs into their own hands and organized rural banks which provide services specially tailored to their needs. Bank managers are employed who understand agriculture and want to help rural entrepreneurs manage successful businesses.

A PARTNERSHIP BETWEEN THE GOVERNMENT AND RURAL PEOPLE

A network of strong rural banks requires a partnership between the government and the people in the local communities. Most rural areas are capital deficient and there is little knowledge about how to start a bank. The government must offer support for groups of people trying to organize their own community bank. Government guidelines must be clear and logical. The government must offer assistance in acquiring adequate capital and organizing the bank. If a local organizing group, for example, meets certain requirements the government should help find additional capital to assure that the bank has a good chance to succeed. The government should issue simple procedures for starting up a bank (a caja rural) and support a strong technical training program for the new bank's employees and board members.

Leaders in the local community must take the initiative to get people involved and obtain financial support because a caja rural can be started successfully only if the owners have invested adequate capital. The organizing group must satisfactorily prepare applications and submit them to government regulators to obtain licenses to organize and operate. The local group must employ an experienced bank manager who can build a sound bank, attract customers, and serve the community wisely.

Only through such cooperation--a partnership--between the government and leaders in rural communities can a strong network of rural banks be established in Peru.

PRIVATE BANKS OWNED BY THE SHAREHOLDERS

Although a government-farmer partnership is needed to organize the banks, the banks are private financial institutions owned and controlled by the local shareholders. The government may offer insurance for savings deposits but the shareholders have final responsibility for safety and soundness of the bank. Investments that local people make when they purchase bank shares are at risk.

In the same way, all credit extended by the bank--loans to agricultural producers, rural businesses, and individuals--must be collateralized and the bank must expect all loans to be repaid in full. Loans will not be "supervised" credit--telling farmers and other borrowers how to run their businesses--but the bank will have sufficient employees to check collateral and verify loan funds are being used as prescribed in loan agreement. The bank must anticipate loan defaults, foreclose on bad loans and recover loan collateral to minimize loan losses which are operating costs to the bank.

The banks must be managed to generate enough earnings to cover operating expenses, build capital, and pay a reasonable dividend to shareholders while serving the banking needs of the community.

The banks must combine a number of positive banking elements to be successful:

- a. An adequate capital base,
- b. Reliable sources of funds (e.g., credit lines, savings deposits, loan rediscount window),
- c. An adequate internal interest rate spread (difference between average cost of funds and interest on loans),
- d. A low loan default rate (cost of bad loans).

RURAL AREAS TO BE SERVED

A plan is needed to guide the geographic development of a system of cajas rurales. How many cajas are needed to give convenient,

quality service to rural people? How large must the market be for a caja to find enough business to be a viable bank in the long term? How many cajas can the government supervise and support? Would it be reasonable, for example, to authorize establishment of one caja rural in each of Peru's 25 departments? Policy decisions should be made to plan for the number and location of cajas rurales that will be authorized and assisted by the government.

AN APEX ORGANIZATION OR BANK

Plans also need to be formulated on how national coordination and services will be provided for the caja network. In many countries the rural banks own and control their own apex or central bank which provides wholesale banking services, coordinates operating policies, assists with legal issues, and represents the banks with other financial institutions and the government.

How should an apex bank be established for cajas rurales in Peru? Is there an organization or bank that can fulfill this function? How and when can an apex bank be established and who will provide the leadership?

GOVERNMENT OVERSIGHT

A national network of rural banks requires government regulation, examination and supervision. How will this government oversight be carried out? Will more than one government agency be involved and, if so, what will their respective functions be? Will a new agency for cajas rurales supervision be established? Cajas rurales are different from urban commercial banks in many ways which means they will require special government regulations. They also require the government's guidance and assistance in the early years. What agency will provide technical assistance and direction?

CONCLUSION

Peruvian agriculture--its producers, agricultural businesses and rural enterprises--badly needs banks committed to serving their special financing needs. Such banks would make a significant contribution to development of the country's agricultural industry and, at the same time, strengthen the rural economy. The law authorizing formation of caja rurales provides the opportunity. Only a sound strategy, technical know-how and a strong commitment are needed to make it happen.

Agricultural Cooperative Development International (ACDI) is prepared to share with Peru the 77 years of rural credit experience of the U.S. Farm Credit System and assist in developing a rural banking system.

**FONDO PARA EL DESARROLLO DE UN
SISTEMA DE CREDITO RURAL**

A.- Antecedente

1. A partir de la clausura del Banco Agrario en 1991, el sector agropecuario y rural en general, sufrió un fuerte impacto en su capacidad productiva y económica, entre otros factores, por la ausencia del crédito formal.
2. Los sectores productivos han sido también afectados por la liberalización de los mercados y la eliminación de los subsidios, haciéndose necesarios importantes cambios tecnológicos y en estructura productiva, con importantes implicaciones en el desarrollo de mecanismos efectivos de comercialización y de los mercados.
3. Para suplir las necesidades financieras, el Gobierno ha apoyado la constitución de las cajas rurales de ahorro y crédito, creadas por Decreto Ley 25651. Estos organismos de base comunal están en sus etapas iniciales de constitución, organización y funcionamiento, sin que exista una experiencia nacional previa sobre su operación.
4. En apoyo a esta iniciativa y política gubernamental, en Setiembre de 1993, la AID firmó un Convenio Cooperativo mediante el cual la Agricultural Cooperative Development International (ACDI) brindaría su asistencia técnica al desarrollo de una caja rural, como proyecto piloto, para atender los servicios financieros requeridos en los Valles de Olmos, Motupe y Jequetepeque. En este mismo convenio, se contempla la participación de TechnoServe, para la organización, estructuración y capacitación gerencial a empresas agrícolas de base comunal en los mismos valles, para promover importantes cambios en la estructura productiva. Ambos componentes complementarios y mutuamente dependientes pretenden una dinamización de la economía rural en esos valles.

B.- Estrategia del Proyecto

La estrategia general del proyecto será el encontrar las formas operativas y organizativas que permitan la replicabilidad de este proyecto piloto en otras regiones del país. Dado que TechnoServe ya ha tenido experiencias positivas con el desarrollo de empresas agrícolas de base comunal en otros valles del país, las experiencias para su

replicabilidad serán más aplicables al caso de las cajas rurales, con el fin de desaerrollar el sistema de crédito rural.

Sin embargo, la existencia de varias cajas, aún cuando sean la base del sistema, requieren la conformación de órganos de segundo grado para conformar un mecanismo de apoyo técnico-administrativo para su desarrollo, fortalecimiento y promoción, y una estructura de apoyo financiero para su respaldo, para proveer una fuente para el manejo de la liquidez y para facilitar la movilización de recursos externos al sistema y entre los miembros del sistema. Es en este sentido que se ha considerado de gran importancia la participación de COFIDE como entre precursor de su homólogo del sistema. Este desarrollo ulterior constituye el objetivo estratégico del proyecto.

C.- Estrátégia para el Desarrollo de la Caja Rural Olmos - Motupe-Jequetepeque

1. Marco requerido para el éxito de una caja rural (Ver detalle en anexo I)

La experiencia demuestra que hay ciertas condiciones básicas para el desarrollo de una caja rural o de cualquier institución de crédito rural, contituidas por : a) lo que podría denominarse como una "sana ecuación bancaria" que está, comprendida por una sólida base de capital, fuentes adecuadas de financiamiento, un adecuado margen financiero, y una adecuada recuperación de créditos; b) es necesario desarrollar una filosofía de empresa privada pero de base comunal, lo cual implica el generar una adecuada remuneración al capiatl, teniéndose como prioritaria su naturaleza de servicio; c) un gerente con experiencia bancaria resulta ser imprescindible con el objeto, no sólo de una sana y agresiva administración, sino de proyectar una imagen de respeto y confianza; d) la participación de la comunidad en el capital y en la dirección de la caja, resulta vital para asegurar el mantenimiento de la orientación de servicio que le dió origen y, definitivamente, el apoyo gubernamental, mediante el cual se logró el respaldo necesario para superar las limitaciones innatas a una nueva isticución en la cual se requiere la confianza de los depositarios y acreedores.

2. Políticas del desarrollo de la Caja (Vease Anexo 2)

Concientes de los riesgos y oprtunidades que tendrá la Caja en el corto y mediano plazo, se desarrollarán políticas expcíficas para suplir las condiciones básicas enumeradas anteriormente. Específicamente se desarrollarán políticas

para asegurar la contratación de personal muy calificado, con profesionales sobresalientes capaces de desarrollar la base de capital social de la Caja; de lograr acceso a créditos de bajo costo; de minimizar los costos administrativos; de administrar adecuadamente los riesgos crediticios, monetarios y financieros; de desarrollar una adecuada base de datos y de información; de maximizar su ingreso mediante la selección estricta de acreedores merecedores del crédito y ofreciendo el máximo de servicios y productos financieros rentables; de desarrollar vínculos interinstitucionales muy estrechos; de participar en la capacitación de su clientela potencial sobre las funciones del crédito, producción y mercadeo y de aprovechar las oportunidades de autoevaluación y reprogramación a través de la asistencia de ACDI.

D.- Fundamentos para la Constitución del Fondo para el Desarrollo de un Sistema de Crédito Rural

Consecuente con el requerimiento de apoyo gubernamental, se ha planteado la constitución de un Fondo para el desarrollo de un Sistema de Crédito Rural, atendiendo a los conceptos y criterios que se esbozan a continuación.

1. Aspectos Conceptuales

- El desarrollo y estabilidad de cualquier institución financiera depende en gran medida de su capacidad de movilizar recursos en la forma de depósitos, préstamos, contratos de administración y otros.

- Esta capacidad se fundamenta en el grado de confianza que se tenga y en el grado de conocimiento que tenga el mercado financiero sobre la institución.

- La confianza se establece según la trayectoria de éxito, seriedad y estabilidad que demuestra la institución y por el respaldo que tenga en su constitución de capital, la condición de sus activos y en la generación de utilidades que fortalezcan su base patrimonial.

- Una institución nueva, en formación, no reúne por sí las condiciones de confianza, menos aún cuando no cuenta con una sólida base de capital. Por esta razón, es preciso proveerle el respaldo que podría estar representado principalmente por un fortalecimiento de la base de capital social y/o por fondo que garantice el desempeño de la organización ante sus acreedores potenciales.

- El fortalecimiento del capital social es la opción más deseable, éste concentra la responsabilidad total por su desempeño,

en la propia institución y por ende en sus personeros, sin que medien elementos que tiendan a diluir o divertir esa responsabilidad y distorcionen la naturaleza gerencial y directiva propia a una institución financiera estable.

- Ese fortalecimiento de la base de capital, en una institución como la Caja Rural, debería proveerse por el ente patrocinador en forma tal que se provea también un estímulo a los esfuerzos de recaudación de los aportes de sus socios potenciales y por tanto no darse indiscriminadamente. Este debería realizarse en una proporción constante por ejemplo del equivalente a 3 veces, de los aportes que hagan los asociados, y en la medida en que ellos vayan levantando sus propios aportes.

- El aporte de capital permitiría varias cosas a la vez : Una fuente de recursos sin costo, aunque posteriormente se decida asignárseles una participación en utilidades, que permitan un mayor margen financiero y mayor capacidad de absorción de pérdidas eventuales que ouedan producirse por operaciones en estado irregular y una mayor base para absorlver las pérdidas, sin que ellas recaigan en su totalidad en los accionistas que han aceptado el riesgo de invertir en una institución nueva. Asimismo, este fortalecimiento patrimonial permite una mayor capacidad futura de movilización de recursos (apalancamiento) dentro de las disposiciones legales vigentes.

- Dado que no fuese posible la aplicación total del Fondo al el fortalecimiento del capital social de la institución, o aún como un mecanismo complementario no excluyente, la concepción de los restantes recursos debería reunir características que lo asemejen al máximo, a aquellas que se reunirían con el fortalecimiento del capital.

- Se ha pensado en algún momento en la constitución de un fondo de garantía. Sin embargo las experiencias habidas con fondos de garantía se han orientado principalmente a cubrir las posibles pérdidas originadas en operaciones activas individualizadas de las instituciones. Estos por lo general han tenido resultados negativos, pues al contarse con ese respaldo, los créditos tienden a concederse con extrema laxitud, distorcionando el rigor que impone la responsabilidad de su recuperación directa; los esfuerzos de recuperación se relajan y por otra parte los acreedores se sienten menos comprometidos a honrar sus compromisos, que de todas formas no causarán perjuicios a sus acreedores.

