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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

LAC REGIONAL

PROJECT PAPER

SUSTAINABLE MICRO-FINANCE

AID/LAC/P-894

PROJECT NUMBER: 598-0820

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number 	DOCUMENT CODE 3
2. COUNTRY/ENTITY LAC Regional		3. PROJECT NUMBER 598-0820		
4. BUREAU/OFFICE LAC/TI <input type="checkbox"/> 05 <input type="checkbox"/>		5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Sustainable Micro-Finance <input type="checkbox"/>		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 94		7. ESTIMATED DATE OF OBLIGATION (Under 'B', below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 9 <input type="checkbox"/> 4 <input type="checkbox"/> B. Quarter <input type="checkbox"/> 4 <input type="checkbox"/> C. Final FY <input type="checkbox"/> 9 <input type="checkbox"/> 8 <input type="checkbox"/>		

8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY 94			LIFE OF PROJECT		
	B. FX	C. L/C	D. TCTAL	E. FX	F. L/C	G. TOTAL
AID Appropriated Total						
(Grant)	(500)	()	(500)	(1,575)	()	(1,575)
(Loan)	()	()	()	()	()	()
Other U.S.						
1. USAID-BHR	352		352	1,952		1,952
2.						
Host Country						
Other Donor(s)	1,747		1,747	10,519		10,519
TOTALS	2,599		2,599	14,046		14,046

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATION TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1 Grant	2 Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) DA				0		500		1,575	
(2)									
(3)									
(4)									
TOTALS				0		500		1,575	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	
A. Code	
B. Amount	

13. PROJECT PURPOSE (maximum 480 characters)
 The purpose of the project is to transform ACCION affiliates into sustainable institutions that can access formal financial markets and can effectively deliver financial services to the poor.

14. SCHEDULED EVALUATIONS	15. SOURCE/ORIGIN OF GOODS AND SERVICES
Interim MM YY MM YY Final MM YY 06 99	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (specify)

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

17. APPROVED BY	Signature	Date Signed	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
	Title Mark Schneider, Assistant Administrator, LAC		

Handwritten mark

PROJECT AUTHORIZATION

Name of Country: LAC Regional
Name of Project: Sustainable Micro-finance
Number of Project: 598-0820

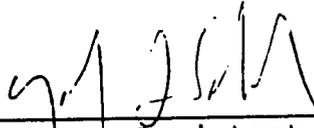
1. Pursuant to Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Sustainable Micro-finance Project for the Latin America and the Caribbean Region involving planned obligations of not to exceed \$1,575,000 in grant funds over a five year period from the date of authorization, subject to the availability of funds in accordance with the USAID OYB process, to help in financing the foreign exchange and local currency costs for the project. The planned life of the project is five years from the date of initial obligation.

2. The purpose of the project is to transform ACCION affiliates into sustainable institutions that can access formal financial markets and can effectively deliver financial services to the poor. The funds will be used to provide technical assistance in accessing financial markets, enhance the capacity of ACCION's Bridge Fund by expanding the Loan Loss Reserve, and for policy analysis/dialogue.

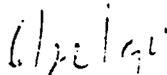
3. The Agreement(s) which may be negotiated and executed by the officer to whom such authority is delegated in accordance with USAID regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions as USAID may deem appropriate:

a. Source and Origin of Commodities, Nationality of Services: Commodities and services financed by USAID under the project shall have their source, origin and nationality the United States, except as USAID may otherwise agree in writing. Local procurement, in accordance with the Agency's Buy America policy, is permitted.

b. Ocean Shipping: Ocean shipping financed by USAID under the project shall, except as USAID may otherwise agree in writing, be financed only on flag vessels of the United States.



Assistant Administrator
Bureau for Latin America and the Caribbean



Date



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

4/15/94

Ms. Maria Otero
Associate Director
733 15th St., NW Suite 700
Washington, D.C. 20005

Dear Ms. Otero:

The Latin America and Caribbean Bureau (LAC) conducted a review of the concept paper submitted by ACCION to the LAC Bureau entitled "Transforming NGO's into financial institutions". The review also took into account the proposal which ACCION has already submitted to the office of Private and Voluntary Cooperation (PVC), as well as ACCION's intention of submitting another proposal to the Small and Microenterprise Office (SMIE) in the Global Bureau.

The review resulted in a decision that the three submissions which ACCION is discussing with USAID all speak to one program focusd on the Latin America and the Caribbean region. Further, the LAC, BHR, and Global bureaus agreed that the proposed program is highly relevant and addresses a critical problem constraining development of the microenterprise sector in the region.

In order to respond appropriately, USAID requests that ACCION submit a unified proposal for what would have been the LAC and Global/SMIE components. This unified proposal should describe how it relates to the BHR proposal and how the various components fit into an overall program.

To facilitate preparation of the proposal, USAID requests that the following specific items be addressed.

-- Project background: The proposal should outline the developmental problem it is addressing. It should describe the program as a whole and how this initiative fits into the current USAID and the Bureau strategy including a statement of ACCION's prior experience in the area. If appropriate, outline the relationship to other donor-funded activities in micro- and small business development and indicate other donors from which ACCION may be seeking funding. Finally, if any part of the program is expected to advance knowledge about microenterprise lending that has broader impacts beyond the region, it should be noted.

-- Project purpose and description: Describe what the project intends to accomplish, the expected results, the number of ultimate clients served, the number of countries and how many institutions in each country will complete the transformation during the project period. Also identify other, second-tier countries where the project will work with financial intermediaries at a relatively early stage of institutional development the transformation of which might not be completed by the end of this activity.

-- Implementation plan: Describe how the project will be carried out, and whether or not sub-grants or contracts will be made, and how and to whom technical assistance will be provided. The core staff and consultants to be utilized for technical assistance should be identified and their expected level of effort analyzed.

-- Project monitoring and evaluation plan: Describe how ACCION intends to monitor the implementation plan and evaluate the results and import of project.

-- Financial plan: Provide a detailed breakdown of personnel, training, commodity and other costs by country and by financial institution, expected contribution by ACCION and from other non USAID sources including other donors. Where multiple USAID funding sources are expected, please show the contribution of each.

We would like to proceed with the proposed activity as soon as possible and look forward to the revised, final proposal. Please send your proposal to me and I will see that it is distributed to appropriate parties within USAID for review and follow-up action.

Sincerely,



Ronald B. Stryker
Bureau for Latin America
and the Caribbean

cc: FA/OP/B/LA:RStanley



April 22, 1994

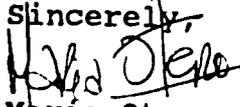
Ronald B. Stryker
Bureau for Latin America
and the Caribbean
USAID
Department of State
Washington, D.C. 20523

Dear Ron,

I am pleased to send you ACCION's proposal to USAID/LAC "Accessing Financial Markets: The Next Phase of Microenterprise Development." It is a five-year project that comprises part of ACCION's overall program for transforming microenterprise institutions in Latin America. ACCION's request in this proposal is US \$1,444,393 over five years.

I am attaching ten copies of the proposal, as well as some additional material that you may find useful.

We hope that you find this proposal acceptable to you. Please let me know if you need any additional information. Thank you for your support.

Sincerely,

Maria Otero
Associate Director

enc.



**ACCESSING FINANCIAL MARKETS:
THE NEXT PHASE OF MICROENTERPRISE DEVELOPMENT**

**A Proposal Presented to USAID, Latin American Bureau by
ACCION INTERNATIONAL**

April, 1994

*Creating Employment and
Economic Opportunities
in The Americas.*

**ACCESSING FINANCIAL MARKETS:
THE NEXT PHASE OF MICROENTERPRISE DEVELOPMENT**

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ACCESSING FINANCIAL MARKETS: THE NEXT PHASE OF MICROENTERPRISE DEVELOPMENT

A Proposal presented to USAID Latin American Bureau
ACCION INTERNATIONAL

I. BACKGROUND

A. History

ACCION International (ACCION) is a private non-profit organization based in Cambridge, Massachusetts that specializes in microenterprise development in the Americas. The purpose of ACCION is the creation of employment and income among the rural and urban poor who operate microenterprises. These enterprises include market vendors and small producers; many of these are run by women who are among the poorest individuals in the hemisphere.

ACCION believes that its purpose is best achieved through the creation of specialized financial institutions that can provide financial services - credit and savings - to the poor in a financially viable manner and on a massive scale. ACCION's strategy has been to work in partnership with private indigenous organizations in Latin America which share ACCION's objective of achieving scale and self-sufficiency in micro-enterprise lending.

ACCION's role in this partnership has been to provide direct ongoing technical assistance to this network of organizations; to encourage and maintain standards of quality and performance in their operations; to serve as a clearinghouse for the cross fertilization and dissemination of project experience; and to play the role of "resource-broker" by actively promoting the interests of these organizations among international donors and assisting them to access funds from the financial systems in their own countries.

B. Evolution of ACCION's Work: Late 1970's - Present

This section summarizes ACCION's evolution in microenterprise development during the last 15 years. It presents it in four stages of development, with each stage serving as a building block for the next. Under each stage, a brief summary of AID's support to ACCION is also presented.

- Late 1970s - Early 1980s: ACCION developed the Solidarity Group Lending Methodology.
During this period ACCION designed and experimented with a peer group lending mechanism for reaching poor producers and retailers with credit and training. This

methodology makes small working capital loans, uses group lending as a type of collateral, lends at commercial or higher interest rates, includes incentives for repayment (such as prompt payment results in a second, larger loan), and reviews and disburses loans quickly (5-7 days on the first loan, one day on subsequent loans).

The solidarity group methodology has proven successful because it responds to the needs of tiny producers, includes incentives to assure high levels of repayment, enables the programs to grow rapidly, and allows them to achieve operational self-sufficiency. By the mid-1980s the methodology had been tested and improved, and was being used by all the ACCION programs. The Solidarity Group concept became ACCION's first technological breakthrough in microenterprise lending.

AID Support. During this period, AID support for ACCION's program consisted primarily of mission supported OPGs to the local organizations which tested this methodology, and which were coordinated through the PISCES program. These funds supported the design and implementation of demonstration projects by financing their loan funds and operating costs, as well as technical assistance.

- Mid 1980s: Program Expansion.

With a lending methodology in place, the emphasis during this period was twofold: to start new programs that made use of the solidarity group methodology; and to increase the size of the existing microlending programs to reach significant numbers (several thousands in each program) and to move towards national coverage. ACCION focused during this time on assisting its network of organizations to develop the staff capacity, appropriate cost structures, and management information systems necessary to sustain program growth and achieve self-sufficiency. During this period programs such as ADEMI in the D.R., PRODEM in Bolivia (precursor to BancoSol), Fundación Ecuatoriana in Ecuador, Fundación Paraguay in Paraguay and ACTUAR in Colombia -- all currently considered leaders in microenterprise lending -- started or expanded their operations. By this time, ADEMI in the D.R. had demonstrated that it could reach several thousand borrowers and achieve self-sufficiency.

AID Support. AID continued to provide funds through OPGs and other mechanisms to the newer programs (Paraguay, Ecuador, Bolivia, Honduras) and supported ACCION through a three-year Matching Grant.

- Late 1980s: Linkages with Local Commercial Institutions: The Bridge Fund.

The growth of programs -- by this time some were lending nearly \$1 million each month -- required additional sources of financing beyond external grants or soft loans. To enable programs to access new and larger sources of capital, ACCION created a guarantee fund with capital from AID, and later private investors, and foundations. This guarantee fund, known as the Bridge Fund, serves as a guarantee against funds borrowed from local banks by ACCION affiliated programs. Through this mechanism ACCION programs began to borrow capital for their loan portfolios and thereby expanded their lending dramatically.