- Consecuente con estas experiencias y con la importancia de captación de recursos de una institución financiera, el fondo debería ser concebido principalmente como un mecanismo que garantice las operaciones pasivas, sin que se de vinculación directa alguna con las operaciones activas de la institución, siendo éstas de su absoluta responsabilidad y control.

- Concebido el fondo como uno de respaldo a las operaciones pasivas de la institución, su estructuración debería comprender aquellos elementos que permitan superar las posibles causas que puedan originar atrasos o desatención de las obligaciones de la institución, cuales son las limitaciones temporales en las disponibilidades de caja. En caso extremo y en última instancia podrían aplicarse a subsanar las pérdidas que resulten en sus estados financieros y que afecten a sus acreedores.

- Así concebido, el fondo debería cumplir dos funciones básicas : la una, la de un recurso de liquidez, aplicable en las circunstancias en que las limitaciones temporales de caja de la institución no le permitan hacerle frente al cumplimiento de sus obligaciones, no así al cumplimiento de compromiso de desembolso sobre operaciones activas, las cuales en ningún caso son perentorias para la institución. La otra, es la de un recurso de garantía propiamente, que se aplicaría en los casos en que la institución incurra en pérdidas que le limiten su capacidad de pago de las obligaciones.

2. Características de los Componentes del Fondo para Crédito y Liquidez

Consecuente con lo indicado en párrafos anteriores, debe tenerse presente que el fondo debe ser concebido como un mecanismo transitorio de respaldo, con el cual se permita la oportunidad de desarrollar las condiciones de confianza, propias a la institución. No puede ser concebido como un mecanismo de perpetuación de una institución financiera ineficiente, razón por la cual debe ser sujeta a evaluaciones periódicas de sus resultados y perspectivas.

Fondo de Liquidez.- Este debe caracterizarse por su agilidad operativa para que cumpla con su cometido. Sus características serán :

- a) **Objetivos y Limitaciones.-** El objetivo es el de suplir las necesidades de caja que se le presenten temporalmente a la Caja y que le impidan atender oportunamente sus obligaciones y compromisos de pago a sus acreedores, sean éstos depositantes o instituciones financieras. No se considera como necesidad de caja, la atención de compromisos de desembolso de operaciones de crédito. En todos los casos, la Caja deberá proveer la documentación que justifique su solicitud, demostrando sus limitaciones para atender oportunamente sus obligaciones.

- b) Mecanismo de Desembolso.- Para proveer agilidad, los desembolsos deberían realizarse por simple solicitud por parte de la Caja, mediante una documentación sencilla, sea en la forma de una carta de compromiso de repago, una letra, un cheque post fechado, u otra forma expedita.
- c) Temporalidad.- Es entendido que las limitaciones de caja, dentro de un giro normal de operaciones no debería excederse de un plazo de 15 días. Sin embargo, el Fondo podrá prorrogar estos plazos, siendo requerida una justificación adecuada, que incluya una especificación de las medidas que se adoptarán, y su proyección de caja, para normalizar sus operaciones. Si el plazo se prolongara más de 6 semanas, sería requerido un análisis más profundo de la Caja, con la participación de personal de COFIDE y del ACDI, según lo acuerden.
- d) Monto del Fondo.- El monto mínimo de este fondo debería ser aquel que incluya la suma de los vencimientos de las obligaciones de la Caja en un período dado, sea un cuatrimestre o un semestre.
- e) Inversiones del Fondo.- Para que éste pueda hacerse efectivo, deberá ser invertido asimismo en títulos de alta liquidez.
- f) Tasa de Intereses.- La tasa de intereses aplicable a un fondo de liquidez o recursos de última instancia, según se le denomine, será la más alta posible, equivalente a las tasas activas cobradas por la misma Caja. Esto tiene el fin de que no se desvirtue su naturaleza temporal y de última instancia de acelerar la toma de las acciones correctivas de los inbalances del flujo, por el alto costo que estos representan.

Fondo de Préstamos .- Estos deberán concederse con el mínimo de restricciones a los sub préstamos u operaciones a realizar. Las características de los préstamos serán :

- a) Objetivo.- El objetivo de estos préstamos sería el habilitar financieramente a la Caja para desarrollar un volumen mínimo de operaciones consecuente con sus costos operativos iniciales y permitirle un margen consecuente con los riesgos normales de su operación.
- b) Plazo.- Estos podrán tomar la figura de una línea revolutiva de crédito hasta por el plazo de 3 años, pero renovable anualmente, previo análisis de la gestión y resultados de la Caja.

c) Tope de la Línea.- El monto total de la línea será acordado según los montos del programa de crédito presentado por la Caja. Sin embargo el monto total no podrá exceder la disponibilidad de recursos no comprometidos del fondo, entendiéndose como comprometidos aquellos que se destinen al fondo de liquidez y los previsibles para el apoyo patrimonial.

d) Desembolsos y reembolsos.- Los desembolsos se realizarán mediante solicitud de la Caja, en que se presente constancia de las operaciones de crédito formalizada y otras operaciones activas por desembolsar. Los excedentes no utilizados deberán ser reembolsados al fondo, pudiendo mantenerse un saldo no colocado de hasta un 10 % del saldo de las colocaciones de la línea como capital de trabajo para facilitar su giro de operaciones.

e) Tasa de Interés.- La tasa de interés de esta línea será equivalente a la tasa pasiva que prevalezca en el mercado financiero local para operaciones en moneda extranjera más la proporción de los costos cargados por COFIDE por la administración del fondo.

f) Denominación Monetaria.- Esta línea de crédito se constituye en moneda extranjera, siendo requeridos sus movimientos en la misma moneda.

g) Documentación de las Operaciones.- Los desembolsos podrán ser documentados mediante letra o pagarés, según convenga COFIDE. Sin embargo, bajo condiciones especiales podrá solicitársele la colateralización, mediante el endoso de operaciones activas de la Caja, a satisfacción de COFIDE.

3. Aplicación de la Totalidad del Fondo como Garantía

Ante una eventualidad de liquidación de la Caja, la totalidad de los recursos se aplicarían a cubrir las obligaciones de la Caja, estableciéndose una prelación de los depositarios, COFIDE y otros acreedores. Ante esta eventualidad, COFIDE en representación del Fondo, entraría consecuentemente en posición de todos los activos de la Caja, para proceder a su liquidación, descontando de éstos los costos incurridos en la recuperación de los fondos..

4. Productos Generados por el Fondo

Dado que el objetivo es el desarrollo del Sistema de Crédito Rural, dentro del cual la conformación de una estructura de segundo grado es uno de sus componentes, se propone la posibilidad de aplicar parte de los ingresos que genere el Fondo a sufragar aquellos gastos que se consideren necesarios para definir la conformación de esa estructura y para proveer algunos de sus componentes técnico-administrativo, según lo demanden las limitaciones o necesidades de las cajas en desarrollo, cuando éstas sean comunes a todas ellas y no puedan ser sufragadas por cualquiera en particular. Dado que aún no existe una estructura formal especialmente dedicada a estos fines, se propone que esa responsabilidad decisoria sea tomada en forma conjunta entre COFIDE y ACDI, aún cuando COFIDE sea el administrador financiero. Esta decisión respondería al plan de acción que sea conjuntamente acordado, con la participación del Ministerio de Agricultura y otras entidades involucradas.

5. Transitoriedad

Vencido el plazo anterior del convenio, deberá efectuarse una evaluación total de los resultados logrados y del grado en que la Caja haya generado sus propias características de seguridad y confianza para con sus operaciones pasivas y posibles acreedores. Según los resultados, el respaldo del Fondo podrá suspenderse o mantenerse parcialmente o decrecientemente por otro período semejante, haciéndose extensivos los beneficios a otras Cajas o al Sistema de Cajas que se llegue a desarrollar. Podrán así modificarse los componentes del Fondo, aunque no su espíritu, según las mejores conveniencias que se determinen como resultado de la evaluación.

ACDI TEMPORARY EMPLOYEE

OSCAR RIZO-PATRON

SCOPE OF WORK (February, 1994)

- A. Obtain Chiclayo's organizing permit from Superintendencia.
- B. Get MEF/COFIDE agreement signed.
- C. Maintain close relations with AID through Rudolfo Salinas.
- D. Support establishment of the ACDI team. Advertise for job applicants and screen a short list.
- E. Make certain the Chiclayo Organizing Committee is active and promoting the sale of shares. Assist with recruitment of the Caja manager (with ACDI concurrence).
- F. Maintain close relations with TechnoServe, Ministry of Agriculture, COFIDE and the Superintendencia.

Caja Rural - Olmos, Motupe, Jequetepeque

POSITION DESCRIPTION

POSITION: Banking Consultant

LOCATION: Chiclayo

EMPLOYER: Agricultural Cooperative Development International,
Washington, D.C.--an international consulting firm.

OBJECTIVE: Advise and provide technical guidance for establishing
a new rural bank.

REQUIRED QUALIFICATIONS:

1. A university degree in either agriculture, economics or finance.
2. At least 10 years experience in financially-related business such as banking, mutual funds, bank auditing or regulating.
3. Effective skills in working with rural people including both written and verbal communication.
4. Experience in project management.

SALARY: To be determined commensurate with skills and experience.

PRIMARY TASKS AND RESPONSIBILITIES:

1. Advise the board of directors and the bank president on all aspects of establishing a viable banking business.
2. Assist in building adequate capital, attracting capital investments from individuals and enterprises in the community, helping design the bank's capital structure, and assisting in finding alternative sources of capital.
3. Guide the bank on various techniques of obtaining funds including development of savings deposits, lines of credit, interbank borrowing, loan discounting, etc.
4. Help the bank develop skills in managing assets and liabilities.
5. Assist in developing effective management systems--human resource management, accounting system, computer operations, reports, internal controls, etc.
6. Advise on how to develop an aggressive business development program by attracting new customers, shareholders, and community support.
7. Counsel the board of directors on setting policies to control the bank.

Caja Rural - Olmos, Motupe, Jequetepeque

POSITION DESCRIPTION

POSITION: Credit Adviser

LOCATION: Chiclayo

EMPLOYER: Agricultural Cooperative Development International, Washington, D.C.,--an international consulting firm.

OBJECTIVE: Advise and assist a new rural bank develop the staff and skills for sound lending to finance agriculture and other rural enterprises.

REQUIRED QUALIFICATIONS:

1. University degree in agriculture, economics, accounting or finance.
2. At least 15 years experience in business of which 10 years must have been as a bank loan officer or otherwise involved in granting credit.
3. Proven skills in financial analysis.
4. Skills in communication--written, verbal, training--and ability to work with both bank employees and borrowers.
5. Knowledgeable about effective loan portfolio management.

SALARY: To be determined commensurate with skills and experience.

PRIMARY TASKS AND RESPONSIBILITIES:

1. Advise the bank manager and board of directors on establishing a sound credit service that meets customer needs but has a low default rate.
2. Assist in establishing proper lending policies and procedures consistent with the bank's credit philosophy.
3. Advise on preparing effective loan application forms and procedures.
4. Assist in establishing effective techniques of financial analysis and loan decision making.
5. Counsel the bank on internal rules of loan collateral requirements.
6. Assist in designing an adequate yet efficient system for loan monitoring and checking.
7. Consult on practices for aggressive loan portfolio management including collateral recovery on loss loans.
8. Assist the manager in designing credit terms and conditions that fit needs of the borrowers.
9. Contribute to plans and help implement a business development program to attract borrowers.
10. Assist in training and development of the bank's credit department staff.

January 27, 1994

MEMORANDUM

TO: Dan Chaij, ACDI

FROM: Jon Greeneisen

SUBJECT: Staffing the ACDI Caja Rural Project in Peru

This memo responds to your request for my suggestions on organizing and staffing the project team.

A. The basic tasks in this project are (1) to establish the caja as a successful banking business and (2) to equip the bank with sound credit granting skills. For the first task the project requires an experienced banker who can give guidance to the caja manager on all of the performance objectives listed in the ACDI-Caja cooperation agreement. The second task calls for an experienced credit officer who can communicate to others (train) the process of analyzing loan applications, making credit decisions and managing the loan portfolio.

B. I would keep the Chief of Party in Lima for a number of reasons. First, many decisions will be made in Lima by such agencies as COFIDE, the Ministry of Finance, the Ministry of Agriculture, the Superintendencia of Banking, AID, TechnoServe and others that will have direct and significant impact on the caja in Chiclayo. The Chief of Party is by far the strongest person to respond or attempt to influence these decisions in the interest of the caja. Then too, the long-term success of the caja in Chiclayo will be impacted by possible development of a national caja system with some form of an apex organization (in Lima). Here again, the Chief of Party is the individual best equipped to stimulate and influence formation of a caja superstructure.

So I would station the Chief of Party in Lima supported by a good administrative assistant who would run the office, back stop short-term consultants and maintain communications.

C. Guided and supported through frequent visits of the Chief of Party, a strong Peruvian banker teamed with an experienced credit officer should be ample adviser power to help the caja get organized and operating in Chiclayo. They wouldn't have to come to Lima often for the Chief of Party would be handling this end of the business.

**STRATEGIC PLAN
CAJA RURAL - OLMOS, MOTUPE, JEQUETEPEQUE**

(1/28/94)

I. Environment

The agricultural and rural environment into which the Caja Rural-Olmos, Motupe, Jequetepeque (Caja-OMJ) will enter bears significant risk and opportunity. OMJ farmers, plagued by high production costs, primarily due to poor management and the use of irrigated and pumped well-water; low prices, as a result of the lack of farmer-owned domestic and export commercialization enterprises and international price competition; and their own planting of unprofitable crops, often due to their desire to continue to grow traditional crops and lack of information, confidence and/or desire to plant different, more profitable crops, continue to express their discouragement with their income.

Moreover, the Banco Agrario and Fondeagros have been so lenient on loan repayments by the agricultural community, that many farmers believe that it is not necessary to repay loans. This has led to delinquent behavior which has contributed to the failure of both the Banco Agrario and Fondeagros.

At the same time, major opportunities exist to enhance farm incomes and rural economic growth through the provision of credit for production inputs and farm improvements; production assistance, to improve crop selection, water usage and overall farm management; and marketing assistance, to commercialize agricultural products and increase the price received by farmers for their products.

To foment and take advantage of the significant growth opportunities in farm income, yet survive in the current agricultural economy and repayment psychology, the Caja-OMJ needs a specific mission statement and niche-oriented business strategy.

II. Mission Statement

The purpose of the Caja-OMJ is to gain and serve customers in its geographic areas of operation through the provision of timely, profitable and competitive financial products and services.

The Caja-OMJ also represents the first Caja Rural of a newly proposed, community-based, privately-owned system of Cajas Rurales (financial intermediaries) and will serve as a model for other Cajas Rurales in Peru. In time, the Caja-OMJ may be linked to a nationwide network of Cajas Rurales, sharing a central rediscount mechanism and source of funds.

III. Strategy

The Caja-OMJ intends to fulfill its mission statement by:

Opening a headquarters office in Chiclayo and small offices in Motupe and Jequetepeque in 1994, and expanding these operations to include Olmos, as the Caja gains the income, experience and capacity to do so; and

Operating the Caja-OMJ in such a way as to provide financial products and services (e.g. loans) to the persons, organizations and projects who would maximize income and minimize risk for the Caja; start and maintain an efficient administrative and information system; build a capital base by accessing savings, investment capital and the lowest cost credit; hire and train high calibre, experienced, service-oriented professionals; build positive, educational relationships with the geographic and financial communities in which it operates; and work with ACIDI to evaluate the Caja-OMJ and make recommendations regarding the establishment of a nationwide Caja Rural credit system.

Specific strategies include:

A. Marketing

The Caja-OMJ intends to market competitive, profitable financial products and services as customers need or want them. With respect to credit, the Caja plans to minimize its risk and maximize its income during the early, most tenuous years of its existence by lending to those people, organizations and/or projects who have a history of repaying their loans; have a buyer and purchase contract for their product(s) or service(s); and have received business, production, marketing and/or management technical assistance and training. Such customers would typically include:

Community-Based Enterprises (CBE's) organized by Technoserve

Growers whose production is contracted by exporters, agroindustries, etc.

Producers who have paid their loans to Banco Agrario, Fondeagros, and/or other financial institutions

Recipients of business, production, marketing and/or management technical assistance and training from Technoserve, and reflect this instruction in their credit application and farm management plan

Small to medium agribusinesses, agroindustries, food, transportation, repair and other businesses related to and participating in the agricultural marketing process and rural economy

Other people, organizations and projects of high calibre and outstanding reputation

These marketing objectives imply that the Caja-OMJ will coordinate many activities with Technoserve personnel. The Caja also will reduce credit risk by fully collateralizing loans in accordance with banking regulations while maintaining flexibility to serve the borrower.

B. Finance

To access capital and manage finances, the Caja-OMJ will seek to broaden its capital base, gain and maintain wide margins on its operating capital, and minimize maturity and currency risks.

To build its capital base in the near term, the Caja-OMJ will meet with various development agencies to obtain additional seed capital and examine the sale of stock shares on the Lima stock exchange and/or through the Caja-OMJ headquarters and operational offices.

In the medium to long term, the Caja-OMJ will consider aggressively pursuing savings accounts and customers by offering a highly competitive rate of interest on savings and related financial instruments; reinvesting Caja-OMJ earnings; and selling additional stock shares.

To gain and maintain wide margins on its operating capital, the Caja-OMJ will seek low interest loans and lines of credit from multilateral development agencies and banks, such as the InterAmerican Development Bank, World Bank, and others (also lessening the Caja's dependence on any one source of credit); investigate the profitability of introducing new financial products and services; lend to the most credit-worthy customers to maximize profits and minimize defaults (discussed earlier); maintain a low cost, effective administration and information system; apply for grants to receive training and technical assistance from specialized consultants and businesses; and build an efficient, highly skilled team of professionals to accomplish the above.

To minimize asset/liability maturity risks and imbalances, the Caja-OMJ will work to match the maturity of its assets with that of its liabilities, e.g. keeping total short term assets approximately equal to total short term liabilities, and limit and/or require authorization to transfer money in or out of accounts over a specific amount.

To minimize currency risk, the Caja-OMJ will strive to match the assets and liabilities it has in each currency, and/or hedge its currency risk through the use of forward contracting, futures and/or other appropriate, prudent financial mechanisms.

C. Operations

The Caja-OMJ will minimize its operational costs by thoroughly examining the most efficient and effective administrative and information systems; minimizing paperwork and the number of administrative steps to process financial products and services; exploring and/or negotiating contracts with existing commercial banks to process certain financial services and/or documents through their offices; maintaining firm loan selection criteria to minimize collection and default costs; and operating simple, yet attractive offices.

D. Information Management

From the beginning, the Caja-OMJ plans to create a data management/information system that minimizes multiple data entries and maximizes the utility of the data entered; and provides the right information to the right people so that they can perform their job well and make needed decisions. As discussed earlier, this will include an examination of existing financial institution data and information management systems, such as those offered by the Federacion Latinoamericana de Bancos and the American Bankers Association, and contracting of operations and processing services from other Peruvian banks.

E. Personnel

The Caja-OMJ personnel strategy: to create a working environment and culture of professionalism, teamwork and excellence by offering medium to high salaries and benefits in order to recruit and hire experienced, highly qualified professionals from other private sector financial institutions who have performed well and possess a positive, customer service, non-condescending attitude toward Caja customers, i.e., primarily the agricultural and rural community; and upgrading the skills of Caja-OMJ employees through periodic training in areas such as management; farm, commercial, and personal credit analysis; and software.

F. Inter-institutional Relations

The Caja-OMJ plans to build and maintain positive relationships with several institutions, especially those within the financial and regulatory community. These would include, for example:

Superintendencia de Bancos y Seguros (SBS) - providing the SBS with the required reports

USAID - providing the agency with required reports and informal updates

ACDI - providing the firm with necessary management information, required reports and frequent updates

Technoserve - coordinating training activities and providing information regarding production, marketing, etc. that relates to Technoserve work

Development Agencies, Banks, and non-government/non-profit organizations, such as the InterAmerican Development Bank, World Bank, COFIDE, and CICAP, negotiating and securing lines of credit, rediscount rates/spreads, and guarantee funds.

Ministerio de Agricultura and regional and local government officials - periodically informing them of the progress made by the Caja and the communities it serves

Other Cajas Rurales (i.e. perhaps joining or forming an association of cajas rurales) - learning from their operations, sharing information, increasing capitalization of the OMJ Caja, and if beneficial, negotiating as an association of Cajas Rurales to receive certain training grants, lines of credit, etc.

Federacion Latinoamericana de Bancos, American Bankers Association, U.S. Farm Credit System, Credit Agricole, Rabobank, Reiffeissen, etc. - to become a member and/or receive updated banking management, marketing, operations and other information; training grants and materials; classes; and build relationships with other bankers and financial institutions.

G. Community Relations

The Caja-OMJ intends to educate and increase the confidence and sophistication of its customers; and increase the sale of its financial products and services by performing activities such as:

1. Quarterly community meetings

To inform the public on the progress of the Caja-OMJ, report statistics, etc.

Educate citizens on "both sides of the story," discussing the necessity of guarding depositors' money through the use of loan criteria (i.e., rumors and stories will probably circulate regarding someone who did not receive a loan).

Educate farmers and citizens on a specific production, management, agribusiness and agri-marketing topic of interest.

2. Quarterly information bulletin

To appropriately inform and update shareholders, depositors, customers and community citizens on the activities of the Caja; results achieved by outstanding borrowers; and other interesting and useful information.

3. Educational curriculum

To work with elementary, secondary and vocational instructors to include a variety of practical farm production, finance (including credit applications), management, agribusiness, marketing and community banking examples in classroom assignments, exercises, cases, field visits, and courses.

H. Evaluate and make Recommendations in the Caja-OMJ Model and the potential Caja Rural Credit System

ACDI and the Caja-OMJ plan to:

1. Periodically evaluate the Caja-OMJ and recommend possible changes in the caja as a replicable model and a base for a Peruvian rural credit system.
2. Design a national caja central funds facility and develop a central rediscount mechanism.
3. Study the feasibility of organizing a central caja management and technical assistance group to work with emerging institutions.
4. Recommend to USAID and the GOP a follow-on strategy for developing Cajas Rurales as the basic unit of agricultural credit; and recommend several project options to build, strengthen and solidify a Caja Rural Credit system.

IV. Summary

The Caja-OMJ faces both short and long term risks and opportunities. To take advantage of the opportunities and minimize the risks, it must employ highly qualified, outstanding professionals who can build the Caja-OMJ capital base; access low cost credit; minimize operating costs; manage loan, currency and maturity risks; develop an efficient data and information management system; maximize income by selecting credit-worthy borrowers and offering profitable financial services and products; build strong inter-institutional relationships; involve and educate its customers and its community in the business of agricultural lending, production and marketing; and work with ACDI to evaluate and recommend changes in the Caja-OMJ model, and the potential/resulting national system of Cajas Rurales.

ACDI CAJA RURAL PROJECT

STRATEGIC PLAN UPDATE (JANUARY 28, 1994)

The attached strategic plan for establishing a caja rural in the Olmos, Motupe, Jequetepeque region that was prepared in December, 1993, remains appropriate and will be the basic blueprint for the project. The following steps have been taken to initiate the plan's implementation:

1. ACDI has prepared the application for the caja's authorization to organize which has been submitted to the superintendencia de Banca y Seguros.
2. ACDI and the Organizing Committee in Chiclayo have signed a letter of understanding on initial assistance and steps to be taken to launch the caja rural.
3. A cooperation agreement has been drafted and presented to the Organizing Committee.
4. An agreement between MEF and COFIDE has been negotiated that should make P.L.480 funds available for the caja rural as constructive forms of capital, credit lines and liquidity backup.
5. Information has been provided to the Ministry of Finance that should help expedite the transfer of P.L.480 funds to COFIDE for disbursement to the caja as prescribed in the agreement.
6. A Chief of Party has been recruited and, with AID concurrence, should be stationed in Peru within weeks.
7. Temporary ACDI staff has been employed in Lima to provide project follow-up and continuity until the Chief of Party arrives.
8. Contact has been made with the Ministry of Agriculture to establish constructive working relations with the MOA staff responsible for implementing the caja rural law.