In order to handle borrowed funds and to develop linkages with financial institutions, these organizations had to attain a more sophisticated level of portfolio management and had to improve the efficiency of their operations. ACCION's assistance during this time focused on helping programs build the institutional capacity to take on program expansion and to maintain program quality.

The Bridge Fund became ACCION's second technological breakthrough because it enabled local NGOs to access commercial sources of capital for the first time.

AID Support. AID's major contribution to ACCION during this period was its loan to the Bridge Fund through AID's loan guarantee program. Several new OPGs enabled ACCION to start programs in new countries (Chile, Guatemala), while other missions continued to support existing programs. ACCION was granted a second Matching Grant for five years to increase its technical support to programs in four countries, to support program expansion, and to document and disseminate the experiences from the field. ACCION's series of publications (monographs, discussion papers, and technical manuals) were started during this period.

Early 1990s: Transformation of NGOs into Financial Institutions.

The emphasis on scale and self-sufficiency led ACCION to identify the inherent limitations to the traditional NGO model. Because traditional NGOs are not legally constituted as financial institutions, they cannot capture savings, or intermediate with other financial entities. NGOs have to limit themselves to extending credit and financing it through external grants of soft loans (i.e. IDB) or expensive commercial loans. In addition, in many Latin American countries, commercial loans without tangible collateral are limited by law. ACCION concluded that achievement of its objectives required the creation of financial institutions that specialized in reaching the poor with financial services and that became part of the financial system in their countries.

The first organization to bump up against the constraints of the NGO model was PRODEM in Bolivia, which in 1989 began the process of transforming itself into a bank. After a complex and lengthy process, PRODEM was converted into the first commercial for profit microenterprise bank in Latin America, BancoSol, which began operations in early 1992.

During this time ACCION founded a training and support center, Centro Acción Microempresarial, based in Colombia, designed to address the basic organizational needs of the programs as they undergo massive growth and transformation. This center operates as part of ACCION's Latin American Operations Department (see organizational chart).

AID Support. AID continued its support of the Bridge Fund with an additional loan and funds to research innovative financial mechanisms. USAID/Bolivia supported the creation of BancoSol by approving the transfer of PRODEM's portfolio (originally funded through an OPG) to BancoSol in exchange for shares.

C. Results

Program Growth and Clients Reached. At the end of 1993, the combined results and impact of the affiliated organizations in 14 countries that make up ACCION's network are impressive:

- A total of US \$199 million was loaned during 1993 alone, with an average loan of US \$489.
- The combined outstanding portfolio of these institutions totaled US \$ 97 million
- The programs reached nearly 220,000 individual microentrepreneurs, of which over half were women; and
- The overall late payment rate (in excess of 30 days) is between 4 and 5%. The overall loss rate of these programs has been maintained below 2%.

As part of this process, ACCION has built a strong network comprised of organizations that share the same objectives. These organizations are affiliated to ACCION through a formal agreement which outlines the terms of the relationship, including the responsibilities of each institution. The network enables its members to engage in cross fertilization visits, to advance their learning in the field together and to attempt to influence policy in their own countries.

The table below shows the rapid growth pattern of these programs in the last five years, when growth began in earnest. Particularly telling of the growth is the increase in the size of the portfolio, from US \$8.4 million in 1989 to US \$97 million five years later.

TABLE ONE
ACCION INTERNATIONAL
Consolidated Statistics for 1989-1993

	1989	1990	1991	1992	1993*
Year end out-standing portfolio US \$ millions	\$8.4	\$13.5	\$26.1	\$55.7	\$97
Total amt. lent/yr. US \$ millions	\$22.1	\$38.1	\$63.0	\$113.4	\$199.7
Total no. loans	89,929	138,434	182,933	276,268	408,506
Average size loan (US \$)	N/A	\$276	\$345	\$411	\$489
Late payment rate	7.99%	8.28%	7.14%	4.67%	4.63%
Active clients	37,982	68,423	96,667	147,476	219,914
Active clients % women	53%	56%	56%	52%	54%

*Estimated

Outstanding portfolio calculated as:

TOTAL AMOUNT LOANED BY PROGRAM less (TOTAL AMOUNT PAID BACK + TOTAL AMOUNT WRITTEN OFF)

Late Payment % = $\frac{\text{Loan payments} > 30 \text{ days late}}{\text{Outstanding Loan Portfolio}}$

Active Clients = Clients with Loans outstanding at Year End

Self-sufficiency. Nearly all of the ACCION programs initially financed through OPGs have become operational and financially self-sufficient. With the exception of Guatemala, none of these programs continue to receive funds from AID or other donors to cover their operating costs. They have become examples of sustainable programs.

Transformation into Financial Institutions. Three NGOs have established financial institutions: BancoSol in Bolivia, ACTUAR/Bogota in Colombia, which has started a finance company, FINANSOL, and ADMIC in Mexico which has started a special purpose finance company, FINMICRO. Several of ACCION's affiliates in other countries are also interested in mobilizing savings and accessing local and international financial markets for capital, and are also beginning to explore this process of transformation. Programs in Guatemala, Ecuador, and Paraguay are moving towards transformation and examining various alternatives.

II. ACCION'S STRATEGY FOR MICROENTERPRISE DEVELOPMENT

In 1991, ACCION launched a campaign known as "EL GRAN SALTO," designed to dramatically increase the scale of operations of its affiliate programs and to promote the transformation of NGOs into financial institutions. While ACCION affiliates were not all at the same level of development, ACCION believed that this campaign would accelerate the evolution of its affiliate organizations towards financial intermediation.

A. Background: Conceptual Framework

On the basis of program growth during the last five years, ACCION has identified four major phases in the transformation process of institutions, as programs evolve from newly established NGOs with heavy reliance on donated funds (level one) to sophisticated financial intermediaries able to access wider sources of capital (level four).¹ The following graph depicts the relationships between the four levels of development, indicating program evolution vis-a-vis cost coverage, interest rate policies, and diversity of capital funding sources. It is presented here to help clarify how ACCION sees the progression of its affiliate programs and relates this to the services and technical assistance that it provides. Not all programs need to start at level one; new ACCION programs attempt to start close to level three.

¹ This idea is developed more fully in Rhyne and Otero, "Financial Services for Microenterprises: Principles and Institutions," in Otero and Rhyne, eds. The New World of Microenterprise Finance. Kumarian Press, 1994. pp.11-26.

**TABLE TWO
FOUR LEVELS OF DEVELOPMENT IN MICROENTERPRISE PROGRAMS**

	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 4
COSTS	<ul style="list-style-type: none"> *High Operating costs *Repayment rates mixed *No cost of funds 	<ul style="list-style-type: none"> *Lower costs by adapting technology *Loan loss decreases *Cost of funds arise as programs borrow 	<ul style="list-style-type: none"> *Low costs with efficiency *Loan loss not eliminated but much lower *Transition to (near) commercial sources 	<ul style="list-style-type: none"> *Increased efficiency *Loan loss low *Savings *Commercial sources of funding
INCOME (fees & interest)	<ul style="list-style-type: none"> *Interest rate negative *Unable to cover operating costs 	<ul style="list-style-type: none"> *Commercial interest rate *Able to cover most operational costs, maybe reserves 	<ul style="list-style-type: none"> *Almost full cost pricing *Income & Fees *High interest rates compared to commercial rates 	<ul style="list-style-type: none"> *Full cost pricing *Full financial viability

INTEREST RATES

NEAR COMMERCIAL COMMERCIAL HIGHER FULL-COST

SOURCES OF CAPITAL

DONATIONS SOFT LOANS COMMERCIAL BANKS SAVINGS AND
FINANCIAL
MARKETS

B. Rationale

ACCION bases its rationale for this "GRAN SALTO" campaign on two factors. First, the demand for financial services among the economically active poor in Latin America continues to grow. More and more people enter the labor force through the informal sector, but their need for capital is not being met by any formal financial institution. Lack of access to capital dramatically curtails their ability to maintain their jobs, earn income, be productive, and contribute to the economic growth of their countries. Second, the experience of the last few years demonstrates that financial services can be made available to this sector through institutions that are sustainable in the long term and that do not have to depend on donor funding to operate. This promising approach at sustainable development makes it important to create this capacity to deliver financial services to the poor in every country.

C. Description of ACCION's Strategy

On this basis, the ACCION network set the following goals for a five-year period (1991-1995):

- To provide credit to 748,000 new microentrepreneurs in Latin America;
- To disburse over five years a total of US \$1 Billion;
- To maintain a loan loss rate below 2%;

To accomplish these goals, ACCION's strategy defines two major areas of assistance that ACCION must provide to its affiliates. The first, technical assistance, is broadly defined as the provision of technical support in a wide range of areas to enable the institutions to develop the capacity to grow, to manage their growth, to achieve self-sufficiency and to take the leap into becoming financial institutions. ACCION will make use of Centro Acción in Colombia, as well as its own staff.

The second area of ACCION's support consists of the provision of financial services to the affiliates to enable them to access new sources of capital including commercial sources. Without additional access to capital the programs cannot grow, regardless of how well prepared they are to take on this growth. These services currently include:

- The Bridge Fund, ACCION's loan guarantee fund, which currently totals \$5.7 million. In addition to AID funds from the MSED Program, this fund is financed by private individuals who make loans to ACCION and are part of the "socially responsible investment community" in this country, as well as through loans from private foundations (Ford Foundation), and socially responsible investment funds (the Calvert Fund), and several religious institutions, such as the Episcopal Church.
- The Gateway Fund, ACCION's equity fund which makes equity investments to support NGOs that establish financial institutions, such as BancoSol in Bolivia and ACTUAR in Colombia. This fund was started when ACCION

invested in BancoSol and is financed through funds from private donors. The IDB, through the MIF, will most likely make a \$3 million loan to the Gateway Fund in 1994. Prospects for approval look very good.

III. GOAL AND PURPOSE OF THIS PROJECT

The goal of this project is to advance the capacity of microenterprise institutions to reach greater scale by becoming specialized financial institutions. Assisting this transformation process from non-profit organizations to formal financial entities, capable of accessing financial markets on a commercial basis, is ACCION's key challenge over the next five years. To meet this challenge through this project ACCION seeks to:

1. provide technical assistance to emerging financial institutions;
2. improve the capacity of these institutions to access capital from financial markets; and
3. address key policy areas related to the legal, supervisory and regulatory environment in which these institutions operate.

A. Relationship Between this Proposal and ACCION's Matching Grant Proposal (currently under consideration)

The activities in this proposal complement those of the Matching Grant Proposal presented by ACCION to AID/PVC in January 1994. Each proposal to AID addresses different key components of ACCION's strategy, and together comprise a program for transforming NGOs into formal financial institutions.

The Matching Grant Proposal focuses on the institutional strengthening of ACCION's affiliate institutions in four countries -- Bolivia, Guatemala, Ecuador and the Dominican Republic. Its emphasis therefore looks inward into each institution and seeks to improve their capacity to manage growth, and to build additional capacity to continue growing. The Matching Grant proposal focuses on the internal workings of the institution and makes use of diagnostic tools, particularly the CAMEL and Organizational Development tools to assist these institutions in identifying and addressing their weaknesses.² Its goal is to help establish in each case the institutional base necessary for massive growth, which in most cases will include the transformation of the NGOs into financial institutions or, as is the case in BancoSol, the continuation of a transformation process already underway. The Matching Grant will support the salaries of a specialist in Organizational Development and a Financial Analysis person who will work on improving the internal systems of the organization, as well as part of the salaries of other persons involved in the project.