In addition, it has become clear that the caja rural in Chiclayo can be most beneficial and sustaining if it is part of a network of similarly viable cajas rurales. As part of the project's implementation, therefore, a strategy (attached) has been developed for building a national system of cajas rurales in Peru. Through its technical assistance to establish the caja in Chiclayo the ACDI project team also will assist in creating a national cajas rurales structure that will help assure their continued existence and maximize their benefit to rural communities.

**TECHNOSERVE/PERU
OLMOS/MOTUPE/JEQUETEPEQUE PROJECT**

**Report of Activities
January - March, 1994**

During the first quarter of 1994, the major activities carried out by TechnoServe in the implementation of the Olmos/Motupe/Jequetepeque project were directed at establishing the groups in the Motupe valley and beginning technical assistance activities in Jequetepeque. Additionally during this reporting period, a diagnosis was carried out on the status and specific needs of seven groups in the Jequetepeque and Motupe valleys. The focus of this diagnosis was on the existing conditions and required actions for the development of agro-export crops and commercial networks in both valleys. The diagnosis document is enclosed herewith. Please refer to this document for greater detail on activities during this reporting period.

MOTUPE VALLEY

The main activities in this valley include the creation of the Tongorrape group, promotion of TechnoServe's services, initial drafting of by-laws, regulations and starting off the process for the groups become legal entities. As of the end of the quarter all three groups were lacking final paperwork in the public registers. This work will be finalized during the second quarter of the year.

In all three Motupe groups -- El Arrozal, Palacios and Tongorrape -- contacts were made between the directors of these groups and exporters of beans and other agricultural products. An agreement was reached with a large exporter who will co-finance the upcoming agricultural campaign jointly with a commercial bank, with TechnoServe-guaranteed funds. This arrangement was made as an emergency measure in light of the fact that ACDI's rural credit system is not yet in place. Agricultural producers in the area needed to obtain financing by May or else they would be unable to plant their crops during this season.

During the quarter, a diagnosis of AGRIDESA -- a newly formed Motupe valley exporter -- was carried out to ascertain to what degree this company would meet the storage, distribution and sales needs of local producers. The initial findings of this diagnosis are in the attached project diagnosis document. It is expected that the final outcome the AGRIDESA evaluation will result in a formal request for technical assistance from TechnoServe. The focus of the analysis being carried out is on purchases, marketing and distribution, information flow, quality and quantity of production, priority products, final sales point, and prices to each market. It will be completed by July.

Contacts were made with FONCODES to attempt to attain financing for

producers in the valley. Some financing was achieved through FONDEAGRO. Credit is also being sought through the local branch of COFIDE.

JEQUETEPEQUE VALLEY

TechnoServe began negotiations with FIGESA for the production of cotton in the area. All issues were negotiated including terms and final sales price. A great deal of promotional work was done at the community level to convince small-scale farmers of the advantages of these arrangements. Chepén will be the first community in the valley to put this model into practice.

As a result of its initial promotional efforts, TechnoServe was also able to begin work with the La Calera and Tomás La Fora cooperatives. A review was begun of La Calera's financial statements. In La Calera, contacts were made for the planting of beans for export. Chong (a Peruvian exporter) will finance 50% of the cost of crop production (seed and pesticides). The balance is being negotiated with Banco Wiese which may provide funds guaranteed by TechnoServe. These arrangements have been pursued as rural credit through the ACDI project is as yet unavailable in the area; not accessing funds immediately will mean not planting during the up-coming season.

In Chepén, arrangements were made with COFIDE for the financing of export beans. The sale of this crop will be secured through Ma'chelo, one of the largest exporters in the area.

OTHER TRAINING AND TECHNICAL ASSISTANCE

There is a need for seeds and improved seed training in both valleys. To date, planting has been carried out in a traditional and haphazard fashion, with little attention paid to technical issues which would greatly improve productivity and product quality, thus ensuring higher revenues.

An improved seed project was in place in the area through the ADEX-sponsored Export Trade Development initiative. However, the improved seed activities were being carried out on the farms of large-scale producers. It appears that the Export Trade Development program is re-orienting its focus to include lower income small scale farmers. Therefore, TechnoServe and ADEX are providing the TechnoServe-assisted groups with access to the seed program. Seed improvement activities will be carried out in the future in Chepén, La Calera and Tongorrape, as starting points.

RELATIONS WITH OTHER INSTITUTIONS

Government

TechnoServe's strategy with the seven groups it is currently

assisting -- namely to promote the development of agro-export crops in the Motupe and Jequetepeque valleys -- requires the implementation of new kinds of crops in those regions, with different water needs than the traditional crops. Arrangements have thus been made by TechnoServe with the regional government and local offices of the Ministry of Agriculture to ensure appropriate reallocation and distribution of water resources.

TechnoServe maintains on-going relations with COFIDE and the Ministry of Agriculture.

NGOs

In **Motupe**, coordinating activities have been carried out with CICAP (a local research organization) and Solidaridad. CICAP was beginning a program to provide further incentives in the area for maize production, which directly contradicts TechnoServe's agro-export focus and strategies. Agreements were reached with the organization to ensure that technical assistance and training efforts with small farmers in the area are consistent and not in opposition to one another.

In **Jequetepeque**, meetings have been held with CESDER who work in the poorest parts of Chepén. This group has found TechnoServe's methodology to be quite beneficial for its own goals in the area, and has agreed to work under the direction of and coordination with TechnoServe.

TechnoServe maintains contact with other NGOs in the region working in the areas of health and other social services.

ACTIVITIES FOR THE NEXT QUARTER

TechnoServe will continue to provide technical assistance to the seven groups in Motupe and Jequetepeque in production and other agricultural aspects as they arise. Agricultural production will be the thrust of activities during the second quarter; business development activities will take precedence later on in the agricultural cycle.

TechnoServe will also continue to provide support to ACDI in its efforts to set up a Caja Rural system, and will coordinate with appropriate public and private organizations as required by project activities.

TechnoServe

A working solution to world hunger.

**TECHNOSERVE/PERU
OLMOS/MOTUPE/JEQUETEPEQUE PROJECT
PRELIMINARY PROJECT DIAGNOSIS**

April 1994

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TechnoServe is a non-profit organization founded in 1968.

TECHNOSERVE/PERU
OLMOS/MOTUPE/JEQUETEPEQUE PROJECT

INITIAL PROJECT DIAGNOSIS

Table of Contents

	<u>Page No.</u>
INTRODUCTION	1
I. Project Area	2
Motupe	2
Jequetepeque	4
II. Social and Community Profile	7
Population - Distribution and Characteristics	7
Available Social Services	10
III. Business Development Status of Groups	13
Administration	13
Human Resources	15
Production	15
Costs	22
Profit Margins	25
Marketing	28
Financial Systems	33
IV. Local Sources of Financing	34
CONCLUSION	36

**TECHNOSERVE/PERU
OLMOS/MOTUPE/JEQUETEPEQUE PROJECT
PRELIMINARY PROJECT DIAGNOSIS**

INTRODUCTION

The Olmos/Motupe/Jequetepeque Project, under current implementation by TechnoServe, addresses problems in the current agricultural development of two very important valleys on the northern coast of Peru: Jequetepeque with 50 thousand cultivated hectares, and Motupe with 7 thousand cultivated hectares. Despite the vast potential these valleys present for highly diversified and very profitable agricultural development, several limitations persist such as the intensive production of single crops -- namely maize and rice -- which are not very profitable and which have a negative environmental impact in the project area. Other problems which affect the farmers in these areas are the absence of financing for agriculture, and the presence of middlemen who lend money to farmers on very disadvantageous terms in exchange for the rights to their harvests.

This pilot project aims to set the bases for sustainable agriculture and enterprise development at the level of farmers' organizations. TechnoServe will work with organized groups of producers to promote the cultivation of agro-export crops and business development. It is expected that by project's end, based on the success achieved, the strategy promoted will be adopted by other producers in neighboring valleys.

This diagnosis provides general information on the first seven groups to be assisted by TechnoServe under this project. The document analyzes business development aspects of each group, including management, production, marketing, employment levels, and financial alternatives, and also provides a social profile of the participating project communities.

I. PROJECT AREA

TechnoServe currently works with three groups in the Motupe Valley and four groups in the Jequetepeque Valley to develop agriculturally-based businesses and to promote agro-exports, as follows:

In the Motupe valley the associations are:

- . **Tongorrape** Association of Vegetable and Bean Producers and Exporters, with 350 hectares and 70 members.
- . **Palacios** Association of Fruit, Vegetable and Bean Producers and Exporters, with 250 hectares and 60 associated producers.
- . **El Arrozal** Association of Fruit, Vegetable and Bean Producers and Exporters, with 400 hectares and 70 members.

In the Jequetepeque valley the associations are:

- . Committee of Bean Producers of the **Chepén Rural Community**, with 1,300 hectares and 253 members.
- . Association of Farmers of the **Sector Catalina**, with 70 hectares and 33 members.
- . Agrarian Cooperative **Tomás La Fora, Ltda.** with 1,000 hectares and 113 members.
- . Agrarian Cooperative **La Calera, Ltda.** with 1,400 hectares and 183 members.

All of these areas have access to water -- a precious resource on the arid Peruvian coast -- in sufficient volumes to develop sizeable production areas. In Jequetepeque the proximity of two rivers and the Gallito Ciego dam ensure sufficient water availability to achieve the established agricultural goals. In Motupe the water supply is also sufficient for the area's needs.

Motupe

The three associations in Motupe are inter-connected by the Panamerican Highway via a network of internal dirt roads which are in relatively good condition. However, during summer months (December to March) the rains deteriorate stretches of the roads which in the future could limit easy access to and from markets. Motupe is 80 Kms. from the city of Chiclayo on the Panamericana highway. Tongorrape is 5 Kms. from the town of Motupe, Palacios is 3 Kms. from the town of Motupe, and El Arrozal is 5 Kms. from the town of Motupe.

The three Motupe associations are very near an agro-industrial plant -- Jugos del Norte -- which is one of the largest and most important buyers and processors of the vegetable and fruit production in the area. This enterprise is owned by the Backus group.

Additionally, in the town of Motupe there is a small storage and marketing firm of fresh produce harvested in the area -- AGRIDESA or Agricultores del Desierto S.A. -- which is owned by twenty medium-sized Motupe valley producers who also grow fruits and vegetables.

The climate in the Motupe valley is hot all year long with an annual mean temperature of 25°C (about 78°), and with a relative humidity of 80% on average. The climate is considered semi-arid and sub-tropical.

The principal rivers in the Motupe region are the Chiwawa, Olas, Chóchope and Salas, which all flow into the River Motupe (which has water all year long). The El Niño phenomenon affects this area every three to ten years which results in a much higher level of water in the rivers, supplying the valley with an underground water source. Underground water is used for irrigation by the three groups when the available surface water proves insufficient.

Motupe has publicly available electricity generated by four motors which satisfy the current demand for energy. The electrical capacity of the area can be increased as the need arises for processing and refrigerating fruits and vegetables, via a privately owned 7,000 KW capacity electricity plant which is 1 Km. from town. There is currently a plan to electrify the 200 irrigating wells in Motupe.

There are several medical services available in Motupe, as well as primary schools, high schools, technological institutes and universities in both the rural and urban areas. There are 23 organized women's groups (Clubs de Madres). There are several industrial plants involved in the processing of agricultural products, transport and other services. There are also several local government entities and two NGOs (in addition to TechnoServe and ACDI) working in the area.