² CAMEL stands for Capital Adequacy; Asset Quality; Management; Efficiency; and Liquidity. It is a tool for conducting a complete financial analysis of the institutions.

By contrast, this proposal to AID/LAC will enable the organizations to look outward in order to address their capital needs. This project seeks to prepare these institutions to access financial markets and to test different financial instruments that they can use. Once institutional capacity and performance quality are established, these institutions must develop links with other financial institutions and enter into new relationships with them in order to access the funds necessary for growth. Without access to funds from the financial markets, these affiliates will not be able to achieve their goal.

B. Relationship of Proposal to USAID and Bureau Strategy USAID's new Economic Growth strategy seeks to promote broad-based, sustainable growth by addressing the factors that enhance the capacity for growth and by working to remove obstacles that stand in the way of individual opportunity. Small and microenterprise is highlighted in USAID policy statements as a particularly useful focus for sustainable, participatory development efforts. This proposal is particularly applicable to the agency and the bureau strategy not only because it addresses microenterprise, but because it seeks to build sustainable institutions that assure the participation in the financial system of many previously marginalized businesses. Further, it assures that the poor and women in particular are reached through these institutions, both of whom are highlighted in agency directives on microenterprise.

IV. SELECTION OF COUNTRIES FOR PROJECT IMPLEMENTATION

ACCION will select two tiers of countries to participate in the proposal. The first tier will receive the greatest attention with technical assistance, financial services, policy analysis and policy dialogue applied more intensively. The second tier countries will participate in all program components but will receive a lower level of effort. The criteria established for selecting countries is as follows:

- First Tier: Countries with programs most prepared to undertake financial intermediation, and to access financial markets;
- Second Tier: Countries with programs at a slightly lower level of development but moving in this direction; and countries where the experiences in financial markets are advanced and provide good learning opportunities.

Following this criteria the following countries and programs will make up the two tiers:

- First Tier: Bolivia (BancoSol); Colombia (ACTUAR/FinanSol); Dominican Republic (ADEMI); Ecuador (Fundacion Ecuatoriana de Desarrollo); Paraguay (Fundacion Paraguaya); and Guatemala (Genesis).
- Second Tier: Mexico (ADMIC); Argentina (Emprender), Chile (Propesa), Nicaragua (FAMA), Peru (ACP).

While these are the countries of focus, the project retains a regional characteristic

because the learning obtained through its activities, especially those described below under research of new initiatives and policy dialogue, could be applied to other institutions and countries, either directly through this project or through other efforts.

V. PROJECT DESCRIPTION

A. Component One: Technical Assistance in Accessing Financial Markets

ACCION will provide its affiliates with necessary technical assistance to enable them to undergo the transformation necessary for achieving access to commercial financial markets, and thereby expanding their operations on a massive scale. This technical assistance will help the affiliates develop the internal capacity to interact with the players of the commercial financial market including, but not limited to, bond underwriters, rating agencies, investment bankers and portfolio managers.

ACCION proposes two major activities under this component: (1) the development and utilization of business plans; and (2) the provision of support for affiliate specific efforts to access the financial markets through the issuance of financial instruments and other research and development initiatives which will eventually benefit the entire network of affiliates interested in transforming themselves into financial intermediaries. Both activities are described in further detail as follows.

1. Business Plans

Description

ACCION will introduce the discipline of a rigorous, internally coherent multi-year business plan across the ACCION network. Very few affiliates have business plans that undertake a comprehensive review of the institution and its environment and that address future goals in a systematic manner which incorporates the full implications on funding, human resources, cost structures and profitability. Such a review in the form of a business plan will be required by the formal financial sector. Its absence will result in a lack of generalized interest from the commercial markets. In addition, the process of preparing a business plan is highly beneficial to the organization as it elevates the quality of analysis and functional integration in its decision-making. To date, ACCION has started the process of developing a business plan with Bolivia's BancoSol and with Paraguay's Fundación Paraguaya de Cooperación y Desarrollo.

Proposed Activities

The goal for 1994-95 is to continue the work initiated with BancoSol and Fundación Paraguaya, and to begin the Business Plan process in four ACCION affiliates. They will most likely be ADEMI (Dominican Republic) and Fundación Ecuatoriana de Desarrollo (FED; Ecuador), considered first tier countries. Also under consideration for these two

years are FAMA (Nicaragua), and Emprender (Argentina), both second tier countries. There will be five on-site technical assistance visits taken in 1994 related to the development and implementation of the business plan. A total of 7 on-site technical assistance visits will be taken during 1995 related to the Business Plan process.

During 1995 ACCION also will work with two more organizations to complete business plans and assist in their implementation. ACCION will also continue to monitor the progress of the other programs in implementing their business plans. By 1996 business plans will be implemented throughout the countries in the first tier and several in the second tier, with close coordination with those programs capable of accessing financial markets on a commercial basis. A review and adjustment of the quality of the Business Plans will be undertaken in 1997, giving priority to those programs accessing or about to access financial markets.

Annex 2, "La Planificacion Empresarial: El Business Plan" details the process for conducting these plans with each organization. First, terms of reference are drawn up between ACCION and the institution which prepares for the first visit by the ACCION team (usually two people) by gathering certain information, and then works with the team in outlining the content of the business plan (using the format in Annex 2). The team makes subsequent visits to assist in the completion of the Business Plan. Subsequent technical assistance visits are designed to help the organization assure the proper implementation of the plan.

2. Technical Assistance in Issuance of Financial Instruments and Research and Development Initiatives.

Description

ACCION will directly support the efforts of the leading programs in the network to directly access the financial markets through the issuance of financial instruments such as bonds, certificates of deposit and equity. This includes the provision of technical assistance in the structuring of the financial instrument and in some cases, ACCION will also find buyers for the financial products. In addition, ACCION will carry out research and development efforts in areas such as securitization, derivative instruments and innovative uses of guarantees, among others. Since there has been little experience to date in this area as related to the microenterprise field, it essentially represents research and development that hopefully will advance the learning curve and the practice in this field.

Proposed Activities

a. Issuance of specific instruments into the financial markets. ACCION will provide technical assistance to the affiliates in the emission of debt in its various forms (interbank loans, senior bank facilities, notes and bonds, private or public, subordinated, convertible, etc) or equity (common, preferred). This support will be as a consultant in the design of

both the overall financing plans and the specific obligations, the analysis of proposals and the negotiation of terms and conditions.

During 1994 ACCION will provide specialized counsel to BancoSol to "test the waters" in international capital markets in the efforts to cover the bank's US \$ 90 million funding requirements (projections for 1994 - 1997). ACCION will contact leading commercial and investment bankers in the Latin American and international debt markets to identify the firms that are both capable and interested in placing BancoSol paper. At least two or more meetings between BancoSol and representatives from the commercial financial markets will be arranged in 1994. Initial conversations with the Bank of Boston, Scudder, Stevens and Clark, and the Calvert Fund have shown that there is interest in these instruments.

ACCION will also continue supporting the efforts of FINANSOL, the finance company of ACTUAR Bogotá (Colombia), to issue additional equity as well as bonds in 1994. During the year, ACCION will also start exploring possibilities of assisting in the issuance of financial instruments by the affiliates in Paraguay, Ecuador, and Guatemala, and reviewing the Dominican Republic's on-going efforts to raise non-traditional funds. In 1995-1997, ACCION will extend this financial consulting expertise to the rest of the first and second tier countries as the programs begin to access the financial markets. ACCION expects to work closely with ADEMI (Dominican Republic), Fundación Paraguay and possibly ADMIC (Mexico) in the issuance of financial instruments.

b. Brokerage Services. As mentioned above, ACCION will obtain funds from third parties for a fee in representation of its Latin American affiliates. For example, ACCION will represent BancoSol in the placement of certificates of deposits to U.S. investors. ACCION will approach both commercial sources such as pension funds, investment firms and commercial banks as well as the socially responsible investment community.

Other potential candidates for brokerage services include ADEMI (Dominican Republic), Fundación Paraguaya, Fundación Ecuatoriana de Desarrollo, ADMIC (Mexico), PROPESA (Chile) and FINANSOL (Colombia). The depth and scope of work for brokerage services will evolve in conjunction with the design and issuance of financial instruments. ACCION will undertake to broker the financial instruments of two affiliates during 1995-97.

c. Research and Development Efforts

1. Securitization. ACCION proposes to explore the area of securitization of affiliate loan portfolios, a financial vehicle which holds great promise but is to date unproven. Securitization is a way by which a portfolio of individual, non-investment grade and/or non-rated credits may be transformed into a synthetic security which then is pooled and structured so the portfolio is considered investment grade and therefore saleable to portfolio buyers such as U.S. pension funds and insurance companies. By transforming the

affiliate loan portfolios into investment-grade securities, the affiliate can tap into a heretofore unavailable and very large pool of funds (due to fiduciary legal requirements which oblige insurance companies and pension funds to purchase only rated investment-grade obligations).

Due to the complex nature of securitization and the requirement that recognized financial institutions provide the "credit enhancement" to obtain an investment-grade rating, only a few programs can be considered potential candidates at this time. Among those are BancoSol (Bolivia); FINASOL (Colombia); Genesis (Guatemala); Propesa (Chile); and Ademi (Dominican Republic). ACCION will study securitization's potential for microenterprise lending and try to apply it in at least one country. Once there is in-house expertise and experience, ACCION will be able to assess its replicability in other first and second tier countries.

2. Derivative Instruments. The extensive development of the derivatives market in the last few years opens the possibility of using sophisticated versions of currency and interest rate swaps to manage the risks incurred in the international financial markets when investing in Latin American instruments. In addition to hedging the risks inherent in any cross-border investment, the derivatives market may provide the opportunity to handle a multi-currency basket of obligations, enabling the issuance of a financial instrument backed not by the loan portfolio of a single program but the loan portfolio of various affiliated programs. ACCION intends to explore alternatives such as these with the specialist institutions to identify ways in which the derivative markets can be used. While there can be no assurance that cost-effective ways will be found to reduce currency and interest rate risks, ACCION feels that the derivatives market is a prime area for research and development.

3. Innovative Uses of Guarantees. ACCION's Bridge Fund currently uses letters of credit as guarantees to financial institutions in Latin America which onlend to the affiliates based upon the guarantees. ACCION will explore other innovative ways of using guarantees as a form of credit enhancement to facilitate the affiliates' direct access to the financial markets. Such guarantees may assume a percentage of the risk of a bond issuance by an affiliate or may take the form of subordinated debt in a note offering. ACCION could consider the use of guarantees in enhancing the risks perceived in the purchase of Bolivian bank deposits in the case of Bancosol, for example. This is an area that requires research to assess its applicability but such guarantees could play a catalytic role in attracting investors in an initial approach to the commercial markets.

ACCION will undertake research and development initiatives in at least three countries during 1994-97. Those countries will most likely be Bolivia (Bancosol), Colombia (FINANSOL), and one other First Tier country.

B. Component Two: Enhancing the Capacity of the Bridge Fund by Expanding the Loan Loss Reserve

ACCION proposes that AID provide funding in the amount of \$300,000 to the Bridge Fund's loan loss reserve over a three year period. Support of \$300,000 to the loan loss reserve would leverage 30 times this amount in loans. Given the average portfolio rotation of two to three times during a one year period, the \$3 million in new credit made available to the affiliates would be used to extend from \$6 to \$9 million in loans in one year.

The Bridge Fund

The Bridge Fund, ACCION's guarantee vehicle, continues to play a very important role in the financing of the affiliate's loan portfolios. Year after year affiliate demand for Bridge Fund letters of credit has outstripped supply. Presently, 14 programs in nine countries utilize the Bridge Fund; with the exception of ADEMI (Dominican Republic) which is not a a guarantee recipient, these programs are the largest in the ACCION network.

The Bridge Fund has opened the doors of the formal financial sector for ACCION's affiliates, allowing them access to an otherwise unavailable source of financing. By using the Bridge Fund, the affiliates gain access to a more abundant and steady supply of monies, and the formal banking sector becomes educated as to the viability of micro-enterprise lending. As commercial banks become more familiar with the programs, they require a reduced percentage of the loan to be guaranteed. In this manner, the programs are able to achieve greater and more significant leverage.

On average, Bridge Fund letters of credit represent only 50% of the credit facilities they back. In some countries such as Colombia, the leverage is even greater with letters of credit backing 25% of the losses under a credit facility or a leverage of four to one. Currently, the US \$ 5.7 million in letters of credit from the Bridge Fund back approximately US \$ 9.4 million in loans to ACCION affiliate programs. This leveraged amount represents 13% of the entire loan portfolio of Bridge Fund borrowers and 10% of the ACCION affiliate network. This percentage has actually fallen in recent years due to the success that some affiliates have had in obtaining bank financing without guarantees. ADMIC, ACCION's Mexican affiliate, was able to reduce its guarantee requirements by US \$300,000 in 1993 due to a new source of bank funds that did not require collateral. Other important borrowers such as Bancosol and ACTUAR Bogotá have become formal financial intermediaries and can access loans and/or deposits directly from the financial markets. However, this opens the possibility of deploying guarantees in new and creative ways that have previously not been possible.

Although some affiliates have reduced their usage of the Bridge Fund due to to their ability to directly access the financial markets, many important affiliate programs remain

very dependent on Bridge Fund guarantees to fund their growth. Usage of the Bridge Fund is projected to grow at a pace which will require that US \$ 1.8 million be raised annually in loans for the guarantee fund until 1997. However, the ability to issue letters of credit based on those funds is contingent upon meeting the loan loss reserve requirement which must be funded with donations.

Loan Loss Reserve

ACCION maintains a funded loan loss reserve equalling 5% of outstanding Bridge Fund letters of credit. The current reserve has been funded by grants from the Public Welfare Foundation, Morgan Guaranty, the Cudahy Fund, the MacArthur Foundation and several individuals.

The loan loss reserve offers a second layer of protection for Bridge Fund lenders against the possibility of default by ACCION affiliates. The reserve that would be hit first is the local loan loss required to be maintained by all affiliate programs. This local loan loss reserve varies between 2% and 5% of the affiliate's loan portfolio depending on its historical loan loss record. In the event of a default, the affiliate program is required to first exhaust its local loan loss reserve before the Bridge Fund taps into its own loan loss reserve.

The Need to Expand the Loan Loss Reserve

The reserve is currently capitalized at \$315,629, of which \$100,000 is designated as a reserve against USAID's original \$1,000,000 loan. Demand projections for Bridge Fund letters of credit over the next four years reveal that ACCION affiliates will require approximately \$2 million in new letters of credit each year. Consequently, the loan loss reserve funding requirements are substantial even after taking into account any potential letter of credit repayments. In addition, ACCION's goal has been to gradually increase the reserve to 10% of outstanding letters of credit by the end of 1995 (7% in 1994). ACCION's Gran Salto goals are ambitious and may carry with them a greater level of risk. ACCION is carefully monitoring the much faster rate of growth of its affiliate network and is providing the necessary technical assistance to achieve the simultaneous goals of growth and financial viability. However, ACCION believes that the prudent course of action requires that it increase the Bridge Fund loan loss reserve to 10 percent.

We project that the Bridge Fund will have \$6.8 million in outstanding letters of credit by the end of 1994, at 7% the loan loss reserve would need to equal \$479,000 in order to fully place these funds. In order to place the projected \$11.2 million in outstanding letters of credit by the end of 1997, the reserve would need to increase to a total of \$ 1.12 million.

Given the current level of the loan loss reserve (\$315,629), ACCION must raise in donated funds approximately \$800,000 by 1997 in order to issue the total amount of letters

of credit that the programs require during the period. ACCION requests US \$300,000 under this proposal and plans to raise the remaining \$500,000 from private sources.

C. Component Three: Policy Dialogue

Description

An effective and efficient financial system requires sound financial institutions that operate within an enabling regulatory and legal framework. Governments in Latin America have been engaged in financial policy reforms, and have paid particular attention to policies that curb inflation and financial liberalization of the financial systems. Some countries have advanced considerably and have much stronger financial systems and supervisory structures today than a few years ago.

The objective of this component is to examine regulatory and supervisory policies and how they foster the adequate provision of financial services to the poor, and to disseminate these findings to policymakers. This will be done in the context of ongoing financial policy reforms and changing financial and capital markets in each country.

The focus of this component will be to engage policymakers in discussions about policies from the perspective of how these apply both to microenterprise lending and to the creation of specialized financial institutions. There is little knowledge on the part of policymakers regarding the recent breakthroughs in this area, including the creation of BancoSol and FINANSOL. Our goal will be to inform them of these advances and to explore with them the policy implications these bring. The emphasis will be to reach supervisory agencies (superintendencies) and bank regulators.

Proposed Activities

1. Policy Essays ACCION will write or commission the writing of short essays on issues related to policy change. For example, specific aspects of the legal and regulatory framework as these pertain to microenterprise finance institutions will be addressed. While there is a vast literature of information on these topics, there is almost nothing written on how specific policy reforms adversely or positively affect the provision of financial services to the poor. Also, few policymakers are aware of the successful efforts in building financial institutions for the poor and the degree of sophistication that these have attained. These writings would serve to inform them by presenting case studies that focus specifically on topics of interest to them, for example, level of risk in this type of lending, monitoring and internal control mechanisms in use, market demand for these services, ownership structures of these institutions, supervisory systems established in some countries, and others.

ACCION will produce and publish up to five policy-related essays during the project period designed to reach policymakers in the countries where the project operates.

2. Policy Dialogue. ACCION will disseminate these essays and will enter into direct dialogue with policymakers. These exchanges will take place through the local affiliate

institution in each country which will assist in establishing relationships and will participate in meetings. In addition, ACCION and its local affiliates will conduct short seminars, working lunches or other events directed at policymakers on the topics covered by the documents. The goal is to organize up to fifteen such events during the course of the project.

ACCION will organize one two-day conference for high level economic and financial policymakers of various countries (particularly Mexico, Bolivia, Chile, Colombia) to address the issues related to supervision and control of financial institutions and their relationship to the creation of microenterprise financial institutions. There is considerable interest and advance in this area of inquiry, including regulatory changes in some countries, such as Bolivia. The timing for this event, at a regional level is very good.

3. Cross-Fertilization Visits. ACCION will invite high level policymakers, private sector leaders and government officials to visit relevant institutions in other countries in and outside Latin America to expand their knowledge of microenterprise lending and to assist them in making the connection between policy changes and the creation of specialized financial institutions. Policymakers will visit the most advanced programs, for example, those in Indonesia, Bangladesh, Bolivia, Colombia and others. A total of up to five trips will be completed each year.

VI. PROJECT MONITORING AND EVALUATION

The project monitoring proposed for this project will be designed in a way that will enable ACCION to measure various results expected from this project. These fall under three general categories: 1) Increase in scale, measured by the growth of the programs, in terms of the number of additional clients they reach; 2) program performance, measured through various indicators of financial health; and 3) capacity to access financial markets.

The following are indicators with goals established under each category which will be monitored during the five years of the project. At the end of year two of the project, ACCION will assess the adequacy of these goals, given project evolution to date, and will adjust them up or down. For example, it may be that the program growth calculations are too conservative and need to be increased, or that the incorporation of new financial instruments is too ambitious and must be reduced.

**INDICATORS TO BE MONITORED
TIER I & II COUNTRIES ONLY**

CATEGORY I: PROGRAM GROWTH	YEAR				
	1	2	3	4	5
A. New clients ('000)	120	135	145	150	155
B. Women clients (%)	52%	52%	52%	52%	52%
C. Amount Loaned ('000)	\$260,000	\$338,000	\$423,000	\$508,000	\$609,000
D. Loan Portfolio Outstanding ('000)	\$130,000	\$169,000	\$212,000	\$254,000	\$305,000
E. Jobs Strengthened*	210,000	236,000	254,000	282,000	271,000

* Assuming 1.75 jobs created/strengthened per new client

CATEGORY II: PROGRAM PERFORMANCE	YEAR				
	1	2	3	4	5
A. Average Size Loan	\$545	\$600	\$660	\$725	\$800
B. Operational Self Sufficiency *	97.0%	97.0%	98.0%	98.0%	99.0%
C. Financial Self Sufficiency **	82.0%	82.0%	83.0%	83.0%	83.0%
D. Late Payment Rate ***	5.5%	5.5%	5.5%	5.5%	5.5%
E. Default Rate	2.0%	2.0%	2.0%	2.0%	2.0%

* Ratio of Program Income (Interest, fees, other oper. inc. excl. donations) : Program Expenses (Salaries, financial costs, other operational costs).

** Ratio of Program Income : Program Expenses + Net worth adjustment for inflation.

*** Ratio of Past due payments in excess of 30 days : Total portfolio outstanding.

CATEGORY III: ACCESSING FINANCIAL MKTS.	YEAR				
	1	2	3	4	5
A. Percentage Loan Portfolio Guaranteed by Bridge Fund	13%	15%	15%	20%	20%
B. Number of Programs Accessing Financial Markets on Commercial Basis*	2	3	4	6	8
C. Percentage of Portfolio Funded by Financial Markets on Commercial Basis*	30%	40%	50%	60%	70%
D. Number of Research & Devel. Initiatives	1	2	2	3	4

* Excluding conventional bank loans

ACCION requests that an outside mid-term evaluation be conducted during the third year of the project, as well as a final evaluation. Funds for these evaluations are not included in the project budget. ACCION proposes that AID contract evaluators for this task and that ACCION participate in drawing up the terms of reference for the evaluations.

VII. PROJECT MANAGEMENT AND IMPLEMENTATION

A salient characteristic of this program is the technical assistance and financial intermediation role which ACCION will play on behalf of its affiliates. Rather than each affiliate seeking out this information individually, and testing and implementing financial instruments on their own, ACCION proposes to secure and manage enough resources to work very closely with several institutions to benefit the entire network of affiliates interested in transforming themselves into financial institutions.

This project will be managed and implemented from ACCION's headquarters in Cambridge, Mass. Currently reporting to the Executive Director are three departments which support the activities of the affiliates and are involved in this proposal.

- The Department of Latin American Operations will manage the project and carry out the day to day coordination of its activities, working very closely with the Directors of the affiliate organizations in all phases of the project.
- The Department of Financial Services will participate in Components one and two of the proposal; and
- Department of Policy, Research and Dissemination will participate in Component three.