**MOTUPE VALLEY
CURRENT USE OF SOIL**

COMMUNITY	AREA (Hectares)	CROP
Tongorrape	200 100 50 -----	Cotton (cerro) Maize Fruit (lemon, mango, passion fruit)
Total Area	350	
Palacios	100 100 25 25 -----	Cotton (cerro) Maize Lemon Mango (Haden)
Total Area	250	
El Arrozal	50 150 30 20 15 -----	Cotton (cerro) Maize Avocado Mango (Criollo) Mango (Haden)
Total Area	265	
TOTAL VALLEY AREA	865	

It is important to note that the Motupe valley has no tradition or prior experience in group work. To date, each farmer has worked individually. The three groups have formed under the auspices of TechnoServe, and the group experience in Motupe will also ultimately be tested through this project.

Jequetepeque

The four groups in Jequetepeque are connected to the Panamerican highway via internal unpaved roads in average condition, needing some repairs. These groups are very near the markets of Trujillo (140 Km.) and Chiclayo (70 Km.) the two most economically active cities in the north of the country. At the same time the four groups area near the towns of Chepén, Guadalupe and Pacasmayo which places them at an advantage in terms of marketing and selling their annual production. Three of the Jequetepeque groups have their own telephone line. Many of the members of the Associations in Jequetepeque have television in their homes.

In Jequetepeque the weather in the area of the projects can be considered semi-arid and sub-tropical. The annual mean temperature is around 22.5°C with very little variation. The relative humidity is 79% on average. The area is windy almost all year round, with the windiest time being the months of September to November.

The four groups assisted by TechnoServe have the common characteristic of having gravity (river) water for regulated irrigation and assured by the proximity of the Gallito Ciego reservoir which administers the dam with a capacity of 400 million m³ of water. Currently the reservoir's water level assures an ample supply of water for the 1994 and 1995 agricultural campaigns.

Jequetepeque is also optimally supplied with electricity at the rural level which offers the TechnoServe-assisted groups an advantage as it will facilitate the installation of small primary processing plants for cooling and other export-related processing activities, as foreseen by the project. Only the La Calera Cooperative has its own installed transmission lines and a substation for triphasic electricity as well as a triphasic transformer. In the area, the current electricity provision is gradually being replaced by hydroelectric energy from the Mantaro river (in the Central Andes).

In the Jequetepeque project area there are 64 organized women's groups (Clubs de Madres) which have expressed interest in building a well to use underground water, purchasing a windmill to activate the well, and working a small organic orchard and a chicken farm. The eight municipalities in the project area provide several social services, as well as lending machinery such as tractors for cleaning irrigation canals. They also participate in health campaigns. Municipal participation is provided via direct requests from community organizations. TechnoServe has coordinated with the Municipality of Chepén for the provision of services to the groups we are assisting.

There are no universities located in the valley, but there are some in nearby Trujillo and Chiclayo. The project is coordinating production technology activities -- for experimentation and training -- with the Universidad Agraria del Norte which is outside of Chiclayo.

**JEQUETEPEQUE VALLEY
CURRENT USE OF SOIL**

COMMUNITY	AREA (Hectares)	CROP
Chepén (Bean Producers)	800 500 -----	Beans Maize
Total Area	1,300	
Sector Catalina	25	Rice
Tomás La Fora	800 150 25 25 -----	Rice Maize Sorghum Alfalfa
Total Area	1,000	
La Calera	1,000 300 50 25 25 -----	Rice Maize Sugar Cane Beans Alfalfa
Total Area	1,400	
TOTAL AREA VALLEY	3,725	

II. SOCIAL AND COMMUNITY PROFILE

Population - Distribution and Characteristics

Both the Motupe and Jequetepeque valleys -- according to national population and housing censuses carried out by the departments of Lambayeque and La Libertad respectively (1972, 1981 and the initial findings of the 1993 census) -- display an annual growth rate of 2%. This is lower than the country's overall growth rate of 3%, and that of the coast which is 3.5%; the department capitals of Chiclayo and Trujillo each record growth rates above 3.5%. The slow rural growth rate in both valleys reflects the migration of the workforce due to the seasonality of current agriculture, and the absence of other rural activities which would generate rural employment. Both of these are strongly affected by the absence of rural and agricultural credit which previously -- even as deficient as it was -- maintained a rural workforce.

Up until the year 1981, agricultural activity was the largest employer of labor. We assume that this is still the case although with very little growth. We need to take into account that in the last few years, informal economic activities throughout the country and in the project zone have increased considerably, with growth indices above 4% annually, compared to an agricultural growth rate which up until 1981 stood at a rate of 2.8% annually. Currently, these differences are even greater since agricultural growth is below 2.5% and the growth of the informal economy is above 4.5%.

Motupe

Between 1990 and 1993 the rural population of Motupe grew by 3%, while the urban population grew by almost 6%. The overall population of the Motupe valley for the previous four years is as follows:

**MOTUPE
POPULATION**

YEARS	URBAN	RURAL
MOTUPE		
1990	9,424	9,809
1991	9,615	9,811
1992	9,701	9,907
1993	9,804	10,103

The population of the three groups assisted by TechnoServe -- all within a 10 kilometer radius of the town of Motupe -- is as follows:

**MOTUPE
POPULATION OF GROUPS ASSISTED BY TECHNOSERVE**

Groups Assisted	Number of Families	Total Population	Men	Women	Economically Active Population*
Tongorrape	70	350	160	190	90
Palacios	50	250	130	120	70
El Arrozal	70	400	250	150	60
Total	190	1,000	540	460	220

* Economically Active Population: persons between the ages of 16 - 60 (men and women).

The current level of unemployment in the three groups assisted by TechnoServe currently stands at approximately 50%, as detailed below:

**MOTUPE
LEVELS OF EMPLOYMENT**

Groups Assisted	Economically Active Population	Employed Population	Average Level of Employment (%)
Tongorrape	90	50	55
Palacios	70	30	43
El Arrozal	60	30	50
Total	220	110	50

**MOTUPE
FAMILY INCOME LEVELS**

Groups Assisted	Available Annual Disposable Income *	Number Families	Average Annual Income (S/.)	Average Monthly Income (S/.)
Tongorrape	90,000	70	1,286	107
Palacios	70,000	50	1,400	117
El Arrozal	80,000	70	1,142	95
	240,000	190	3,828	106

* Includes various kinds of informal jobs carried out in the rural areas.

Jequetepeque

In addition to the considerations mentioned as responsible for the slow growth in the agricultural sector, in the Jequetepeque valley the intensive production of rice does not allow for labor diversification, as rice production requires labor only a few months out of the year.

The rural to urban migration out of this valley is considerable. The estimated numbers are:

JEQUETEPEQUE VALLEY RURAL AND URBAN POPULATION

Areas	Urban	Rural	Total
Chepén	31,846	7,960	39,806
Pacanguilla	6,337	3,264	9,601
Pueblo Nuevo	5,680	3,786	9,466
Pacasmayo	29,087	5,133	34,220
San Pedro de Lloc	13,141	3,285	16,426
Guadalupe	15,399	5,133	20,532
San José	2,258	1,848	4,106
Jequetepeque (Pueblo)	2,316	409	2,725
Total	106,064 (78%)	30,818 (22%)	136,882 (100%)

Through the four groups it is assisting, TechnoServe is reaching a total of 582 families in the Jequetepeque valley.

JEQUETEPEQUE VALLEY POPULATION OF TECHNOSEERVE ASSISTED GROUPS

Groups Assisted	Number Families	Employed Population	Men	Women	Econom. Active Pop. *
Chepén Bean Prod.	253	1,012	500	512	300
Sector Catalina	33	80	35	45	25
CAU Tomás La Fora	113	452	202	250	180
CAU La Calera	183	732	352	380	250
Total	582	2,286	1,099	1,187	755

* Economically Active Population: Persons between the ages of 16 and 60 years of age, men and women.

The overall employment rate in our four Jequetepeque groups stands at 76%, slightly better than Motupe's 50%. However, despite

the high levels of employment, it is usually only temporary in nature and subject to the chronology of the agricultural year.

**JEQUETEPEQUE VALLEY
EMPLOYMENT LEVELS**

Groups Assisted	Econ. Active Population	Employed Population	Average Employment Rate
Bean Prod. Chepén	300	253	84%
Sector Catalina	25	20	80%
CAU Tomás La Fora	180	115	64%
CAU La Calera	250	190	76%
Total	755	578	76%

**JEQUETEPEQUE VALLEY
INCOME LEVELS**

Groups Assisted	Available Annual Income (Soles)	Number Families	Average Annual Income (Soles)	Average Monthly Income (Soles)
Bean Prod. Chepén	300,000	253	1,186	99
Sector Catalina	37,000	33	1,121	93
CAU Tomás La Fora	300,000	113	2,654	221
CAU La Calera	400,000	183	2,186	182
Total	1'037,000	582	7,147	149

Available Social Services

Motupe

Health and Basic Services

Although the three groups assisted by TechnoServe in the Motupe valley have no immediate health services available to them, they are near the town of Motupe which has a medical post, an office of the Peruvian Social Security Institute, a private hospital, a health center and an ambulance which is managed by the town's parish. Persons suffering from more serious health conditions are taken to hospitals in Lambayeque (about an hour away) or Chiclayo where there is specialized medical attention. Publicly available services provided by the government's Ministry of Health cover the health needs of about 10% of the population.

Sanitary infrastructure in town is considered to be adequate as there are potable water and sewage services available. However, more remote areas -- such as those inhabited by the members of Tongorrape and El Arrozal -- lack these services for the most part. The Municipality in conjunction with the 23 existing Mothers' Groups in the valley carry out health campaigns.

Education

The three groups assisted by TechnoServe have rural study centers at the pre-school, grammar school and high school levels. In the town of Motupe there is a Technological Institute and a Vocational Education Center.

Jequetepeque

Basic Health Services

Although there are no health services in the immediate villages, the four groups assisted by TechnoServe are very near towns where there are health services.

Basic sanitary infrastructure does not exist in the more remote rural areas. There is a marked absence of running or potable water, sewage, waste disposal, and recourse to general education on health. However, health campaigns are promoted by the Municipality of Chepén and through 64 Mothers' Clubs in the valley, associated with the Central Association of Women's Organizations in the Jequetepeque valley.

Of the total population surveyed, only 14% go to hospitals for their health care, 4% go to private doctors, 23% go to drugstores, and 50% claimed to not receive any type of medical assistance at all. Most have been to a rural medical post at one time. The coverage provided by the Ministry of Health in the valley is estimated to be 20% of need at most.

A common problem among the child and adult population; in the valley is parasitic diseases, affecting 68% of those surveyed. Also, a significant percentage of the valley's population is not aware of the benefits of vaccination.

Education

In the rural areas of the four groups receiving TechnoServe assistance, there are pre-schools, grammar and high schools. There is also an agricultural and husbandry institute in the town of Chepén.

Nutrition

Available information indicates that at a national level, 50% of the Peruvian population under the age of 6 years is at risk of malnourishment. In the Jequetepeque valley, among the population surveyed it was observed that 59% of the children had adequate nutritional levels, 31% were at risk of malnourishment and 10% was acutely malnourished. This latter group is particularly threatened by illnesses which contribute to infant mortality.

Literacy

Literacy rates in the Jequetepeque valley are as follows:

JEQUETEPEQUE VALLEY LITERATE AND ILLITERATE POPULATION

Indicators	Percentages
Cannot read or write	37%
Can read and write	63%
TOTAL	100%

These are overall numbers. Clearly some areas of the valley have higher levels of illiterate people than others, and as might be expected, there appears to be a high correlation between access to land and literacy.

LITERACY RATES BY TYPE OF RURAL WORKER

Indicators	Owners of Medium Farms	Owners of Small Farms	Landless Seasonal Workers	Migrant Workers
Cannot read or write	8	30	50	57
Can read and write	92	70	50	43
	100	100	100	100

There are significant differences between the four types of rural workers, with the migrant laborers presenting the highest levels of illiteracy. The owners of medium-sized farms (10 to 15 hectares), on the other hand, are those with the lowest levels of illiteracy. It is estimated that there are no more than 140 families in the medium-sized category, and about 3,000 families in the small size category.

III. BUSINESS DEVELOPMENT STATUS OF ASSISTED GROUPS

ADMINISTRATION

Motupe

The three associations receiving TechnoServe assistance have been in the process of organizing themselves as legal entities since December of 1993. As of early April 1994 they had not yet obtained legal standing, but were lacking only some minor paperwork in the Public Registers, which is in the process of being finalized. The three associations have received business development assistance, and TechnoServe has helped them with the formulation of by-laws and internal regulations, as well as in conducting meetings and in the selection of internal Directors. TechnoServe staff members are preparing manuals on administrative, accounting and general management standards and procedures.

As these associations are made up of people who have never worked with development plans or with administrative instruments of any kind, the by-laws and internal regulations as well as function of Directors, among other aspects of management, have been addressed and discussed in great detail. TechnoServe project staff have stressed the importance and advantages of working in groups in order to achieve the goals and objectives of the project, and specifically in order to re-orient their production toward the development of export crops.

To date, given the history of these three groups and their lack of experience of working in associations, management related tasks such as planning, organization, implementation and control are not yet carried out. However, the farmers are aware that these management activities must be implemented under the project. To this end, TechnoServe has begun to carry out management training.

Jequetepeque

The four TechnoServe-assisted groups in Jequetepeque are at a more advanced administrative stage than those in Motupe. They are pre-existing structured organizations which require institutional strengthening.

Following is a description of the current status of each association:

The Committee of Bean Producers of Chepén was formed as a part of the pre-existing organization of the Rural Community of Chepén, and whose existence is provided for in the by-laws of the community. The Committee has independent legal standing recognition and its Directors are currently receiving advisory services regarding accessing credit for the current agricultural campaign in which they will produce beans for

export. TechnoServe has written the by-laws, Committee Regulations and Administrative/Accounting manual, and has been providing technical assistance -- principally to the Committee's President -- in the implementation of management and administrative tools since November of 1993. Given the Committee's longstanding tradition of working in groups (as members of the Chepén Rural Community) they will soon form the Pilot Committee of Producers of Beans for Export. The activities related to management, planning, organization and control will be put into practice as the Committee begins to analyze the activities based on the objectives of the Medium Term Operating Plan.

The Catalina Farmers' Association, despite being legally constituted, has been inactive, with a directing body which has not carried out its functions. Since January of 1994 they are being assisted in the revision and reformulation of their accounts, by-laws and other managerial aspects of management. TechnoServe is also supporting them in their efforts to obtain financing. With the aim of strengthening the association and consolidating this group of farmers whose numbers have dwindled both in members and in area cultivated, they are being encouraged to constitute themselves into a Pilot Association for the cultivation of alternative crops to rice such as fruits, beans, cotton, etc. for export. Technical assistance related to management (i.e. planning, organization, execution and control) are not yet being provided.

The Tomás La Fora Cooperative, Ltd. is a service organization, and each one of its members owns five hectares of land, on average. The Cooperative has a General Manager who administers the rice mill and other services to members such as provision of agricultural machinery, tractors, and rice harvesting tools. He has no training or extensive experience in management. Thus, the Cooperative does not have a development plan and the activities related to planning, organization, execution and control are carried out haphazardly.

The Agrarian Cooperative La Calera Ltd. is a service enterprise which is legally constituted under the Law of Cooperatives. Each member owns an average of five hectares. The General Management of the Cooperative is in the hands of one member who has no training in management, and who only administers the rice mill. As with the Tomás La Fora Cooperative, it has no development plans and the activities related to planning, organization, execution and control are carried out in an informal manner.

In general terms, the groups assisted by TechnoServe in Motupe and Jequetepeque display potential and numerous strengths for implementing proper management. In Motupe,

where there is virtually no experience in collective or group work, each member has been responsible solely for his farm. In Jequetepeque, as veterans of Peru's cooperative system, the members are aware of both the pluses and the minuses of belonging to a cooperative. Although the objectives in both cases are the same -- to activate the agro-export potential of each valley -- TechnoServe will implement different and appropriate strategies in each one through a work plan for technical assistance and training in management issues.

HUMAN RESOURCES

Motupe

The three associations in the Motupe valley do not yet have either temporary or permanent staff members to carry out specific functions. TechnoServe will encourage them to retain a core staff as their operations and activities begin to require such a presence.

Jequetepeque

The Committee of Bean Producers does not have an administrative or accounting staff. The Committee makes use of the administrative staff within the Chepén Farmer's Community, of which the Committee is a part. As the Bean Producers Committee begins to carry out their own operations and transactions, according to their objectives and by-laws, they will need to establish their own administrative structure.

The Catalina Association will do the same regarding its forecasted operations in the medium term Operating Plan.

The Tomás La Fora Cooperative has a part-time licensed Public Accountant on staff (two days a week) who has a great deal of experience in the management of Cooperatives. Tomás La Fora also has a bookkeeper who is a permanent employee of the Cooperative.

The La Calera Cooperative retains the same accountant as Tomás La Fora, where he is a member and the owner of a small farm within this Cooperative. There are no other staff members at La Calera.

To the extent which these groups diversify their agricultural activities beyond the cultivation of rice, the need for larger administrative and accounting staffs will become necessary.

PRODUCTION

Motupe

The Motupe valley presents several restrictions, limitations and structural weaknesses for full agricultural development. As

mentioned, the predominant negative factors are lack of credit, technical assistance and no previous experience working in association. More specifically, TechnoServe has identified the following limitations:

- There is no integrated assistance in the valley which focuses on issues of production, administration, organization and business management. The technical assistance currently provided by FONDEAGRO is limited to production only, and is not consistent given the financial restrictions this government agency is facing.
- After the bankruptcy of the Banco Agrario, there is no formal financing for the agricultural sector. In the valley, funds can only be accessed through intermediary salespeople who lend money to small farmers and demand the entirety of their harvest at a pre-established price which is usually not very favorable to the borrower.
- Traditionally, the farmers in the valley work annual crops with no profit margins as they use poor quality seeds. They do not rotate their crops, and they incur in high costs for pest control, which they do not carry out adequately.
- There are no governmental or private entity programs, plans or projects in the valley which might possibly provide an alternative for change. This has resulted in a high level of dissatisfaction and lethargy on the part of the farmers who feel abandoned by the government, from whom they had received some assistance in the past.
- No adequate sales and marketing channels exist for the sale of their production, and no systems exist for the purchase of raw materials.

Despite these constraints, TechnoServe believes that the current conditions can be reversed. The agricultural potential in the valley, in addition to the capabilities of the selected farmers, provide the underlying conditions for successful endeavors in Motupe. TechnoServe envisions its current activities in the area as a pilot project to be replicated by other communities in the valley in the future. A brief description of each group and its results follows.

The Tongorrape Producers' Association is an organization with 70 members who in total work 450 adjoining hectares of land very near an ample water source. The farmers, who still work individually, will begin to conduct preparatory, processing and sales activities as a group, from the current agricultural campaign forward, as TechnoServe begins to provide them with technical assistance and training.

Work has already begun on the preparation of soil for the planting of 76 hectares of beans for export. To date, they have worked their lands in a very traditional manner, planting their products with no technical assistance and with poor quality seeds. They have received expensive financing from middlemen, who pay very low and speculative prices for the harvest.

The area cultivated and the results obtained during the last season (1992/1993) were as follows:

**TONGORRAPE
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area Ha.	Production per Hectare	Total Production	Unit Price (S/.)	Total Revenue (S/.)
Cerro cotton	200	28 qqr	5,600 qqr	25	140,000
Maize	100	2 TM	200 TM	300	60,000
Lemon	15	15 TM	225 TM	200	45,000
Mango	15	5 TM	75 TM	500	37,500
Passion Fruit	20	10 TM	200 TM	150	30,000
Total	350				212,500

The Palacios Producers' Association brings together 50 farmers who produce on a total of 250 hectares, located in the lower part of the valley, and they irrigate their land via subterranean water with 4 wells.

They take turns with the administration of the wells and share the cost of pumping the water, including materials, administration and maintenance.

The farmers work their land individually and receive no technical assistance or credit. Their productivity is quite limited, given the restrictions and weaknesses which are common to the small farmers in the valley.

The area cultivated and the results obtained in the last planting season (1992/1993) were as follows:

**PALACIOS
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	Production per Hectare	Total Production	Unit Price	Total Revenue S/.
Cerro Cotton	200	28 qqr	5,600 qqr	25	140,000
Maize	100	2 TM	200 TM	300	60,000
Lemon	15	15 TM	225 TM	200	45,000
Mango	15	5 TM	75 TM	500	37,500
Passion Fruit	20	10 TM	200 TM	150	30,000
Total	350				312,500

The **El Arrozal Producers' Association** is an organization which brings together 70 farmers who work a total of 400 hectares in plots located along an irrigating canal. In this area, subterranean water is used when surface water is insufficient or not available. There are open irrigating ditches in the area. As with TechnoServe's other groups in the valley, El Arrozal has thus far received no technical assistance and its productivity could be raised through improved agricultural technology.

The area cultivated and the results obtained in the last planting season (1992/1993) were as follows:

**EL ARROZAL
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	Production per Hectare	Total Production	Unit Price S/.	Total Revenue S/.
Maize	150	2 TM	300 qqr	300	90,000
Cerro Cotton	50	30 qqr	1,500 TM	25	37,500
Avocado	30	5 TM	150 TM	300	45,000
Mango Criollo	20	5 TM	100 TM	300	30,000
Mango Haden	15	5 TM	75 TM	500	37,500
Total	265				240,000

Jequetepeque

The limitations encountered in Jequetepeque are similar to those found in Motupe.

- There is no integrated technical assistance in the valley provided either by private or public institutions capable of changing the productive, administrative, organizational and business management aspects, and above all, capable of transforming the current intensive cultivation of rice.

The technical assistance currently provided by FONDEAGRO is deficient given the financial restrictions on this government organization.

- There are no formal financial mechanisms for agriculture. A few rice mills in the valley provide some financing for the planting of rice. They require debt repayment after harvest, and additionally directly charge 5% of rice harvest for the right to use the milling services. There are also middlemen who provide "contracts" to the corn and bean producers (a minority in the valley), by which they lend money and secure the harvest at a price which is unfavorable to the producer.
- There is a high degree of humidity in the lower part of the valley given the intensive production of rice (usually greater than 20,000 hectares and even reaching 35,000 hectares). These levels of production require a large volume of water for irrigation, which produces many negative effects in the soil including salinization and the deterioration of the soil's structure.
- As a consequence of the lack of financing and technical assistance, the cost of seed is quite high and not of the best quality.
- Farmers who are traditionally used to a strong dependence on governmental assistance, generating a current sense of general dissatisfaction, lethargy, and abandonment.
- The fertilization of the soils is carried out haphazardly, without taking into account technical issues for planting activities according to the soil's capacity. Adequate zonation of crops, based on technical considerations, is not carried out.
- There is limited or minimal participation by the farmers for the proposal and/or formulation of development plans, programs or projects.
- There are no adequate channels for marketing products (other than rice) or for purchasing raw materials. There is also no agro-industry in the area.
- Saline water is used for irrigation.

TechnoServe aims to change the existing situation through an integrated enterprise development program for the assisted groups to promote the production of more profitable and environmentally sound export crops. As in Motupe, this is seen as a pilot experience which will have multiplier effects throughout the valley.

The Committee of Bean Producers of Chapén is an organization of 253 producers who cultivate a total area of 1,300 hectares on individual farms, with an average of 5 hectares each. These farms are located on some of the best land of the Chapén Farmers' Community of which the committee is a part. The producers irrigate with rain and river water, complementing their irrigation with subterranean water as needed through open ditches. TechnoServe maintains high level contacts with the authorities of the nearby Gallito Ciego dam in order to ensure a sufficient supply of water to the Committee for their production of beans for export. TechnoServe is also assisting the groups to obtain financing for the first 100 hectares.

In order to improve the irrigation infrastructure, we are assisting the group to obtain financing to install 20 windmills in already existing open wells, from which it will be possible to obtain more water.

The areas cultivated and the results obtained in the agricultural activities of last year (1992/1993) were as follows:

**BEAN PRODUCERS' COMMITTEE - CHEPEN
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	Production per Hectare (MT)	Total Production (MT)	Unit Price (Soles)	Total Revenue (Soles)
Beans	800	1.0	800	400	320,000
Maize	500	2.5	1,250	300	375,000
	1,300				695,000

The Catalina Association of Farmers which brings together 33 members who work 70 hectares of land, irrigated by gravity water, is located in the valley's lowlands. The water is provided by the Gallito Ciego dam, and is administered by the Committee of Water Users, via the Irrigating Commission of Guadalupe.