ACCION will make use of its staff with expertise in these topics. The following staff will provide some of their time to this project:

- William Burrus: As Executive Director of ACCION (14 years), he will oversee the proper implementation of the project. He holds an MA degree in International Management from Thunderbird.
- Cathy Quense: As Director of Finance and Administration, Ms. Quense will be responsible for the financial management of the project. She is a graduate of Harvard's John F. Kennedy School, and has been with ACCION for ten years.

- **Michael Chu:** As Director of the Latin American Operations, he will be responsible for the overall management of the project and will coordinate Component One, Technical Assistance. Mr. Chu has an MBA from Harvard and was a Senior Executive on Wall Street for several years before joining ACCION. He was on ACCION's Board of Directors for four years and has been on staff for almost one year.
- **Sonia Saltzman:** Ms. Saltzman will manage the second component of the project. Ms. Saltzman is Director of the Department of Financial Services, has been on the ACCION staff for seven years and was previously a senior loan officer at Bank of Boston.
- **Maria Otero:** Ms. Otero will manage the third component of the project, Policy Dialogue. Ms. Otero holds a degree from Johns Hopkins SAIS, is currently Associate Director, and has been with ACCION for eight years.

ACCION's Latin American Operations Department will hire a senior executive whose responsibility will be to work with affiliated programs to enable their access to financial markets. This work will entail the implementation of the key changes necessary to make the affiliate measure up to the requirements of the commercial market, from identifying what those requirements are through past expertise and ongoing relationships with the investment banking community, to working closely with the affiliate to bring about those changes. In addition, this executive will work closely with Financial Services, supporting their efforts to obtain resources for the affiliates. Accordingly, the new executive's role will be, on one hand, to "interpret" the commercial financial markets to the affiliated programs and, on the other, to help "sell" the network programs to the commercial financial markets.

ACCION will also hire consultants through the course of the project to investigate specific topics in accessing financial markets, to assist in experimenting with their use, and to perform activities in the area of policy dialogue. These consultants will come from the investment banking sector and other related areas, and will have relevant expertise in these areas.

VIII. PROJECT BUDGET: FIVE YEARS

What follows is the 5-year project budget request from USAID for a total of US \$1,444,393, as well as the explanation under each line item. This budget does not reflect the total costs of ACCION's program but only the request from AID under this proposal. ACCION can make available the overall financial plan for the next 5 years for its overall program in Latin America.

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
BUDGET FOR THE PERIOD 7/1/94 - 6/30/99**

I. SUMMARY BUDGET

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
COST ELEMENTS:						
A) Salaries	\$64,100	\$67,305	\$70,670	\$74,204	\$77,914	\$354,193
B) Fringe Benefits	\$16,025	\$16,826	\$17,668	\$18,551	\$19,478	\$88,548
C) Travel, Transportation & Per Diem	\$41,060	\$43,113	\$56,169	\$47,532	\$49,909	\$237,782
D) Procurement	\$30,000	\$26,250	\$27,563	\$28,941	\$30,388	\$143,141
E) Other Direct Costs	\$30,000	\$31,500	\$33,075	\$34,729	\$36,465	\$165,769
F) Indirect Costs	\$28,044	\$29,448	\$30,918	\$32,464	\$34,087	\$154,959
G) Loan Loss Reserve	\$100,000	\$100,000	\$100,000	\$0	\$0	\$300,000
TOTAL:	\$309,229	\$314,440	\$336,062	\$236,420	\$248,241	\$1,444,393
PROGRAM ELEMENTS:						
II. TECHNICAL SUPPORT	\$92,915	\$84,936	\$99,683	\$104,667	\$109,900	\$502,100
III. FINANCIAL INSTRUMENTS	\$135,610	\$137,391	\$138,260	\$41,223	\$43,284	\$496,768
IV. POLICY DIALOGUE	\$47,979	\$47,753	\$61,040	\$52,647	\$55,280	\$264,699
V. PROGRAM MANAGEMENT	\$32,725	\$34,361	\$36,079	\$37,883	\$39,777	\$180,826
TOTAL:	\$309,229	\$314,440	\$336,062	\$236,420	\$248,241	\$1,444,393

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
BUDGET FOR THE PERIOD 7/1/94 - 6/30/99**

II. TECHNICAL SUPPORT BUDGET

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
PROGRAM ELEMENTS						
A) Salaries (titles/rates/#days) Dir. Financial Markets 120 days @ \$250	\$30,000	\$31,500	\$33,075	\$34,729	\$36,465	\$165,769
Subtotal Salaries	\$30,000	\$31,500	\$33,075	\$34,729	\$36,465	\$165,769
B) Fringe Benefits 25% of salaries	\$7,500	\$7,875	\$8,269	\$8,682	\$9,116	\$41,442
C) Travel, Transportation & Per Diem						
1) Domestic: WDC-Boston 6 trips @ \$500 + 2 days @ \$145	\$4,740	\$4,977	\$5,226	\$5,487	\$5,761	\$26,191
2) International: Bos. - L. Amer. 6 trips @ \$1200 + 5 days @ \$145	\$11,550	\$12,128	\$12,734	\$13,371	\$14,039	\$63,821
Subtotal Travel	\$16,290	\$17,105	\$17,960	\$18,858	\$19,801	\$90,013
D) Procurement						
1) Consultancies Financial Markets Experts 50 days @ \$350	\$17,500	\$18,375	\$19,294	\$20,258	\$21,271	\$96,699
2) Equipment computer, software (Yr.1)	\$2,500	\$0	\$0	\$0	\$0	\$2,500
Subtotal Procurement	\$20,000	\$18,375	\$19,294	\$20,258	\$21,271	\$99,199
E) Other Direct Costs	\$6,000	\$6,300	\$6,615	\$6,946	\$7,293	\$33,154
F) Indirect Costs 35% salaries + fringe benefits	\$13,125	\$13,781	\$14,470	\$15,194	\$15,954	\$72,524
TOTAL PROGRAM COSTS	\$92,915	\$94,936	\$99,683	\$104,667	\$109,900	\$502,100

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
BUDGET FOR THE PERIOD 7/1/84 - 6/30/99**

III. FINANCIAL INSTRUMENTS BUDGET

PROGRAM ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
A) Salaries (titles/rates/#days)						
Dir. Financial Services						
60 days @ \$212	\$12,720	\$13,358	\$14,024	\$14,725	\$15,481	\$70,286
Subtotal Salaries	\$12,720	\$13,356	\$14,024	\$14,725	\$15,481	\$70,286
B) Fringe Benefits						
25% of salaries	\$3,180	\$3,339	\$3,508	\$3,881	\$3,885	\$17,572
C) Travel, Transportation & Per Diem						
1) Domestic: WDC-Boston						
3 trips @ \$500						
+ 2 days @ \$145	\$2,370	\$2,489	\$2,613	\$2,744	\$2,881	\$13,096
2) International: Bos. - L. Amer.						
3 trips @ \$1200						
+ 5 days @ \$145	\$5,775	\$6,064	\$6,367	\$6,685	\$7,020	\$31,911
Subtotal Travel	\$8,145	\$8,552	\$8,980	\$9,429	\$9,900	\$45,006
D) Procurement	\$0	\$0	\$0	\$0	\$0	\$0
E) Other Direct Costs	\$6,000	\$6,300	\$6,615	\$6,946	\$7,293	\$33,154
F) Indirect Costs						
35% salaries + fringe benefits	\$5,565	\$5,843	\$6,135	\$6,442	\$6,764	\$30,750
G) Loan Loss Reserve	\$100,000	\$100,000	\$100,000	\$0	\$0	\$300,000
TOTAL PROGRAM COSTS	\$135,610	\$137,391	\$139,260	\$41,223	\$43,284	\$496,768

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
BUDGET FOR THE PERIOD 7/1/94 - 6/30/99**

IV. POLICY DIALOGUE BUDGET

PROGRAM ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
A) Salaries (titles/rates/#days) Dir.Policy, Docum. & Dissem. 30 days @ \$254	\$7,620	\$8,001	\$8,401	\$8,821	\$9,262	\$42,105
Subtotal Salaries	\$7,620	\$8,001	\$8,401	\$8,821	\$9,262	\$42,105
B) Fringe Benefits 25% of salaries	\$1,905	\$2,000	\$2,100	\$2,205	\$2,316	\$10,526
C) Travel, Transportation & Per Diem						
1) Domestic: WDC-Boston 3 trips @ \$500 + 2 days @ \$145	\$2,370	\$2,489	\$2,613	\$2,744	\$2,881	\$13,096
2) International: Bos. - L. Amer. 2 trips @ \$1200 + 5 days @ \$145	\$3,850	\$4,043	\$4,245	\$4,457	\$4,680	\$21,274
3) Policy Conference 10 trips @ \$800 + 2 days @ \$145	\$0	\$0	\$10,900	\$0	\$0	\$10,900
4) Cross-Fertilization Visits 5 trips @ \$800 + 4 days @ \$145	\$8,900	\$7,245	\$7,807	\$7,988	\$8,387	\$38,127
Subtotal Travel	\$13,120	\$13,776	\$25,365	\$15,188	\$15,947	\$83,396
D) Procurement						
1) Consultancies Policy issues research/writing/events 30 days @ \$250	\$7,500	\$7,875	\$8,269	\$8,682	\$9,116	\$41,442
2) Equipment computer, software (Yr.1)	\$2,500	\$0	\$0	\$0	\$0	\$2,500
Subtotal Procurement	\$10,000	\$7,875	\$8,269	\$8,682	\$9,116	\$43,942
E) Other Direct Costs	\$12,000	\$12,600	\$13,230	\$13,892	\$14,586	\$66,308
F) Indirect Costs 35% salaries + fringe benefits	\$3,334	\$3,600	\$3,675	\$3,959	\$4,052	\$18,421
TOTAL PROGRAM COSTS	\$47,979	\$47,753	\$81,040	\$52,647	\$55,280	\$264,699

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
BUDGET FOR THE PERIOD 7/1/94 - 6/30/99**

V. PROGRAM MANAGEMENT BUDGET

PROGRAM ELEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
A) Salaries (titles/rates/#days)						
Dir. Latin American Operations 30 days @ \$283	\$8,490	\$8,915	\$9,380	\$9,828	\$10,320	\$46,913
Executive Director 10 days @ \$296	\$2,960	\$3,108	\$3,263	\$3,427	\$3,598	\$16,356
Dir. Finance & Administration 10 days @ \$231	\$2,310	\$2,428	\$2,547	\$2,674	\$2,808	\$12,764
Subtotal Salaries	\$13,760	\$14,448	\$15,170	\$15,929	\$16,725	\$78,033
B) Fringe Benefits 25% of salaries	\$3,440	\$3,612	\$3,793	\$3,982	\$4,181	\$19,008
C) Travel, Transportation & Per Diem						
1) Domestic: WDC-Boston 2 trips @ \$500 + 2 days @ \$145	\$1,580	\$1,659	\$1,742	\$1,829	\$1,920	\$8,730
2) International: Bos. - L. Amer. 1 trips @ \$1200 + 5 days @ \$145	\$1,925	\$2,021	\$2,122	\$2,228	\$2,340	\$10,637
Subtotal Travel	\$3,505	\$3,680	\$3,864	\$4,057	\$4,260	\$19,367
D) Procurement Subtotal Procurement	\$0	\$0	\$0	\$0	\$0	\$0
E) Other Direct Costs	\$6,000	\$6,300	\$6,615	\$6,946	\$7,293	\$33,154
F) Indirect Costs 35% salaries + fringe benefits	\$6,020	\$6,321	\$6,637	\$6,969	\$7,317	\$33,264
TOTAL PROGRAM COSTS	\$32,725	\$34,361	\$36,079	\$37,883	\$39,777	\$180,826

EXPLANATION TO FIVE-YEAR BUDGET

ACCION is requesting a total of \$1,444,393 over a five-year period to cover the costs of salaries, travel, and other costs related to the activities described in this proposal, as well as the loan loss reserve of ACCION's Bridge Fund. The budget is disaggregated by project component and management. The following provides explanation for each line item.