The areas cultivated and the results obtained during the last agricultural season (1993/1994) were as follows:

**CATALINA ASSOCIATION
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	Production per Hectare (MT)	Total Production (MT)	Unit Price (Soles)	Total Revenue (Soles)
Rice	25	3.5	87.5	600	52,500

The **Tomás La Fora Agrarian Cooperative** is an organization with 113 members who work a total of 1,000 hectares. During the 1992/1993 season they cultivated rice, corn and in lesser volumes, alfalfa and sorghum with low productivity given the financial limitations and the poor state of the fields. The considerable degree of salinity contained in the soil due to the intense cultivation of rice limited the productivity of these crops. TechnoServe is assisting the group in order to clean and rehabilitate parts of the group's irrigation system which require maintenance.

The areas cultivated and the results obtained during the last growing season (1992/1993) were as follows:

**TOMAS LA FORA COOPERATIVE
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	MT/Hectare	Total Production (MT)	Unit Prices (Soles)	Revenue (Soles)
Rice	800	6.5	5,200	600	3,120,000
Maize	150	3.0	450	300	135,000
Alfalfa	25	2.0	50	150	7,500
Sorghum	25	20.0	500	150	75,000
Total	1,000				3,337,500

La Calera Agrarian Cooperative is also a long-standing cooperative, with 183 members and a total of 1,400 hectares of cultivated land. The cooperative provides rice milling services for its members. The major crops grown by the group are rice and corn, with a minor presence of beans, alfalfa and sugar cane. While the lowlands in La Calera are apt only for rice cultivation at this point, the hills in the area present the necessary qualities for the implementation of fruit crops. In general, the soil in the lower parts of La Calera suffer from many of the same problems as Tomás La Fora Cooperative.

The areas cultivated and the results obtained during the last growing season (1992/1993) were as follows:

**LA CALERA COOPERATIVE
RESULTS OF 1992/1993 ACTIVITIES**

Crops	Area (Ha)	MT/Hectare	Total Production (MT)	Unit Price (Soles)	Revenue (Soles)
Rice	1,000	7.0	7,000	600	4'200,000
Maize	300	2.5	750	300	225,000
Sugar Cane*	50	100.0	5,000	150	750,000
Beans	25	1.2	30	400	12,000
Alfalfa	25	20.0	500	150	75,000
	1,400				5'262,000

* The harvest of "soca" sugar cane takes place 16 months after planting and has a production of 150MT per hectare (10MT of cane = 1 MT of sugar). Thus, these 100 MT of cane equal 10MT of processed sugar.

COSTS

Motupe

The three assisted associations do not keep accounting books and the members only give general numbers for costs per hectare. Therefore, TechnoServe staff resorted to surveying medium-sized producers in the area as well as the Ministry of Agriculture to arrive at more precise cost information.

**TONGORRAPE
PRODUCTION COSTS**

Crop	Area (Ha)	Cost/Hectare (Soles)	Total Cost (Soles)
Cerro Cotton	200	700	140,000
Maize	100	1,200	120,000
Lemon	15	500	7,500
Mango	15	500	7,000
Passion Fruit	20	500	10,000
	350		285,000

**PALACIOS
PRODUCTION COSTS**

Crop	Area (Ha)	Cost/Hectare (Soles)	Total Cost (Soles)
Cerro Cotton	200	700	140,000
Maize	100	1,200	120,000
Lemon	15	500	7,500
Mango	15	500	7,500
Passion Fruit	20	500	10,000
	350		285,000

**EL ARROZAL
PRODUCTION COSTS**

Crop	Area (Ha)	Cost/Hectare (Soles)	Total Cost (Soles)
Cerro Cotton	50	700	35,000
Maize	150	800	120,000
Avocado	30	500	15,000
Mango Criollo	20	500	10,000
Mango Haden	15	1,000	15,000
	265		195,000

TechnoServe is training the farmer members of each of these three groups, as well as the Directors of each Association, so that they begin to record production costs on a cost sheet designed by TechnoServe. Once the cost-registering system is in place, the members of each group will give the Association's Secretary a copy of his/her cost sheet and these will be centralized and consolidated by the Association. This information gathering and registration, as well as bookkeeping and tracking of accounting information, will begin during the current agricultural season.

Jequetepeque

The recently formed Committee of Bean Producers will begin to record and administer the production costs of its members. Currently, it is the Rural Community of Chepén's staff which records this cost/hectare information. TechnoServe has already trained members of the group in the formulation and filling out of the cost sheet, as well as providing assistance and training in administrative and accounting aspects. Nevertheless, it is still each farmer who gives approximate or haphazard figures on his/her cost/hectare, which we have been able to make more precise by researching this information further in the area. The cost information is as follows:

**COMMITTEE OF BEAN PRODUCERS - CHEPEN
PRODUCTION COSTS**

Crop	Area (Ha)	Cost/Hectare (soles)	Total Cost (soles)
Beans	800	400	320,000
Maize	500	600	300,000
Total	1,300		620,000

The Catalina Farmers' Association also operates without any formal business documents or planning. They are only able to give approximate cost figures, which TechnoServe has reconciled to other cost information collected in the area. The results are the following:

**CATALINA FARMERS' ASSOCIATION
PRODUCTION COSTS**

Crop	Area (Ha)	Cost/Hectare (soles)	Total Cost (soles)
Rice	25	1,500	37,500

The deficiency demonstrated by the Association in the tracking of costs is being overcome by the administrative and accounting technical assistance provided by TechnoServe. TechnoServe staff have taught the farmers how to fill out cost sheets for each of the 33 producers, and this activity will later be centralized in the Association.

The Tomás La Fora Agrarian Cooperative administers the costs of the services of the rice mill and agricultural machinery which provides a great service to the members, who otherwise register their costs in a very haphazard way and can only give approximate figures, which we have reconciled against the costs of the area. These are:

**TOMAS LA FORA COOPERATIVE
PRODUCTION COSTS**

Crops	Area (Ha)	Unit Costs Soles	Total Costs
Rice	800	1,800	1'440,000
Maize	150	1,100	165,000
Sorghum	25	900	22,500
Alfalfa	25	500	12,500
Total	1,000		1'640,000

The La Calera Cooperative tracks only the costs of milling services for its members, and for the agricultural machinery lent. TechnoServe will advise and train the Cooperative's management to monitor all production costs for its 183 members. Currently, each member individually records his production costs in a haphazard way and the information given us was reconciled with the costs encountered in the area. Average production costs were as follows:

**LA CALERA COOPERATIVE
PRODUCTION COSTS**

Crops	Area (Ha)	Unit Costs Soles	Total Costs
Rice	1,000	1,800	1'800,000
Maize	300	1,100	320,000
Sugar Cane	50	3,000	150,000
Beans	25	600	15,000
Alfalfa	25	500	12,500
Total	1,400		2'307,500

PROFIT MARGINS

The profit level achieved by the seven groups during 1992/1993 was:

**MOTUPE AND JEQUETEPEQUE VALLEYS
PROFIT MARGINS**

Association	Revenues (S/.)	Costs (S/.)	Profit Margin
MOTUPE			
Tongorrape	312,500	285,000	9%
Palacios	312,500	285,000	9%
El Arrozal	240,000	195,000	23%
JEQUETEPEQUE			
Bean Producers - Chapén	695,000	620,000	12%
Catalina Farmers' Assoc.	52,500	37,500	40%
Tomás La Fora Coop.	3,337,500	1,640,000	104%
La Calera Coop.	5,262,000	2,307,500	128%

The profit margins of the individual crops developed by each of the seven groups during the 1992/1993 season was:

Motupe

TONGORRAPE
1992/1993 PROFIT MARGINS

Crop	Profit Margin
Cerro Cotton	0%
Maize	(50%)
Lemon	500%
Mango	400%
Passion Fruit	200%

PALACIOS
1992/1993 PROFIT MARGINS

Crop	Profit Margin
Cerro Cotton	0%
Maize	(50%)
Lemon	500%
Mango	400%
Passion Fruit	200%

EL ARROZAL
1992/1993 PROFIT MARGINS

Crop	Profit Margin
Maize	(25%)
Cerro Cotton	7%
Avocado	200%
Mango (Criollo)	200%
Mango (Haden)	150%

Jequetepeque

**COMMITTEE OF BEAN PRODUCERS (CHEPEN)
1992/1993 PROFIT MARGINS**

Crop	Profit Margin
Beans	0%
Maize	25%

**CATALINA ASSOCIATION OF PRODUCERS
1992/1993 PROFIT MARGINS**

Crop	Profit Margin
Rice	40%

**TOMAS LA FORA AGRARIAN COOPERATIVE
1992/1993 PROFIT MARGINS**

Crop	Profit Margin
Rice	116%
Maize	(18%)
Sorghum	(45%)
Alfalfa (1)	500%*

* Alfalfa is consumed by the members' cattle.

**LA CALERA AGRARIAN COOPERATIVE
1992/1993 PROFIT MARGINS**

Crop	Profit Margin
Rice	133.3%
Maize	(31.8%)
Sugar Cane	400.0%
Beans	(20.0%)
Alfalfa	500.0%*

* Alfalfa is consumed by the members' cattle.

As a summary of these results, it can be concluded that at least under current conditions, cerro cotton, maize and sorghum are not profitable crops. While rice is apparently quite profitable,

it is not sustainable due to the deleterious effects on soil. Also, if tariffs and other "protections" are removed to imports across the board, Peruvian rice will no longer be competitive in the domestic market as local costs render it more expensive than some imported rice.

It is quite evident that fruit is extremely profitable, and it is precisely these crops which will be emphasized throughout the project.

MARKETING

Motupe

The sales and marketing channels for the three Associations in Motupe are essentially the same as for all other producers in the valley. There are four different marketing channels:

- Marketing and sales via middlemen who provide credit

The farmer receives credit assistance from a middleman under terms which obligate him to turn over his harvest based on a pre-agreed price. The middleman then sells the harvest locally, regionally, or to wholesalers, reaping the greater part of the profits.

- Direct sales by the producer

The farmer himself sells his harvest at the local or regional market (in Chiclayo). However, he then needs to address the logistical problem and costs of freight. Therefore, farmers prefer to make the sale on their farms.

There are also marketing and sales intermediaries at the local market as well as the nearby agro-industrial plant of "Jugos del Norte S.A." which has enough installed capacity to process fruit from the entire valley and more.

- Sales and marketing via AGRIDESA

AGRIDESA (Agricultores del Desierto S.A.) is a locally formed and incorporated entity set up during the last year by a group of 19 medium-sized farmers in the valley to market and sell their production. To date, small producers have made very little use of AGRIDESA services as the company has not promoted or made known the advantages it offers the producer. This company, which has a great potential for commercial outreach is only just beginning to provide its services, but with relatively high operating costs. This is not beneficial to small producers as they must pay for the services provided.

TechnoServe is also assisting AGRIDESA to broaden its services and lower its costs.

- Sales to exporters

This system is used only by some medium-sized producers in the valley, but not by the members of the three Associations TechnoServe is assisting.

There are also agents who sell 40% of the harvests to the external market and 60% in the domestic market. Details are given below for the marketing channels both in Peru and for exports in the cases of lemon, mango, passion fruit (maracuyá), and paprika:

Lemon: Four sales channels are used:

1. Jugos del Norte Factory

60% of production is sold to the Jugos del Norte factory, and depending on the quality the factory pays around S/.70 per MT in order to produce lemon extract (oil).

Another 30% of production also goes to the factory for other purposes, and they pay S/.30 per MT. The cost of transport to the factory, which is 1 Km. from the village of Motupe, is S/.5 per MT.

The cost of harvesting lemons for the factory is S/.0.25 for each 20 Kg. box.

2. Wholesale Market

10% of production goes to Lima

Cost of Harvest:	S/.16/box (per every 9 boxes)
Freight to Lima:	S/. 3.50/box
Cost of each box:	S/. 1.40
Wholesaler's commission:	20% of gross price
IGV (Sales tax):	18%

3. Sales on the Farm

Either the producer takes his production out to the road, or the buyer buys the production directly on the farm.

4. Export

There is no direct export of lemon in the area. The farmers claim that the profit is only 10%.