A. Salaries: A total of \$406,341 is requested for salaries and fringe benefits over five years. The project will require a level of effort of a total of 13 person months per year of ACCION staff, to be utilized as follows:

- A total of 6 person months per year of a Financial Markets expert whom ACCION will hire;
- A total of 3 person months per year of the Director of Financial Services, Sonia Saltzman;
- A total of 1.5 person months per year of the Director of Policy, Documentation and Dissemination, Maria Otero;
- A total of 1.5 person months per year of the Director of Latin American Operations, Michael Chu, for program management;
- A total of .5 person months per year for the Director of Finance and Administration, Cathy Quense;
- A total of .5 person months per year for the Executive Director.

B. Travel, Transportation and Per Diem: The total request for travel for five years is \$237,782. These include short technical assistance trips to the programs included in the project, as well as cross-fertilization visits among program participants and policymakers.

C. Procurement: ACCION will make use of 50 person days per year of consultants to support the work of the financial markets expert and provide other technical assistance. ACCION will also use consultants to assist in the preparation of policy-related materials, and to organize local events. ACCION will also purchase office equipment (2 computers and software).

D. Direct Costs: These include costs related to the administration of the project, and include supplies, translations, printing, telephone, fax, e-mail, and other office costs.

E. Indirect Costs: ACCION's AID-approved overhead rate is calculated as 35% of salaries and fringe benefits.

F. Loan Loss Reserve: ACCION requests a total of \$300,000 over the first three years of the project to build up the loan loss reserve of the Bridge Fund.

ANNEX ONE

ACCION INTERNATIONAL DIVISION AMERICA LATINA

LA RED DE ACCION INTERNATIONAL

LA PLANIFICACION EMPRESARIAL: EL *BUSINESS PLAN*

DEFINICION

El *Business Plan* es el documento del miembro de la Red de ACCION (el "Asociado") que establece explícitamente la trayectoria del Asociado para ir desde donde está ubicado hoy hasta donde quiere estar en un plazo intermedio, mayor de un año pero lo suficientemente corto como para establecer claramente que la responsabilidad de implementación recae enteramente sobre el actual equipo gerencial y su directorio. Se diferencia del presupuesto anual en que el marco conceptual deja de ser el corto plazo y, si bien se toma en consideración la coyuntura actual con sus fortalezas y sus limitaciones, no se aceptan ninguna de ellas como determinantes.

A menos de que el Asociado desee especificar algún otro plazo, ACCION define el período de planificación del *Business Plan* como de tres años.

OBJETIVO

El objetivo fundamental del *Business Plan* es enmarcar las decisiones gerenciales del Asociado, en cada uno de sus departamentos y en cada uno de sus puestos claves, dentro de un esquema conocido por todos los ejecutores, donde tanto los objetivos como los medios principales de alcanzarlos se han definido explícitamente y por lo tanto pueden ser internalizados uniformemente. De esta manera, en todo momento, existe un instrumento de referencia para clarificar prioridades, unificar esfuerzos, evitar contradicciones y medir el progreso y la efectividad de la gestión, tanto a nivel institucional como personal.

Para poder cumplir con este propósito fundamental, el *Business Plan* debe reunir las siguientes características:

- involucrar a todos los miembros claves del equipo gerencial del Asociado;
- aislar los elementos que verdaderamente diferencian al Asociado de otras instituciones y que son responsables de su éxito (es decir, su "franquicia" básica);

- ésto requiere analizar el medio ambiente en la cual opera el Asociado, tanto a nivel macro (la economía y el entorno político) como micro (la competencia y los segmentos del mercado que considera suyos);
- definir los objetivos del Asociado;
- identificar los obstáculos;
- formular las estrategias que superarán esos obstáculos y que alcanzarán las metas deseadas;
- analizar las implicancias de esas estrategias en términos de los recursos necesarios (financieros, infraestructura, humanos);
- asegurar la coherencia interna de todos estos elementos, lo que requiere traducir objetivos, estrategias y recursos a términos cuantitativos y combinarlos reiteradas veces hasta eliminar las inconsistencias.

Por consistir de todas estas etapas, el proceso del *Business Plan* es sumamente beneficioso para el Asociado, ya que eleva la calidad analítica y la integración funcional del equipo gerencial, haciendo más certero el alcance de las metas establecidas.

Al mismo tiempo, a medida de que las relaciones entre el Asociado y el sector financiero formal se desarrollen en un plano netamente empresarial, la existencia de un *Business Plan* de este tipo se vuelve vital. Su ausencia en el transcurso de un proceso de *due diligence*, tanto de la banca comercial como de los mercados de capital, resultará en la falta de un interés generalizado en el mercado financiero, con el consiguiente riesgo de no obtener fondos o de aumentar sensiblemente el costo de capital.

Estos dos últimos factores constituyen objetivos adicionales del *Business Plan*.

PROCESO

Si bien la implementación de un *Business Plan* deberá ajustarse a las realidades y necesidades específicas del Asociado, el proceso estándar de ACCION consiste en los siguientes pasos:

Preliminar: ACCION y el Asociado revisan los términos de referencia del programa (empezando por esta descripción) para unificar criterios antes de iniciar el proyecto de colaboración, incluyendo la definición del tiempo y el esfuerzo requerido, los recursos necesarios y la cobertura de costos y gastos incurridos.

Visita Inicial: Un equipo de ACCION (generalmente compuesto de uno o dos profesionales) visita al Asociado para reunirse con el equipo gerencial, que debe incluir a todos los ejecutivos claves. En sesiones de trabajo intensivos (donde las interrupciones se limitarán a breves períodos pre-establecidos) se buscará:

- clarificar los conceptos básicos del *Business Plan*;
- revisar el formato del *Business Plan*;
- llegar a una definición primaria de objetivos y estrategias;
- sentar cómo continúa avanzando el proceso, estableciendo los procedimientos y las personas a cargo de atar los cabos que queden sueltos: la obtención de datos adicionales, la verificación de premisas no probadas, la resolución de preguntas básicas sin respuestas adecuadas, la identificación y eliminación de inconsistencias internas;
- definir un cronograma aceptado por todos que culmine en la publicación final del *Business Plan*.

El rol del equipo de ACCION es de velar por el rigor conceptual y la coherencia interna del *Business Plan*. A tales efectos, una vez establecido el marco de la discusión, el equipo de ACCION trata de cuestionar todos los conceptos que van surgiendo del equipo gerencial, no para cambiar conclusiones sino para optimizar la calidad del análisis. Sólo el Asociado puede definir el rumbo que quiere tomar — ACCION se limita a asistir a que el equipo gerencial identifique y enfrente todas las implicancias de sus propias decisiones.

La duración de la visita inicial es de dos a tres días.

Preparación Previa a la Visita Inicial: Para asegurar la eficiencia de la visita inicial, previa a la llegada de los colegas de ACCION cada integrante del equipo gerencial del Asociado deberá estar preparado para aportar su interpretación de los siguientes temas:

- ¿Cuál es la misión del Asociado?
- ¿Cuál es la franquicia de mercado del Asociado? ¿Cuáles son sus debilidades?
- ¿Qué cambios del medio ambiente (macro y micro) afectarán en forma fundamental la misión, la franquicia y las vulnerabilidades del Asociado?
- ¿Cómo se pueden definir los objetivos claves del Asociado, con la perspectiva de tres años en el futuro y no de ahora? La definición de los objetivos debe ser reducido a términos cuantitativos.
- ¿Cuáles son los obstáculos que se hallan en el camino crítico entre lo que es hoy el Asociado y lo que debe ser al final del período del *Business Plan*? Aquí interesa no un listado general de obstáculos sino solamente aquellos que, de no solucionarse, claramente impedirían al Asociado llegar a su meta final.
- ¿Cómo se pueden doblegar dichos obstáculos?

Algunos equipos gerenciales tendrán la oportunidad de discutir estas preguntas en grupo antes de la reunión con ACCION. Esto adelantará el proceso, siempre y cuando el enfoque grupal e individual permanezca abierto.

Al esbozar las respuestas a estas interrogantes, los ejecutivos del Asociado deben procurar ser lo más específico posible, identificando no sólo una tendencia (por ejemplo: "mayor

penetración del mercado", "reducción de la estructura de gastos", "autosuficiencia") sino la medida cuantitativa que representa el concepto ("crecimiento de la cartera a \$XXX", "total de gastos de \$YYY", "utilidades del \$ZZZ"). A este respecto, quizás sea útil referirse al formato sugerido (ver más abajo), donde queda ilustrado cómo se expresará concretamente el *Business Plan*.

Trabajo después de la Visita Inicial: Posterior a la visita de ACCION, el Asociado seguirá el cronograma acordado. A medida que se van cumpliendo los procedimientos establecidos, se van completando borradores de las secciones individuales del *Business Plan* que el Asociado puede compartir con ACCION, continuando así el diálogo profesional.

Visita(s) Posterior(es): De acuerdo a las necesidades y los deseos del Asociado, el equipo de ACCION puede volver una o más veces hasta quedar completado el *Business Plan*.

FORMATO

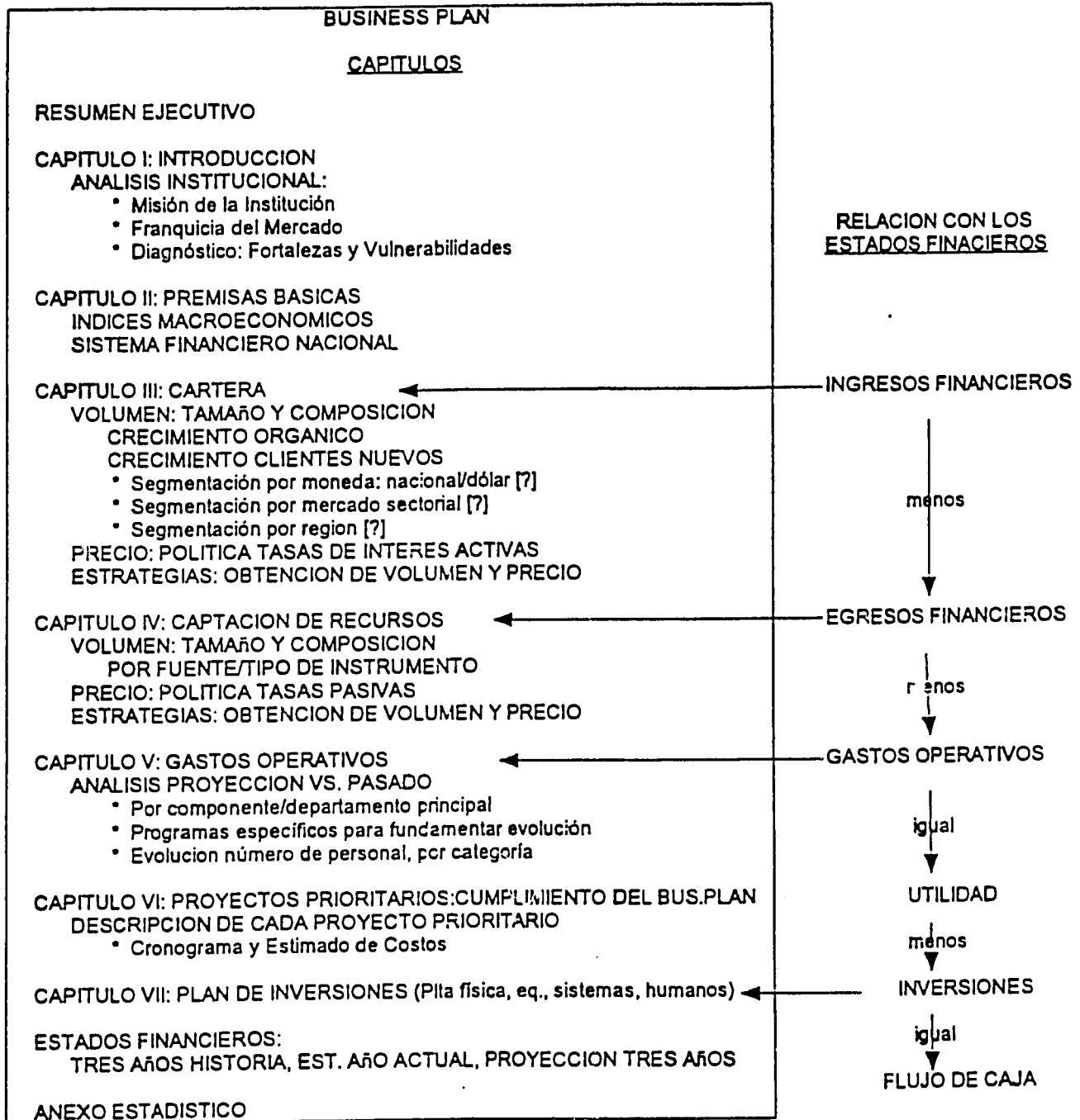
El Cuadro I adjunto ilustra el formato sugerido por ACCION para la presentación del *Business Plan*. Conceptualmente, luego de un resumen ejecutivo y una introducción para presentar el análisis institucional y sentar las premisas básicas, el formato sigue el orden natural de un estado de ganancias y pérdidas para una institución dedicada al otorgamiento de crédito: ingresos financieros, egresos financieros, gastos operativos (para llegar a la utilidad del período), e inversiones (para llegar al flujo de caja).

A través del documento, el énfasis está en respaldar todos los conceptos con su expresión cuantitativa. El *Business Plan* de ACCION pide que el Asociado describa lo que es hoy y lo que será dentro de tres años de acuerdo a como se verán sus estados financieros. Los ingresos y egresos financieros, como todo flujo económico, son el resultado de volumen y precio. Por consiguiente, en el *Business Plan* no es suficiente analíticamente proyectar las cifras globales de ingresos y egresos sino que es necesario detallar tanto el volumen como el precio requerido para movilizar dicho volumen, por cada segmento relevante (entendiéndose por segmento relevante todo componente del mercado total que responde a necesidades particulares distintas o cuyo servicio requiere una estructura de costos diferente). De otro modo, sería difícil hablar en forma significativa de estrategias para obtener uno u otro nivel de ingresos o de fondeo. Asimismo, en la sección de gastos, el *Business Plan* busca basar las proyecciones no solamente en índices globales como inflación sino en la infraestructura requerida por las políticas de préstamos y fondeo, traducidas en número de personal, salarios, prestaciones, gastos, etc.

En la práctica, el formato general sugerido por ACCION debe ser adaptado a las características y necesidades individuales del Asociado.

ACCION INTERNATIONAL
DIVISION AMERICA LATINA

RED DE ACCION INTERNATIONAL - FORMATO PARA BUSINESS PLAN



ANNEX TWO

ACCION'S ORGANIZATIONAL CHART AND STRUCTURE

ACCION currently has a staff of 26 employees in Cambridge, Mass. and Washington D.C.. Centro Accion, an independent NGO that operates as ACCION's training arm, is based in Colombia. ACCION's structure, as reflected in the organizational chart (see below), consists of the following departments:

Latin American Operations: This department provides the technical assistance and program support to ACCION's network of programs. The Department's staff (including Centro Accion staff) is comprised of the following:

Michael Chu:	Director, Cambridge
Carlos Castello:	Director Centro Accion, Colombia (the department's Latin American site)
Diego Guzman:	Associate Director, Centro Accion, Colombia
Susana Garzon:	Organizational Development, Cambridge
Diana Herran:	Financial Analysis and Management, Colombia
Steve Gross:	Management Training, Cambridge
George Jagoe:	Manager, Affiliate Relations, Cambridge
Francesca Taverna:	Administrative Assistant
To be Hired:	Financial Markets, Cambridge

Financial Services: Previously called Capital Formation Department, this department manages the Bridge Fund, ACCION's guarantee fund that provides guarantees for loans made by local commercial banks to ACCION's affiliate organizations. It also manages ACCION's Equity Fund, called the Gateway Fund which makes equity investments in microenterprise organizations that transform into financial institutions, such as BancoSol. Its staff consists of the following:

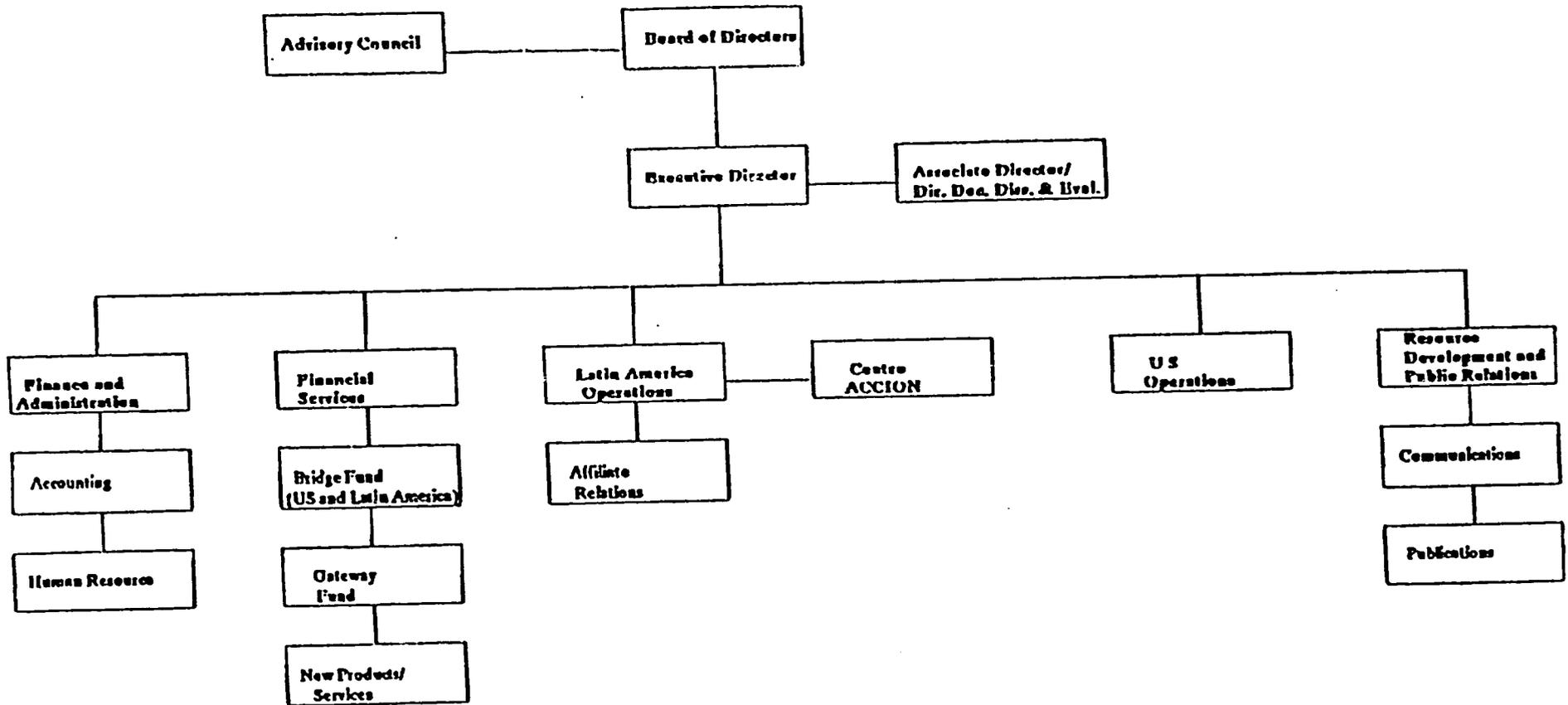
Sonia Saltzman:	Director, Cambridge
Deborah Drake:	Director, Bridge Fund, Cambridge
Livingston Parsons:	Manager, Bridge Fund, Cambridge
Darcy Salinger:	Associate Manager, Bridge Fund, Cambridge

Policy, Research and Documentation (previously know as Documentation, Dissemination & Evaluation):

Maria Otero:	Associate Director, Washington DC
Robin Webster:	Publications Assistant, Cambridge

Additional supporting departments are Finance and Administration, Cambridge, which has a staff of four and is responsible for the budget and overall financial management and human resources of the organization. The Resource Development Department, Cambridge, which raises funds from private sources has a staff of five. ACCION has also formed a U.S. Operations Department (currently with a staff of two in Washington DC) which is beginning a microenterprise program in this country. ACCION's Executive Director, William Burrus, Cambridge, oversees the work of ACCION's departments and provides strategic leadership.

ACCION INTERNATIONAL - ORGANIZATIONAL CHART





founded in 1961

Creating Income and Employment in the Americas

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Mr. Mark Schneider
 Assistant Administrator
 LAC
 USAID
 Department of State, Rm 4529
 Washington DC 20523-0065

Dear Mr. Schneider:

I first want to take this opportunity to personally thank you for the support and enthusiasm which we have received from your Bureau for our approach to microenterprise development. As you know, on May 25, 1994 ACCION's unsolicited proposal "Accessing Financial Markets: The Next Phase of Microenterprise Development" was reviewed by various offices of AID. That review was most useful to us and produced a series of issues/concerns that were subsequently discussed in person with Maria Otero, Associate Director and Bill Burrus, Executive Director of ACCION in a meeting on June 3rd chaired by Eric Zallman.

The following is a summary of the conclusions and agreements reached on each point contained in the information memorandum to the Assistant Administrator and discussed on June 3rd.

1. Project Goal and Purpose

ACCION agrees that the restated goal and purpose of the project are:

Goal: To deliver basic financial services to the maximum number of the poor in Latin America.

Purpose: To transform ACCION affiliates into sustainable institutions that can access formal financial markets and can effectively deliver financial services to the poor.

2. Participating Countries

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In reviewing AID's list of sustainable development countries, there is a substantial overlap with the "First Tier" countries identified by ACCION for the project. These include Bolivia, Ecuador, Paraguay, Guatemala, and the Dominican Republic. Two sustainable development countries - Nicaragua and Peru - are included in ACCION's "Second Tier" countries.

During the life of the project ACCION will explore new project opportunities in Honduras and El Salvador.

Finally, while ACCION has no plans to work directly in the eastern caribbean, its affiliate in the Dominican Republic, ADEMI, has lately developed a direct training and technical assistance relationship with several NGOs from Jamaica and elsewhere. Because ADEMI will be participating in this project, ACCION expects that ADEMI will be able to continue and intensify this "regional" training and technical support function.