Passion Fruit (Maracuyá): Also four possible distribution channels

1. Export

Currently there is no export of this product in the area, and exports in general are in decline. Colombia is Peru's primary competitor for this crop.

2. Factory: Up until 1993, Motupe farmers have been selling 70% of the production via this channel. The price paid at the factory is S/.0.15/Kg.

3. Wholesale Market

Only sell from October to February as later in the year the production from Ica and Huaral -- which are much closer to Lima -- place the Motupe producers out of the market due to the cost of freight.

Costs:

Transport to Lima takes three days

Freight to Lima: S/.0.12/Kg.

Packaging Cost: S/. 0.10/Kg.

Commission: 10%

Losses: 6% (in 3 days)

4. Sales on the farm

This channel accounts for 30% of the production. This is the channel preferred by the farmers as the selling price is S/.0.20/Kg. for the best quality fruit.

Mango

Four types of mango are currently grown in the valley: Criollo, Kent, Haden and Chato.

There are three basic sales and distribution channels for mango in the valley:

1. Local Market

The Criollo and Chato varieties are sold in the local market, regional market or at the local factory. The sales price is currently the same in all three places (S/.0.15/Kg.).

2. Exporters

Because of its higher quality, approximately 60% of the Kent variety production can be exported. The Haden variety, on the other hand, deteriorates more rapidly, and only about 40% of the production can be exported. Farmers in Motupe prefer to grow Kent mangos as they are larger, of better quality, and ripen during the off-season, commanding a higher price in international markets.

In Motupe the Haden mango orchards are still very small (from 1 to 2 hectares), while there are Kent orchards up to 50 hectares in size, developed by medium-sized farmers. Some members of TechnoServe's three associations in the valley grow Kent mangos on small plots, from 0.5 to 1 hectare. During the last growing season, the Motupe valley sold Kent and Haden mangoes rated as Caliber 12 at US\$0.32/Kg to agents who bought on behalf of exporters.

3. Sale of discarded mango to local factory

Mangos which are not considered of high enough quality for direct sale are sold on the farm at S/.1.50 per 20 Kg. box, and at times of peak price, at S/.3.00 per 20 Kg. box.

After becoming aware of the mango production potential in the valley, TechnoServe is coordinating activities to promote the planting of off-season mangoes such as Kent and Tommy Atkins (both these varieties are red, and there is considerable demand for them in the U.S. market).

Paprika

In Motupe around 100 hectares of paprika are grown by 4 or 5 medium-sized producers. They use two channels for distribution and sales:

1. Wholesale market in Lima where lower quality paprika is sold.
2. Export:

The price for paprika placed in San Francisco, CA is US\$0.78/pound. The transport is maritime (less expensive than air freight) and takes 15 days to arrive. The medium size producers of paprika claim that the profits run as high as US\$1.20/Kg.

TechnoServe plans to promote the cultivation of paprika via FUNDEAGRO (as soon as the caja rural begins its operations), as they might be able to provide financing up to

US\$1,200/hectare. The cost of production is US\$2,200/hectare. In addition to high profit margins, this crop also requires a great deal of labor -- over 200 person/days per hectare -- which will contribute to providing greater employment opportunities in the area.

Currently in Motupe there is no industrial drying facility for the paprika crops. On the other hand, outside drying is not really an option due to the excessive humidity and rain. This issue must be addressed.

TechnoServe is providing a technical package that will ensure consistently high quality levels, as required for export. A potential market for Peruvian paprika is Mexico.

Rural Marketing Center (Service Company)

TechnoServe is providing technical assistance in order to achieve the start-up of the Rural Marketing Center which will strengthen the implementation of the Medium Term Development Plan. This initiative was originally taken on by a local group of farmers, organized around the use of underground water, and PROCOMPRA, a former marketing program implemented by the Ministry of Agriculture. After the dismantling of PROCOMPRA, existing equipment and machinery is being transferred and sold to interested organizations or companies in the valley. AGRIDESA would manage the center, while the farmers would be allotted a seat on the board of directors.

The main purpose of the marketing center is the selection and classification of fruit, and it is projected to have the capacity to process 6 MT of produce per hour. AGRIDESA will rent a plot of land to the farmers' group for construction of the plant. However, financing is still required for actually building the facility, and for the installation of the equipment (which is already in Motupe).

The intermediary marketing enterprises of mango in Motupe who would be the buyers of the Rural Marketing Center's produce are:

- Interamericana de Comercio, which gives credit, provide assistance in packaging and in transportatoin. Their headquarters are in Chiclayo.
- AGROPESA, which does not provide credit, but does provide packaging materials, harvesting assistance and transport. Their headquarters are in Piura.
- L.G. Industrias, which gives no credit, and buys the mango production which must be transported to the village of Motupe where they have a representative.

- Eduardo Espinoza Burneo who is a medium-sized producer in the valley, also buys mango production in the area which he then sells to an exporter (Mr. Wong).

The buyers of maize in the valley are: Sixto Corrales, Carlos Miranda, Rogelio Muro and Jorge Yanaqui. They pay S/.150 per load of 414 Kg.

Jequetepeque

The sales and distribution channels used in the valley are the same for the four groups we are assisting. Rice -- the primary crop in the Jequetepeque valley -- has very well-established distribution channels. Rice mills purchase a large proportion of the rice production. Farmers who are unable to sell their entire harvest to the mills sell the rice on their own. Until 1990, sales were carried out by the state-owned ECASA, Empresa Comercializadora del Arroz.

The other crops produced in the valley which are maize, beans and other lesser ones are usually sold to middlemen, who -- as in the case of Motupe -- hook the small farmer with credit for production and raw materials in exchange for his harvest at a pre-arranged, providing the greatest profit for the intermediary. T.

The bean marketing and sales companies in the valley are La Cabaña, S.A., Exportadora El Sol, Procesadora Exportadora Ma'chelo and Exportadora Sullana. The producer usually has no awareness of the final destination of his product. Currently, bean producers sell to intermediaries at S/.0.40 to S/.0.60 per Kg. while the sales prices of exporting agencies in the area are between US\$0.50 and US\$0.60 per Kg., (at a current exchange rate of US\$1=S/.2.17).

FINANCIAL SYSTEMS

Motupe

The three Associations in Motupe are just beginning to keep accounting records. They have also begun to register information on costs, production, storage, revenues, sales, etc. These new practices have begun with the current agricultural season in which TechnoServe is helping them to obtain credit and is providing technical assistance in production.

Jequetepeque

The Committee of Bean Producers of Chepén of recent legal constitution, will begin its agricultural activities during this season. TechnoServe, after preparing their Administrative and Accounting Manual, has begun training activities with the

bookkeeper for carrying the books properly, the ledger, and auxiliary registers on costs, production, sales, etc.

Given its status of a non-operating entity until recently, the Catalina Farmer's Association has not been preparing financial statements or keeping accounting records. They will begin to do so once again with TechnoServe guidance as soon as their productive activities begin.

The Tomás La Fora and La Calera Cooperatives do prepare financial statements for the milling services they provide in rice and corn processing, and loans of agricultural machinery. According to the analyses carried out by TechnoServe, they display an acceptable financial situation. TechnoServe will encourage them to expand the services they provide, as well as strengthening and consolidating the current services. The Accountant whom currently assists these two cooperatives and who is also a member of the La Calera Cooperative is a very experienced professional in the financial management of cooperatives and is very receptive to TechnoServe's administrative and accounting assistance.

IV. LOCAL SOURCES OF FINANCING

In addition to the existing informal financing sources for the Motupe and Jequetepeque valleys, the formal banking sector is once again beginning to open up credit lines for the sector. However, given their small size and lack of assets, most of the farmer we assist will not be eligible for these funds as they will not meet the loan criteria.

Following is a list and information on many of the currently existing financing alternatives in the Motupe and Jequetepeque valleys.

Banco Continental (Pacasmayo and Chiclayo branches)

Production lines financed: rice

Amounts: According to need

Disbursement System: Promissory notes

Terms:

- . Interest: 4% per month
- . Guarantees: Mortgages on farmland
- . Available to farmers with more than 20 hectares

Banco de Crédito (Pacasmayo and Chiclayo branches)

Production Lines Financed: All crops

Amounts: According to need

Disbursement System: Promissory notes

Terms:

- . Interest: In US\$, 18% annually
- . Guarantees: Mortgages of farmland, other assets

Loans are made to farmers with checking accounts at the bank, without regard to the area they grow. 80% of the bank's loans are made to the agricultural sector.

Banco de Crédito (Chepén branch)

Production Lines Financed: Rice
Amounts: According to need
Disbursement System: Promissory notes
Terms:

- . Interest: 6.5% per month in new soles
15% per year en US\$
- . Guarantees: Mortgage of farmlands
Agricultorees en más de 20 Ha.
There is some outstanding debt.

Note: Bank would be interested in working with and institution such as TechnoServe. Necessary coordinations would have to be made in Lima.

Banco Wiese (Chiclayo branch)

Representative in Lima: Konrad Valladares - Micro and Small Enterprise Division
Representative in Chiclayo: Mr. De la Piedra
Production Lines Financed: As recommended by the promoting agency

Terms:

- . Interest: The farmer is charged 17% annually in US\$.
- . Guarantees: Up to US\$5,000 without mortgage guarantee; above US\$5,000 with mortgage guarantee.

Note: Interested institutions should coordinate in Lima in order to obtain lines of credit for the farmers to whom they provide technical assistance.

FONDEAGRO (Chiclayo and Chepén)

Representative in Chiclayo: Hugo Burga
Representative in Chepén: José Zetner Castro
Lines of production financed: Loans for seed, fertilizer, pesticides and technical assistance of up to 3% of the total value of the loan.

Terms:

- . Interest: 1.2% per month in US Dollars
- . Technical Assistance: Through agronomists via an agreement between the official Association of Engineers and FONDEAGRO

COFIDE Corporación Financiera de Desarrollo

Representative: Mario Guerrero (Lima)
Representative in Chiclayo: Adalberto León
Production Lines financed: Agro-exports
Amounts loaned: The maximum amount of a loan is up to US\$1,000,000, and no more than 50% of the total investment. The remainder of the investment must be covered by the

beneficiary (20% for a new project and 10% for a pre-existing project) and the remainder by a financial intermediary.

Guarantees: The beneficiary will provide guarantees as agreed to with the financial intermediary.

Loans are made in US Dollars.

Timeframe: Fixed investment loans will be made for a maximum of seven years with a four year grace period. Working capital and marketing loans will be reimbursed in a maximum of four years.

Interest: Passive Interest Rate - US Dollars.

Program Resources: COFIDE (Corporación Financiera de Desarrollo), USAID (Agencia for International Development).

Additionally, TechnoServe has begun providing arrangements to support the Motupe groups with financing while ACDI's Caja Rural system is still in the organizational process. If the farmers are unable to access credit during the second quarter of this year, they will miss the window of opportunity to plant their crops for the upcoming season, thus compromising our ability to meet project objectives, and their own experience with group work. It is highly unlikely that the ACDI-run Caja Rural will be in place by that time. Thus, TechnoServe has negotiated an interim funding arrangement with the Banco Wiese. The bank will provide a credit line of for the approved agricultural projects of the three TechnoServe-assisted groups in Motupe.

In order to guarantee these loan funds -- as required by Banco Wiese -- TechnoServe will provide US\$40,000 of its own unrestricted funds and COFIDE will leverage these funds 2 to 1, providing an additional US\$80,000. TechnoServe has made this one-time-only arrangement and loan in the face of the unavailability of Caja Rural funds, and with the objective of ensuring that the project is off to a good start. Otherwise, there is a great likelihood that the farmers will lose faith in the project if they are unable to produce during the upcoming season. It is expected that once the Caja Rural is in place, the need for these alternative sources of funding will be minimized.

CONCLUSION

This initial diagnosis identifies and documents the stage of development of the seven groups with which TechnoServe will work in the Motupe and Jequetepeque valleys. This analysis has led to the conclusion that there is great potential for developing agro-exports in these areas, and substituting these more profitable and environmentally sound crops in areas which currently produce rice and maize, primarily.

Based on these initial findings, a medium-term operating document has been developed, stating the objectives and the implementation plan for this three-year pilot project.