3. Participation of other than ACCION Affiliated NGOs

ACCION's training center located in Bogotá, Colombia sponsors training seminars and workshops throughout Latin America. While these activities are primarily for the affiliates of the network, when appropriate, other NGOs have been and will continue to be invited to participate.

In addition, ACCION is always open to considering expanding its current number of affiliates. There is an agreed upon procedure within the network for adding additional members. Should such an opportunity arise, ACCION will consult closely with the current affiliates.

4. Policy Dialogue

During the review meeting it was agreed that no further comments on this area were necessary.

5. ACCION's Technical Staff

After discussing the current staffing patterns of ACCION it was agreed that ACCION will share with LAC the curriculum vitae of the person to be hired as the financial markets expert.

6. Accessing Commercial Capital

ACCION agrees that under Component one of the project - "Technical Assistance in

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Accessing Financial Markets", the exploration of new mechanisms such as securitization, derivatives, and innovative uses of guarantees not be termed "Research and Development" but rather "Analysis".

Second, ACCION wishes to clarify that in its role to assist its affiliates access financial markets, its first priority is to enable them to access their own national financial markets. The mobilization of savings among borrowers is an important strategy which ACCION will continue to pursue not only because savings is a key source of capital but also because it is a service greatly needed by the poor. The issuance of financial instruments such as bonds, certificates of deposit and equity will also be designed to attract national capital. The international capital which will be mobilized will complement locally raised funds.

7. Licensing of Microfinance Institutions and Leveraging Equity Funds

ACCION clarified the leverage it achieves with the Bridge Fund and also clarified the importance of the Loan Loss Reserve as the basis upon which the Bridge Fund is able to attract lenders to the Bridge Fund. With Bridge Fund capital, Letters of Credit are then issued in favor of local banks in Latin America that agree to lend to ACCION affiliates. The affiliates in turn "retail" this money out in micro loans to the poor.

8. Project Funding and Management

ACCION was requested to submit a project budget which illustrates the expected country-by-country cost breakdown over the life of the project. Attached is an illustrative budget which separates the estimated expenses by country and by major program element. This budget will guide ACCION's cost allocations during the next five years.

There was discussion of increasing the budget to cover the costs of two to three regional conferences which were proposed in the meeting as a way to expand the outreach of the project beyond the ACCION affiliate network. Because of the substantial costs implicit in organizing these conferences and because of the dissemination activities planned under the policy dialogue component of the project, ACCION will not organize additional conferences and has not including additional expenses in the budget.

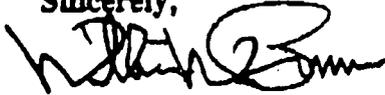
Finally, it was agreed that ACCION would submit the following reports:

- Brief quarterly update reports.**
- Annual narrative reports which will summarize principal activities undertaken and describe project performance and success.**
- Financial reports will be submitted following normal AID requirements.**

I hope these responses accurately reflect the conclusions of our discussions during the review meeting of June 3. Please contact me or Maria Otero should you need additional information.

We are very pleased and exciting over the prospect of undertaking this project in partnership with the Bureau for Latin America and the Caribbean.

Sincerely,



**William W. Burrus
Executive Director**

**cc. Eric Zallman, Director for LAC/DR
Ron Stryker, LAC
Maria Otero, ACCION**

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEARS 1 - 8 TOTAL**

	PROGRAM ELEMENTS				TOTAL
	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	
I. COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$62,763	\$62,096	\$33,087		\$157,946
COLOMBIA	\$62,763	\$62,096	\$33,087		\$157,946
DOMINICAN REPUBLIC	\$62,763	\$62,096	\$33,087		\$157,946
ECUADOR	\$62,763	\$62,096	\$33,087		\$157,946
PARAGUAY	\$62,763	\$62,096	\$33,087		\$157,946
GUATEMALA	\$62,763	\$62,096	\$33,087		\$157,946
SUBTOTAL	\$376,575	\$372,576	\$198,524	\$0	\$947,675
B) SECOND TIER					
ARGENTINA	\$25,105	\$24,839	\$13,235		\$63,179
CHILE	\$25,105	\$24,839	\$13,235		\$63,179
MEXICO	\$25,105	\$24,839	\$13,235		\$63,179
NICARAGUA	\$25,105	\$24,839	\$13,234		\$63,178
PERU	\$25,105	\$24,839	\$13,234		\$63,178
SUBTOTAL	\$125,526	\$124,193	\$66,175	\$0	\$315,894
II. HEADQUARTERS	\$0	\$0	\$0	\$180,825	\$180,825
TOTAL	\$502,101	\$496,769	\$264,699	\$180,825	\$1,444,394

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**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEAR 1**

	PROGRAM ELEMENTS				TOTAL
	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	
I. COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$11,614	\$16,951	\$5,997		\$34,563
COLOMBIA	\$11,614	\$16,951	\$5,997		\$34,563
DOMINICAN REPUBLIC	\$11,614	\$16,951	\$5,997		\$34,563
ECUADOR	\$11,614	\$16,951	\$5,997		\$34,563
PARAGUAY	\$11,614	\$16,951	\$5,997		\$34,563
GUATEMALA	\$11,614	\$16,951	\$5,997		\$34,563
SUBTOTAL	\$69,686	\$101,703	\$35,984	\$0	\$207,378
B) SECOND TIER					
ARGENTINA	\$4,646	\$6,781	\$2,399		\$13,825
CHILE	\$4,646	\$6,781	\$2,399		\$13,825
MEXICO	\$4,646	\$6,781	\$2,399		\$13,825
NICARAGUA	\$4,646	\$6,781	\$2,399		\$13,825
PERU	\$4,646	\$6,781	\$2,399		\$13,825
SUBTOTAL	\$23,229	\$33,903	\$11,995	\$0	\$69,127
II. HEADQUARTERS	\$0	\$0	\$0	\$32,725	\$32,725
TOTAL	\$92,915	\$135,611	\$47,979	\$32,725	\$309,230

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**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEAR 2**

	PROGRAM ELEMENTS				TOTAL
	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	
I COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$11,867	\$17,174	\$5,969		\$35,010
COLOMBIA	\$11,867	\$17,174	\$5,969		\$35,010
DOMINICAN REPUBLIC	\$11,867	\$17,174	\$5,969		\$35,010
EQUADOR	\$11,867	\$17,174	\$5,969		\$35,010
PARAGUAY	\$11,867	\$17,174	\$5,969		\$35,010
GUATEMALA	\$11,867	\$17,174	\$5,969		\$35,010
SUBTOTAL	\$71,202	\$103,043	\$35,815	\$0	\$210,060
B) SECOND TIER					
ARGENTINA	\$4,747	\$6,870	\$2,388		\$14,004
CHILE	\$4,747	\$6,870	\$2,388		\$14,004
MEXICO	\$4,747	\$6,870	\$2,388		\$14,004
NICARAGUA	\$4,747	\$6,870	\$2,387		\$14,003
PERU	\$4,747	\$6,870	\$2,387		\$14,003
SUBTOTAL	\$23,734	\$34,348	\$11,938	\$0	\$70,020
II HEADQUARTERS	\$0	\$0	\$0	\$34,381	\$34,381
TOTAL	\$94,936	\$137,391	\$47,753	\$34,381	\$314,461

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEAR 3**

PROGRAM ELEMENTS

	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	TOTAL
I. COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$12,480	\$17,408	\$7,630		\$37,498
COLOMBIA	\$12,480	\$17,408	\$7,630		\$37,498
DOMINICAN REPUBLIC	\$12,460	\$17,408	\$7,630		\$37,498
ECUADOR	\$12,480	\$17,408	\$7,630		\$37,498
PARAGUAY	\$12,460	\$17,408	\$7,630		\$37,498
GUATEMALA	\$12,460	\$17,408	\$7,630		\$37,498
SUBTOTAL	\$74,762	\$104,445	\$45,780	\$0	\$224,987
B) SECOND TIER					
ARGENTINA	\$4,984	\$6,963	\$3,052		\$14,999
CHILE	\$4,984	\$6,963	\$3,052		\$14,999
MEXICO	\$4,984	\$6,963	\$3,052		\$14,999
NICARAGUA	\$4,984	\$6,963	\$3,052		\$14,999
PERU	\$4,984	\$6,963	\$3,052		\$14,999
SUBTOTAL	\$24,921	\$34,815	\$15,260	\$0	\$74,996
II. HEADQUARTERS	\$0	\$0	\$0	\$36,079	\$36,079
TOTAL	\$99,683	\$139,260	\$61,040	\$36,079	\$336,062

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**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEAR 4**

PROGRAM ELEMENTS

	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	TOTAL
I. COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$13,083	\$5,153	\$6,581		\$24,817
COLOMBIA	\$13,083	\$5,153	\$6,581		\$24,817
DOMINICAN REPUBLIC	\$13,083	\$5,153	\$6,581		\$24,817
ECUADOR	\$13,083	\$5,153	\$6,581		\$24,817
PARAGUAY	\$13,083	\$5,153	\$6,581		\$24,817
GUATEMALA	\$13,083	\$5,153	\$6,581		\$24,817
SUBTOTAL	\$78,500	\$30,917	\$39,485	\$0	\$148,902
B) SECOND TIER					
ARGENTINA	\$5,233	\$2,061	\$2,632		\$9,927
CHILE	\$5,233	\$2,061	\$2,632		\$9,927
MEXICO	\$5,233	\$2,061	\$2,632		\$9,927
NICARAGUA	\$5,233	\$2,061	\$2,632		\$9,927
PERU	\$5,233	\$2,061	\$2,632		\$9,927
SUBTOTAL	\$26,167	\$10,306	\$13,162	\$0	\$49,635
E. HEADQUARTERS	\$0	\$0	\$0	\$37,883	\$37,883
TOTAL	\$104,667	\$41,223	\$52,647	\$37,883	\$236,420

**ACCION INTERNATIONAL
ACCESSING FINANCIAL MARKETS
COUNTRY BUDGETS: YEAR 6**

	PROGRAM ELEMENTS				TOTAL
	TECHNICAL SUPPORT	FINANCIAL INSTRUMENTS	POLICY DIALOGUE	PROGRAM MANAGEMENT	
I. COUNTRIES:					
A) FIRST TIER					
BOLIVIA	\$13,738	\$5,411	\$6,910		\$26,058
COLOMBIA	\$13,738	\$5,411	\$6,910		\$26,058
DOMINICAN REPUBLIC	\$13,738	\$5,411	\$6,910		\$26,058
ECUADOR	\$13,738	\$5,411	\$6,910		\$26,058
PARAGUAY	\$13,738	\$5,411	\$6,910		\$26,058
GUATEMALA	\$13,738	\$5,411	\$6,910		\$26,058
SUBTOTAL	\$82,425	\$32,463	\$41,460	\$0	\$156,348
B) SECOND TIER					
ARGENTINA	\$5,495	\$2,164	\$2,764		\$10,423
CHILE	\$5,495	\$2,164	\$2,764		\$10,423
MEXICO	\$5,495	\$2,164	\$2,764		\$10,423
NICARAGUA	\$5,495	\$2,164	\$2,764		\$10,423
PERU	\$5,495	\$2,164	\$2,764		\$10,423
SUBTOTAL	\$27,475	\$10,821	\$13,820	\$0	\$52,116
II. HEADQUARTERS	\$0	\$0	\$0	\$39,777	\$39,777
TOTAL	\$109,900	\$43,284	\$55,280	\$39,777	\$248,241